



3 Big Canadian Telecom Stocks: Which Offers the Best Value?

Description

The big Canadian telecom stocks have been a quality source of income for diversified investment portfolios. Which of the Big Three Canadian telecom stocks offer the best value right now? Let's compare **BCE** ([TSX:BCE](#))([NYSE:BCE](#)), **TELUS** ([TSX:T](#))([NYSE:TU](#)), and **Rogers Communications** ([TSX:RCI.B](#))([NYSE:RCI](#)).

Telecom profits

Here are some key highlights comparing their trailing-12-month (TTM) income statement data to 2019's "normal" levels before the COVID-19 pandemic disruptions hit the economy.

TELUS achieved higher revenue growth with the help of its non-core businesses like **TELUS International**, an IT services outsourcing and consulting firm, and TELUS Health. Perhaps, because of its diversified business mix, TELUS also experienced faster growth in operating costs than the other two. In terms of the bottom line, TELUS's recent earnings have been the most stable, at least in comparison to the base year of 2019.

TTM numbers vs. in 2019	BCE (\$ millions)	TELUS (\$ millions)	Rogers (\$ millions)
Revenues	Flat at \$23,756	Up 17% to \$17,072	Flat at \$15,072
Gross profit	Flat at \$12,049	Up 21.2% to \$10,327	Up 3.0% to \$8,462
Operating income	Down 6.1% to \$5,489	Down 6.5% to \$2,718	Down 1.5% to \$3,669
Net income available to common stockholders	Down 6.1% to \$2,855	Down 2.1% to \$1,709	Down 17% to \$1,696

TELUS's posted the highest gross profit margin, but, again, its relatively high operating costs dragged

down its operating margin, which led to it having the lowest net margin.

TTM margins	BCE	TELUS	Rogers
Gross profit margin	50.7%	60.5%	56.1%
Operating margin	23.1%	15.9%	24.3%
Net margin	12.0%	10.0%	11.3%

Dividend safety

BCE is the most popular for income because it provides the highest yield of 5.7%. Its TTM payout ratio was extended at 117% of net income available to common stockholders. Even its trusty free cash flow (FCF) shrank. For example, from 2018 to 2020, its FCF covered its dividend payments with leftovers. Its FCF dropped significantly since 2021 due to substantially higher capital investments. Average capital investments were about 53% of operating cash flow between 2018 and 2020. These investments jumped to almost 88% in the TTM.

Heightened capital investments also occurred at TELUS, such that its TTM FCF turned negative. That said, TELUS's TTM payout ratio was sustainable at 61% of earnings. Since this is the traditional way of calculating dividend safety, TELUS's dividend appears to be safe. Moreover, it also has more than \$4.2 billion in retained earnings that could help temporarily protect its dividend if the need arises.

There's no ambiguity for Rogers's dividend, which is covered by earnings and FCF. However, it hasn't been regularly increasing its dividend like BCE or TELUS since 2016. It could also lose competitiveness down the road if it's not making sufficient capital investments. That said, it's still working on the **Shaw** acquisition, which could lead to cost efficiencies. On the flip side of the coin, it could be overpaying for the acquisition, and integration risk exists.

Which big Canadian telecom stock offers the best value?

BCE's FCF is likely to recover soon. The [dividend stock](#) is fairly valued now and has below-average volatility risk. TELUS is perceived to have the highest growth. Accordingly, it trades at the highest valuation. Rogers stock trades at the lowest valuation at about 16 times earnings. Therefore, if you're looking for the best value, look at Rogers more closely and see if it's a good fit for your investment goals.

CATEGORY

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TICKERS GLOBAL

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2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:TU (TELUS)
4. TSX:BCE (BCE Inc.)
5. TSX:RCI.B (Rogers Communications Inc.)

6. TSX:T (TELUS)

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