The Top Tech TSX Stock To Buy in July

Description

In the search for defensive income generating investments **Telus Corp.** (TSX:T) remains one of my top long-term picks. This is despite some significant near term risks, which investors ought to be aware of and plan for.

In this article, I'm going to discuss the outlook for Telus in this context.

Growth solid but limited

What we've seen during this recent stock market rally from March lows is a preference for growth driven by strong secular growth trends. Telus should, in some way, benefit from this sentiment, given the company's exposure to the 5G rollout.

Another benefit is Telus' ability to provide investors with dividend and capital appreciation growth. When combined, these average around 10% per year in recent decades.

That said, the company's mature status and utility-like business model does not provide for the kind of extreme parabolic growth that other technology companies offer investors today. Some analysts continue to point out the growth potential of Telus' growing healthcare business. They see this as another strong long-term growth catalyst.

It is timely to discuss this business. However, I don't see Telus' healthcare business as a key growth driver. I see the company's healthcare exposure as merely another defensive moat and a differentiator from its peers. Telus is more of a slow and steady defensive gem.

This is the kind of company that isn't easily placed into a growth bucket or a value bucket due to its valuation. Telus is thus often ignored by many investors.

Interest rate contraction unlikely

Along with other equity classes that trade as bond proxies such as utilities, telecommunications giants like Telus have benefited greatly from continuously declining interest rates. Interest rates are now expected to remain at zero until 2020, at least. This driver of capital inflows is likely to slow down.

Telus' dividend growth will be the focus for income investors from here on out. This dividend growth is likely to be hindered by earnings pressure related to increased government oversight around pricing and other macroeconomic headwinds in the near term.

The company's 5% dividend yield is great. However, long-term investors in need of income growth over time may be concerned by the company's recent deferral of its dividend hike. This was in concert with the company's withdrawal of its full-year forecast.

Trade issues still an overhang

The majority of Canada's telecommunications players are now announcing Nokia and Ericsson equipment will be used to build out the country's 5G network. However, security concerns remain for some investors and analysts. Specifically, Canada's foreign affairs position with China's Huawei has become a potential issue investors have mentioned.

The Chinese equipment manufacturer was initially expected to play a bigger role in Canada's 5G rollout because of Huawei's superior technology and cheaper price. However, due to security concerns voiced by Canada's Five Eyes allies, Telus and its peers have capitulated to the wishes of the government.

The company has agreed to use more expensive technology to roll out 5G. Therefore, investors will need to balance their concerns around margin contraction related to cost overruns with this growth this rollout will provide over decades.

Stay Foolish, my friends.

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