5 Things to Know About Telus (TSX:T) Stock

Description

Canada's largest telecommunications companies occupy a privileged position. Canadian consumers pay more for data and wireless connectivity than most of their global peers. Meanwhile, the government seems uninterested in breaking the oligopoly, which allows companies like **Telus** (TSX:T)(NYSE:TU) to enjoy a sizable windfall every quarter.

Here are the top five things you need to know about this stock before you add it to your portfolio.

1. Telus has sustained dividend growth for 23 years

Much of Telus' sizable windfall is delivered back to shareholders. Telus has a dividend payout ratio of 97.7%. That's why it's a prime target for passive income seekers.

However, investors may have overlooked the company's track record of dividend growth. Telus has steadily expanded its quarterly payout per unit from $0.0875 in 1999 to $0.3386 today. That is a compound annual growth rate of 6% over 23 years! The company expects to sustain this rate until 2026 – which would extend the company's dividend growth track record to 27 years.

2. It has an outsourcing business

Unlike other telecom giants, Telus has been steadily diversifying its business for years. In 2005, it invested in an IT outsourcing company in the Philippines and has been expanding this segment since then. Last year, the company spun off this segment as **Telus International** (TSX:TIXT)(NYSE:TIXT).

I believe this spin off has plenty of potential as an increase in remote work eliminates barriers to global talent. The outsourcing boom is likely to continue and Telus could be a prime beneficiary of this trend.

3. It has a healthcare division

Telus has also diversified into healthcare technology. In 2007, Telus purchased a Montreal-based healthtech provider to create this division. During the pandemic, investments in this sector skyrocketed. That's when Telus Health launched its own virtual healthcare services, online pharmacy, digitally-enabled healthcare centres, and emergency response services.

Exposure to healthcare technology adds another layer of value to the parent company.

4. Telus is a VC firm

Since 2001, Telus has been actively investing in technology startups. That makes it one of the oldest corporate venture capital firms in the industry. Telus Ventures has invested in over 86 firms with average investments ranging from $500,000 to $50 million.

These startup investments further enhance the company's prospects. Over time, successful investments could contribute tremendously to the company's balance sheet and help defend the business against disruption.

5. The stock is overvalued

Telus stock is currently trading at a price-to-earnings ratio of 21. That's lower than last year when it was trading at 28, but higher than its pre-pandemic average of 16-17.

Under usual circumstances, Telus stock would have been attractive. But in this environment, Telus offers a negative real return. The dividend yield is 4.8% while the earnings yield is 4.76%, both of which are below the 7% of inflation. Telus stock has also lost 5% of its value year-to-date, further destroying purchasing power.

If the stock drops further, it could be an attractive buy. For now, it deserves a spot on your watchlist.

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