Is TELUS Stock a Buy in December 2022?

Description

There's something to celebrate about high inflation and rising interest rates after all. Investors can now get a risk-free rate of return of north of 5% from guaranteed investment certificates (GICs). That's about where the interest rate of a one-year non-redeemable GIC is right now.

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If you're still not happy with that, you can consider taking more risk by investing in dividend stocks like **TELUS** (TSX:T). By all means, TELUS is not a risky stock. If you compare it to the majority of stocks on the **TSX**, you'll realize that it's quite defensive.

TELUS stock's attractive dividend

One of TELUS stock's attractive attributes is its dividend. TELUS is a proud Canadian Dividend Aristocrat. It has paid increasing dividends for about 19 consecutive years. This is a very solid dividend track record for a TSX stock. For reference, its five-year dividend growth rate is 6.7%.

Management aims to pay out 60–75% of its free cash flow as healthy dividends. Its cash flows are quite predictable so the dividend stock currently targets dividend growth of 7–10% per year through 2025.

At writing, its dividend yield is north of 5%. Other than beating the risk-free GIC rate, TELUS stock can also provide upside potential. Oh, and of course, the eligible dividend income is more favourably taxed than interest income in taxable accounts.

Its growth prospects should magnetize you as well

The Canadian telecom has an above-average growth rate versus the industry. This is why it also commands a relatively high price-to-earnings ratio. The company has invested in higher-growth areas resulting in higher revenue growth.

Its stake in **TELUS International**, which designs, builds, and delivers digital customer experience solutions, pulls much of the weight of that growth. Should the growth of this business slow down, it would also weigh on TELUS's shares. Needless to say, TELUS is a lower-risk stock because of the expected stable returns from its dividend while providing relatively high stock price gains potential versus its peers.

Currently, analysts project TELUS could grow its earnings per share by about 18% per year over the next three to five years, which is approximately 70% higher than the industry average.

Valuation

For its higher growth prospects, accordingly, TELUS stock trades at a premium valuation. At $27.40 per share at writing, the big Canadian telecom stock trades at about 19.6 times forward earnings. This is a premium of about 15% to the industry average. Given the stability of the stock, its nice yield, and its higher growth potential, conservative long-term investors will probably find it worth it to park their money in T stock.

Should you buy TELUS stock in December 2022?

Analysts think the stock is undervalued by 17%. This is a decent discount for a defensive dividend stock that pays a good income. Furthermore, TELUS offers above-average growth. Investors can hold the stock in their non-registered accounts for favourably taxed dividend income so as to leave room in registered accounts for fixed-income investments such as bonds and GICs. Otherwise, if you have room, TFSAs and RESPs are also good places to hold TELUS shares.

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