Is Telus Stock a Buy in January 2023?

Description

Telus (TSX:T) is often overlooked in favour of its larger Canadian peer, but the stock has performed well for buy-and-hold investors seeking reliable passive income and now appears undervalued.

Telus overview

Telus is a Canadian communications firm based in British Columbia. The core business includes wireless and wireline network operations that extend across the country providing businesses and households with mobile, internet, security, and TV services.

Telus also has a knack for building up subsidiaries that leverage its communications expertise to target new sectors. Telus Health, for example, is a leading provider of digital health solutions to Canadian doctors, dentists, hospitals, and insurance firms. The purchase of LifeWorks last year made Telus Health a much larger company with programs targeting Canadian and international companies that provide health and wellness plans to their employees.

Telus Agriculture is expanding from its focus on using digital solutions to help farmers make their businesses more efficient to targeting the broader consumer goods industry.

Telus successfully spun out **Telus International** (TSX:TIXT) in an initial public offering in early 2021, so there is a track record for investors to gauge the potential for the current subsidiaries to deliver attractive returns.

Telus earnings

Telus reported solid results for the third quarter (Q3) of 2022. Adjusted net income rose 20% to $471 million compared to the same period last year. Free cash flow increased 63% to $331 million. Telus says its annual capital expenditures will drop by about $1 billion in 2023 after concluding the copper-to-fibre transition. This should make more cash available for dividends or share buybacks.

Investments will continue on the wireless side as Telus expands its 5G mobile network.

Dividends

Telus has raised its dividend annually for more than two decades and is targeting average annual dividend growth of 7-10% over the medium term.

Telus stock trades near $26.50 at the time of writing compared to the 2022 high above $34. The drop in the share price appears overdone given the strong earnings performance and the positive outlook for free cash flow expansion in 2023.

Investors who buy Telus stock at the current level can get a dividend yield of 5.3%.

Risks

Telus should be a good stock to own through a recession. The bulk of the revenue stream comes from essential mobile and internet subscriptions. Households and businesses need these services regardless of the state of the economy.

Sales of new products could decline, however, as customers decide to keep older phones for longer. If cash flow gets really tight, some households might decide to cancel TV subscriptions or security plans, but that would likely be a small number and the revenue impact would be minimal.

On the competition side, some pundits say the successful acquisition of **Shaw** by **Rogers** would put pressure on Telus, particularly in Western Canada. That might be the case, but the threats are likely overstated. Telus has a strong brand in the market and has the means to compete with the combined company, if the deal eventually gets approved.

Is Telus stock a buy today?

Ongoing volatility should be expected in the near term, and more downside is possible. However, investors who buy now can get an attractive dividend yield while they wait for the rebound. It wouldn't be a surprise to see Telus stock move back to $34 in the next 12-18 months.

If you have some cash to put to work, this stock deserves to be on your radar.

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