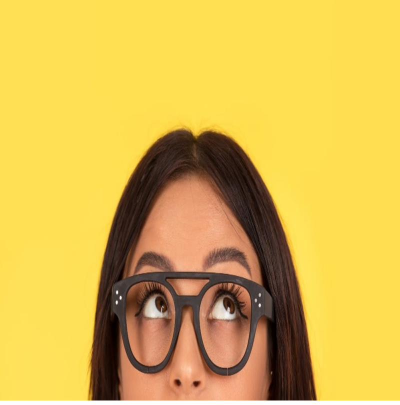

Better Buy: BCE stock vs. Telus

Description

With the digitization of business processes and growth in remote working and online shopping and learning, the demand for internet services is growing. Also, the advent of 5G has created a solid growth driver for telecom companies. However, being a capital-intensive business, telecommunication companies have been under pressure over the last few months due to rising interest rates. Amid the weakness, **BCE** (TSX:BCE) and **Telus** (TSX:T) are trading at a discount of 17.5% and 21% from their respective 52-week highs.

Given their growth potential and discounted stock prices, which of the two stocks would be an excellent buy right now? Let's begin by assessing their performance in the recently announced fourth quarter and growth prospects.

BCE

BCE reported its fourth-quarter earnings earlier this month, with its revenue growing by 3.7% year over year. The strong performance from its wireless segment, with revenue growth of 7.7%, drove its top line. The subscriber base growth, increased average revenue per user, and higher transaction volumes drove the segment's topline. It added 854,000 new direct fibre connections in 2022 while expanding its 5G infrastructure to cover 82% Canadians.

Despite the top-line growth, the company's net income declined by 13.8% amid higher impairment charges and increased interest expenses due to rising interest rates. Meanwhile, removing special or one-time expenses, the company's adjusted net income fell by 5.5%. However, the company's adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) grew by 0.3% to $2.44 billion. Amid healthy cash flows, the company has raised its quarterly dividend by 5.2% to $0.9675/share, which was its 15th consecutive year of above 5% dividend hike. Its yield for the next 12 months stands at 6.33%.

Meanwhile, BCE's management expects to add 650,000 new fibre connections this year while expanding its 5G and 5G+ services. Amid these growth initiatives, the management expects its revenue to grow by 1-5% this year. However, the management projects a 3-7% decline in their adjusted EPS (earnings per share) this year due to higher interest expenses.

Meanwhile, BCE currently trades at 2.2 times analysts' projected sales for the next four quarters, which looks reasonable.

Telus

Last week, Telus also reported its fourth-quarter performance. Its operating revenue grew by 12.6% to $5.02 billion, driven by growth across segments. Supported by rising demand and an expanded product portfolio, the company added 301,000 new customers, thus driving its revenue from mobile and fixed product and service segments. Also, the acquisition of LifeWorks in September boosted its revenue from TELUS Health.

Despite solid topline growth, Telus's net income declined by 60% due to various one-time expenses. However, removing such expenditures, the company's adjusted net income grew by 0.6% to $333 million, while its adjusted EPS remained flat. The company also generated an adjusted EBITDA of $1.7 billion, representing an 11% growth compared to the previous year's quarter. Supported by its stable cash flows, the company has been raising its dividend for the last 13 years and expects to maintain the growth through 2025. Its dividend yield currently stands at a healthy 5.13%.

Meanwhile, Telus's management expects to maintain its growth initiatives and has planned to make a capital investment of $2.6 billion this year. Supported by these growth initiatives, the management hopes to grow its operating revenue and adjust EBITDA by double digits. Despite its healthy growth prospects, the company trades at 1.9 times analysts' projected sales for the next four quarters.

Bottom line

Although both companies offer stable growth prospects and healthy dividend yields, I am bullish on Telus due to its exposure to high-growth technology-related segments. Also, Telus trades at a cheaper valuation, making it an attractive buy.

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Date
2025/08/12
Date Created
2023/02/15
Author
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