Telus (TSX:T): Should You Buy at Nearly 5-Year Lows?

Description

Telus (TSX:T)(NYSE:TU) stock was on a great run before the coronavirus crash sent shares back to its multi-year lows. Today, shares of the telecom titan have rebounded partially but remain 14% below its all-time highs reached earlier in the year. The stock sports a well-covered, 5%-yielding dividend and sports better growth than most other telecom stalwarts.

While the rise of new telecom tech (5G) may be a compelling earnings growth catalyst over the near-term future, investors should be aware of the more competitive Canadian telecom landscape that will essentially conclude the days where the Big Three titans commanded huge capital gains alongside bountiful yields and above-average dividend growth. The days of having your cake and eating it too are gone for Telus, but that doesn't mean the stock isn't worth picking up after its modest (and likely unwarranted) correction this year.

Telus has diversified its business quite very well

Telus lacks a media division and isn't seeking to "di-worsify" (a term coined by the legendary investor Peter Lynch) into other low-ROE media businesses like many other telecoms seek to do. Telus has instead chosen to invest in more lucrative markets that normal telecom companies wouldn't think to invest in. Think Telus Health, International Business Solutions, and its Security Businesses, all of which I view as far superior to traditional media businesses that tend to "weigh down" most other telecoms as they grow in size.

Today, Telus sports a 7.6% ROIC, which is pretty average for a telecom. But as Telus Health continues to pick up traction, I think that a modest amount of sustained ROIC expansion is possible, potentially to the higher end of the five-year historical average ROIC range between 8% and 9%. Alongside new telecom tech, Telus may soon find itself enjoying more profitability that the past few years, all while interest rates remain at rock-bottom levels.

Coronavirus-related weakness should be rather muted for

Telus moving forward

The first quarter saw some coronavirus-related weakness for Telus. The full-year guidance was withdrawn, but given the lack of media assets, I think Telus is in better shape than most think to weather this pandemic. Wireline numbers came under due pressure from the coronavirus, but high-speed internet customers rose slightly by 1.3% quarter over quarter.

For now, Telus looks like a terrific buy for investors looking to batten down the hatches to prepare for the looming recession. The stock trades at 1.9 times sales, 2.3 times book, and 6.5 times cash flow, all of which are slightly lower than that of historical averages. I view Telus stock as modestly undervalued but don't think young investors should be piling into the name, unless they're convinced that we're due for a more severe recession than the Street is currently expecting.

Foolish takeaway

Telus may be growing quicker than most stalwarts, but you're certainly not going to get the type of returns as you would with some of the cheaper stocks out there today. As such, I'd only recommend scooping up Telus at today's slight discount if you're an older investor or if you've yet to form a defensive foundation for your portfolio.

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