Can Telus (TSX:T) Withstand a Recession?

Description

Given the recent sell-off, chances are you're looking at companies that can withstand a protracted economic downturn. One stock that often pops up on investors' radars is dividend superstar **Telus Corp** (TSX:T)(NYSE:TU). So how would this telecom giant fare in a recession?

Come for the dividend, stay for the growth

Telus might be a telecom, but it's anything but boring. It boasts almost 20 years of consistent dividend raises and a payout that survived the 2008 recession intact.

Based on its last conference call, Telus has targeted a 2020 payout ratio of 65% to 75% of free cash flows, expected to come in the $1.4 billion to $1.7 billion range. Even if we take the low end of the guidance, the free cash flow should cover the majority of the payout. The remainder could come from the $1.2 billion undrawn portion of the credit facility, should the need arise.

But it's not just the dividend that is interesting. For a legacy telecom, Telus has a few tricks up its sleeve to address competitive concerns. For example, in March of last year, Telus launched Babylon on its TELUS Health platform. Babylon is a virtual health care solution that provides access to doctors and health care information through a smartphone app.

Recently Telus also closed two acquisitions that are expected to be accretive. The first, Competence Call Center, is a call centre solutions provider with 8,500 employees across 22 European locations. The deal is expected to contribute to Telus's international EBITDA. The second is the Canadian operations of ADT, a leading security services provider. The service will be rolled out as part of a bundled offering, along with cable and internet.

A few risks worth addressing

While the acquisitions will certainly help with customer retention and additions, it is worth mentioning that Telus is not immune to economic risks. Telecoms, like all businesses, are dependent on strong economic metrics, especially pertaining to their wireline revenues. Telus is no exception. It is heavily dependent on GDP growth, housing starts, and low unemployment to boost net additions.

As the company is heavily exposed to Alberta, more so than its competitors, the economic shock could have a deeper impact to Telus's bottom line than for its peers. Furthermore, given the government's mandate to reduce certain wireless plan rates by 25% in Canada by 2022, Telus will have to be increasingly creative with its pricing structure and incentives to keep its churn low. Finally, while Telus is a serial dividend grower, its elevated leverage of $18.2 billion in net debt, or 3.2 times 2019 EBITDA, could be a point of concern.

The bottom line

Telus is addressing its risks in several ways. For example, the ramp up of TELUS Health and instalment plans like TELUS Easy Payments will help with net additions and keep retention rates up in the face of heightened competition. While the oil shock will certainly hurt Alberta's economy, Telus is continuing to diversify through an increasingly international footprint, while also leveraging ADT as part of bundled home internet and cable solutions.

And finally, Telus's recently closed, and over-subscribed, $1.5 billion bought deal will help alleviate debt concerns. Lower capex spending of $2.75 billion, versus $2.9 billion in 2019, will ensure there's plenty of cash to go around.

Telus may not be perfectly recession proof, but given these strengths it can certainly withstand a downturn and come out with its dividend intact.

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