Is Telus' (TSX:T) Stock a Buy Before Earnings?

Description

The earnings season is ramping up. This week, there are several high-profile **TSX**-listed companies scheduled to report earnings. Among them, **Telus** (TSX:T)(NYSE:TU) is on deck to report second quarter results before the bell on Friday.

This quarter will be among the most watched in recent history. Investors will finally begin to grasp the impacts of COVID-19 mitigation efforts and the subsequent economic shutdown.

Is Telus a buy before earnings? Let's take a look.

Q2 expectations

Analysts are expecting Telus to post earnings of $0.28 per share and revenue of $3.45 billion. This represents a drops of 17.6% and 1.7% over the second quarter of 2019.

Looking forward, Canada's second-largest telecom is expected to see full-year earnings drop by 13.2% in 2020 before rebounding by 12% in 2021. While earnings will remain pressured, revenue is still expected to grow by 2.4% and 8.9% in 2020 and 2021 respectively.

The significant drop in earnings is to be expected. One need only look at into **Rogers Communications'** (TSX:RCI.B)(NYSE:RCI) second-quarter results for insights.

Rogers, another Big Three telecom, missed on profitability expectations and revenue declined by 16.4% year over year. The biggest impacts on financials included big drops in the wireless service and equipment revenue, and the halving (-50%) of media revenue. Furthermore, roaming revenues dropped by approximately 90% as travel came to a halt.

Similarly, wireless subscriber growth – a key industry metric – stalled. In fact, Rogers lost 67,000 net wireless subscribers. On the bright side, Rogers isn't seeing many delayed payments or suspended wireless accounts.

Bottom line, Rogers' saw notable impacts across all of its segments, and Telus is likely to experience the same.

Historical performance

Typically a reliable performer, Suncor's quarterly earnings results usually come in line with expectations. Over the past 12 quarters, Telus has only missed earnings expectations once. The lone miss came last quarter which included a glimpse into COVID-19 impacts.

In terms of revenue, Telus has a tendency of beating estimates. It has beat estimates in 10 of the past 12 quarters. Notably, the two misses came in the last four quarters, which implies increasing uncertainty.

Not surprisingly, revisions have been trending downward. Over the past 90 days, seven of the 15 analysts have revised estimates downwards. On average, quarterly earnings estimates are down 8% over the past few months. Worth noting is that not a single analysts is revising upwards.

Given these downward revisions, even an earnings beat may not be enough to push Telus' stock upwards. In fact, it will likely require a meaningful beat along with a better-than-expected outlook to drive any meaningful share price appreciation. Perhaps the company's burgeoning Health segment can help propel its stock higher.

Is Telus a buy?

Despite a big market rebound, Telus' share price is still down by 8% year to date. The industry is facing considerable uncertainty, and although its products are an essential service, the markets are taking a cautious approach with the industry.

Despite the uncertainty, as one of Canada's Big Three telecoms, Telus' dominant market position makes it a core holding. The company currently yields an attractive 5.05% and is a Canadian Dividend Aristocrat.

Is the company a buy before earnings? Telus is typically not a stock you trade. That said, if you are worried about upcoming earnings, then it might be best to average into your position before and after second-quarter results.

Bottom line, Telus remains a strong foundational stock for investors.

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