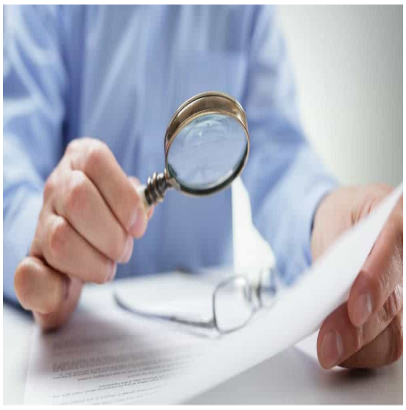

Here's the Next Stock I'm Going to Buy

Description

There are thousands of stocks on the Canadian stock market to choose from. How do you go about choosing the next stock to buy? Personally, I keep a close watch on a basket of dividend stocks that I expect will increase my passive income over time. **TELUS** (TSX:T) stock just dipped 3.77% after reporting its earnings yesterday, which begs me to dig deeper.

The blue-chip TSX stock could be a good buy-the-dip opportunity for conservative investors seeking income. Apparently, the company missed its fourth-quarter (Q4) earnings, which is probably what triggered the dip, despite it beating revenue estimates.

Investors are better off focusing on the long-term, bigger picture. For instance, TELUS stock has a track record of increasing its dividend for about 19 consecutive years. Also, for other quarters in 2022, the company's earnings per share (EPS) were in line or a beat.

Here's TELUS's full-year 2022 results. Revenue rose 6.7% to $18,412 million. Adjusted net income climbed 14.6% to $1,640 million. Adjusted EPS rose 9.3% to $1.17. Its share count increased by about 4.5% year over year, which weighed on earnings on a per-share basis. The return on equity was 10.1%. Cash from operating activities rose 9.6% to $4,811 million. Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), a cash flow proxy, climbed 9.5% to $6,643 million. That said, the telecom's net debt to adjusted EBITDA increased to 3.63 times from 3.17 times in 2021.

TELUS stock's dividend safety

Based on TELUS stock's EPS (both generally accepted accounting principles and adjusted), its payout ratio would be over 100%. So, investors may be concerned that its dividend is in danger. However, the big telecom stock's 2022 free cash flow generation was $1,274 million versus roughly $1,177 million of dividends paid. So, although TELUS's earnings did not cover its dividend, its free cash flow did.

Importantly, management noted TELUS has a robust balance sheet and liquidity position in the fourth-quarter press release. Specifically, the average maturity of its long-term debt is over 12 years and only $500 million is coming due this year.

Additionally, its average cost of its long-term debt remains low at 4.03% and 86% of its debt is fixed. Management also expects its balance sheet to improve, as TELUS takes a step down on its capital spending. Specifically, capital spending was almost 19% of revenue in 2022. Management expects it to be 13% of revenue this year.

In other words, investors can anticipate better dividend coverage from an increase in free cash flow. Furthermore, the company has retained earnings that's north of $4 billion. If need be, TELUS could pay dividends from the retained earnings.

Investing takeaway

TELUS's growth businesses, particularly **TELUS International**, have been driving its revenue and EBITDA growth. At $27.03 per share at writing, TELUS stock is attractive for a dividend yield of 5.2%. This dividend is covered by the telecom's free cash flow, which should improve this year as capital spending winds down.

The TELUS stock dividend provides a good base return through economic cycles. For example, the Canadian stock market, using **iShares S&P/TSX 60 Index ETF** as a proxy, returned 8.8% per year in the last 10 years or so. So, investors only need to get price appreciation of 3.6% from TELUS stock to match market returns.

TELUS stock is likely to do better as analysts believe the undervalued stock trades at a discount of approximately 17%, and it plans to raise its dividend by 7-10% annually through 2025. In fact, the dividend stock has outperformed the market's total returns by deliver north of 11% in the last decade or so.

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kayng