



Passive-Income Investors: Telecom Stocks Are on Sale, But Not for Long. Here's My Favourite!

Description

Passive-income investors have a rare opportunity to nab shares of the Canadian telecom stocks while their dividend yields are slightly swollen and their [valuations](#) depressed. Although the [COVID-19 crisis](#) has weighed heavily on the top and bottom lines of the major players in Canada's wireless scene, I still think income-savvy investors should look to buy them now that we're within months of a national COVID-19 vaccine rollout.

Moreover, as COVID-19 headwinds fade, I believe we'll see hype over the next generation of telecom tech (think 5G wireless) will be something to get excited about with the slow-to-no-growth telecoms that have been passed up by those seeking higher-risk COVID-19 recovery plays in an effort to maximize their upside over the year ahead.

If you're a passive-income investor who wants yield on the cheap, though, the Canadian telecoms are compelling bets, even though they won't enrich you, as most other COVID-19 recovery plays over the next 18 months. While they're not high-upside bets here, they can help you preserve your wealth if we are due for one last vicious correction before the end of this crisis.

Without further ado, let's have a look at the top Canadian telecom that I think offers the best bang for your buck at this critical market crossroads. Consider shares of **Telus** ([TSX:T](#))([NYSE:TU](#)), which sports a handsome 5% yield at the time of writing.

Telus: A Canadian telecom without the bloat

The big-league telecom sports a \$32.2 billion market cap, and with a lack of low-ROIC media businesses, the firm isn't being dragged down by assets that find themselves on the wrong side of a secular trend. Moreover, with a Telus International spin-off on the horizon, which I believe could unlock substantial value in both the spin-off and the parent, I think many passive-income investors may be underestimating Telus stock going into the new year.

Just last month, Telus came off a somewhat decent third quarter after outperforming its Big Three peers in the first half of this pandemic-plagued year. Wireless subscriber numbers were decent, but the real sore spot was an EBITDA miss on its wireline segment (wireline EBITDA increased just 1.6% year over year).

Passive-income investors: Dividend raise? Yes, please!

The free cash flow (FCF) dividend payout has become quite stretched thanks in part to COVID-19 disruptions, but that didn't stop management from hiking the dividend by 7%.

As things return to normal in 2021, I expect the appetite for mobile data and roaming to recovery just below that of pre-pandemic levels. The recovery in average revenue per user (ARPU) should allow Telus to continue hiking its dividend at the higher end of its dividend-growth range (9-10%) rate in 2021 and beyond.

In the meantime, the rock-bottom interest rate environment bodes well for Telus, as it continues investing heavily in the next generation of telecom tech. Management sees \$2.75 billion worth of capex next year, with around half going towards the firm's industry-leading network. With another brutal quarter of COVID-19 disruptions up ahead, the bar has been set low here. As such, I believe passive-income investors looking for a good mix of capital gains and a generous dividend should strongly consider scooping up shares while they're still off 10% from their pre-pandemic highs.

The Foolish takeaway for passive-income investors

The 5% yield is juicy, but it'll stand to compress to the 4.5% mark once the stock has a chance to move higher in the coming return to normalcy. The stock trades at 2.1 times sales and 2.7 times book value, which is cheaper than that of the telecom industry averages of 2.2 and 3.1, respectively. Over the long term, I think Telus has what it takes to continue growing its subscriber base, even as competition with its west coast rival **Shaw Communications** intensifies.

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