



TELUS Corporation (TU)

Updated August 23rd, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	8.1%	Volatility Percentile:	1.1%
Fair Value Price:	\$44	5 Year Growth Estimate:	4.0%	Momentum Percentile:	54.2%
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Growth Percentile:	26.2%
Dividend Yield:	4.9%	5 Year Price Target	\$54	Valuation Percentile:	43.0%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	36.5%

Overview & Current Events

TELUS Corporation is one of the 'big three' Canadian telecommunications companies along with BCE, Inc. (BCE) and Rogers Communications (RCI). TELUS is focused in Western Canada and provides a full range of communication products and services through two business segments: Wireline and Wireless. TELUS is cross-listed on the Toronto Stock Exchange and the New York Stock Exchange, where it trades under the tickers 'T' and 'TU', respectively. TELUS reports financial results in Canadian dollars. To remove the impact of foreign exchange fluctuations, all figures in this report are in Canadian dollars and refer to the listing on the Toronto Stock Exchange, although the investment thesis is identical for both cross-listed securities. The stock currently has a market capitalization of C\$28 billion.

In early August, TELUS reported (8/2/19) financial results for the second quarter of fiscal 2019. The company grew its revenue by 4.2%, its EBITDA by 9.8% and its net income by 31.0% thanks to growth in wireless network revenue and in wireline data services revenue as well as a tax benefit from Alberta's reduction of corporate tax from 12% to 8% over the next three years. Excluding the tax benefit, earnings-per-share were flat. The company posted 186,000 new customer additions and a mobile phone churn rate of 1.0%. This almost all-time low churn rate proves the industry leading wireless loyalty that TELUS enjoys.

Management reiterated its commitment to raise the dividend by 7%-10% per year until at least 2022. TELUS has raised its dividend for 17 consecutive semesters in the multi-year dividend growth program that it initiated in 2011.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.57	\$1.61	\$1.87	\$2.01	\$2.01	\$2.31	\$2.29	\$2.06	\$2.46	\$2.68	\$2.85	\$3.47
DPS	\$0.95	\$0.98	\$1.08	\$1.19	\$1.32	\$1.48	\$1.64	\$1.80	\$1.95	\$2.06	\$2.25	\$2.70
Shares¹	635.4	644.7	649.7	651.9	623.4	609.0	594.3	590.0	595.0	600.0	605.0	570.0

TELUS pays out the majority of its earnings-per-share as dividends, which leaves little in the way of retained earnings to invest for growth. Still, the company has managed to grow its earnings-per-share by 4.3% per year over the last decade. We believe that a 4% rate of growth is feasible for TELUS Corporation moving forward.

In terms of dividend payments, TELUS has a publicly-communicated target of 7%-10% dividend growth through 2022. While we believe that management will raise the dividend as per its guidance this and next year, we prefer to be somewhat conservative in our estimate for the dividend of 2024 in order to avoid negative surprises.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	10.5	12.6	13.8	15.1	17.2	17.1	18.5	20.1	18.3	17.4	16.1	15.5
Avg. Yld.	5.8%	4.8%	4.2%	3.9%	3.8%	3.7%	3.9%	4.3%	4.3%	4.4%	4.9%	5.0%

TELUS has traded at an average price-to-earnings ratio of 15.5 over the last decade, which we believe represents an approximation of fair value for this Canadian telecommunications corporation. The stock is currently trading at a price-

1. In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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to-earnings ratio of 16.1, which is slightly higher than its historical average. If the stock reverts to its average valuation level over the next five years, it will incur a -0.8% annualized drag due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	60.5%	60.9%	57.8%	59.2%	65.7%	64.1%	71.6%	87.4%	79.3%	76.9%	78.9%	77.8%

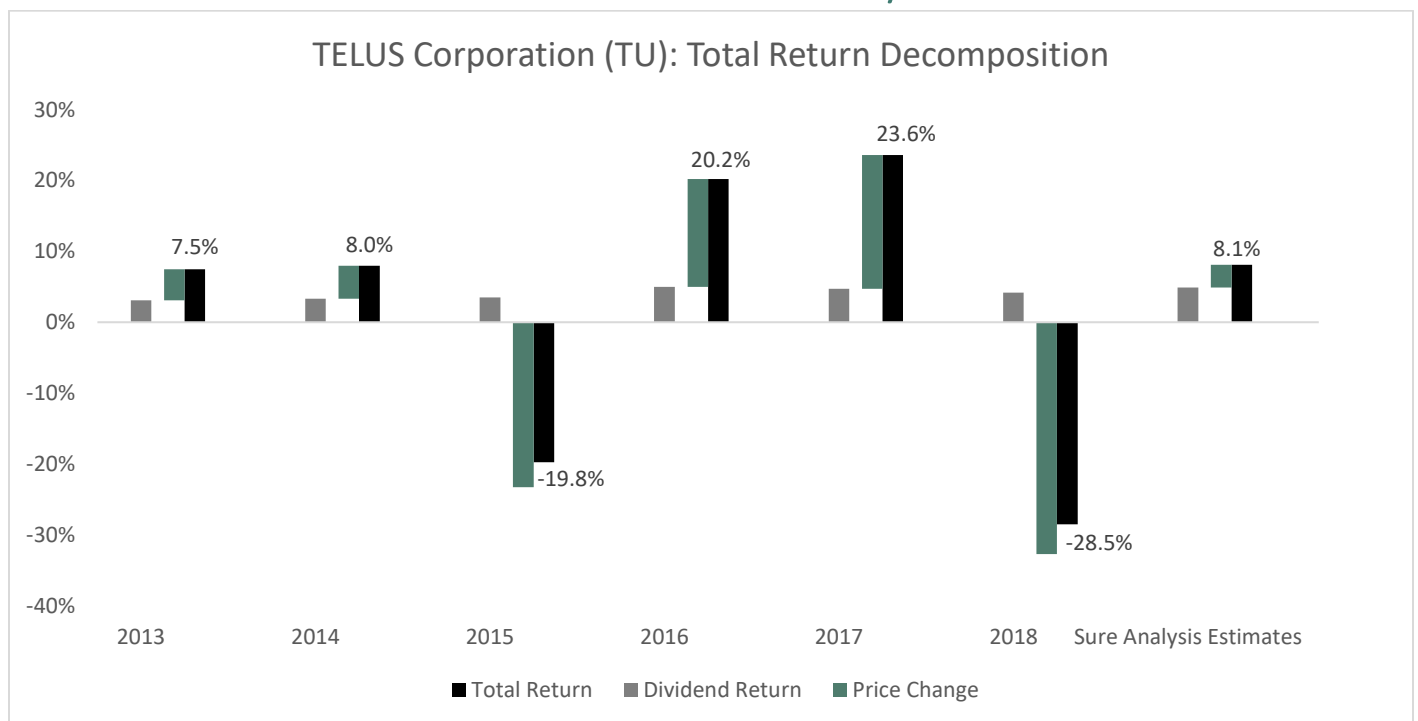
TELUS' main competitive advantage comes from being an entrenched player in a capital-intensive and highly regulated industry. Indeed, according to Canada's telecommunications regulator – the Canadian Radio-television and Telecommunications Commissions (CRTC) – the Top 5 telecommunications providers gather 85% of the industry's revenues. This discourages potential competitors from entering the market and is a competitive advantage for TELUS.

Due to the hefty capital expenses required in the telecommunications sector, the companies of this sector usually carry heavy amounts of debt. However, TELUS has a reasonable amount of debt, as its liabilities comprise less than three-quarters of its total assets while its interest expense consumes 25% of its operating income. At the security level, TELUS has traded with remarkably little stock price volatility since the 2007-2009 financial crisis and its conservative dividend payout ratio gives it some room to continue raising its dividend in the event that earnings growth stalls temporarily.

Final Thoughts & Recommendation

TELUS Corporation is one of Canada's largest telecommunications providers. The company's attractive dividend yield and overall business stability make it attractive for conservative, income-seeking investors but the stock seems fully valued right now. Our expectation is an 8.1% average annual return over the next five years. As a result, we maintain our hold rating for TELUS. Investors looking for telecommunications exposure may find AT&T (T) and Verizon (VZ) more appealing.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	9606	9742	10325	10852	11336	11927	12430	12725	13305	14095
Gross Profit	6328	5506	5599	6032	6374	6628	6898	7094	7401	7727
Gross Margin	65.9%	56.5%	54.2%	55.6%	56.2%	55.6%	55.5%	55.7%	55.6%	54.8%
SG&A Exp.	2647	1906	1893	2242	2424	2487	2708	2939	2594	2896
D&A Exp.	1722	1741	1810	1865	1803	1834	1909	2047	2169	2267
Operating Profit	1959	1909	1950	1983	2202	2362	2329	2144	2670	2587
Operating Margin	20.4%	19.6%	18.9%	18.3%	19.4%	19.8%	18.7%	16.8%	20.1%	18.4%
Net Profit	1002	1048	1215	1204	1294	1425	1382	1223	1559	1600
Net Margin	10.4%	10.8%	11.8%	11.1%	11.4%	11.9%	11.1%	9.6%	11.7%	11.4%
Free Cash Flow	801	949	683	1269	1144	-137	-1014	322	866	1183
Income Tax	203	335	376	416	474	501	524	426	590	552

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	19219	19624	19931	20445	21566	23217	26406	29077	31053	33065
Cash & Equivalents	41	17	46	107	336	60	223	432	509	414
Acc. Receivable	694	1203	1253	1331	1295	1290	1275	1285	1312	1385
Inventories	270	283	353	350	326	320	360	320	380	376
Goodwill & Int.	8720	9724	9814	9883	10268	11554	13746	14151	14894	15689
Total Liabilities	11644	11843	12418	12759	13551	15763	18734	20044	21595	22724
Accounts Payable	1385	448	406	423	458	458	476	2330	717	686
Long-Term Debt	6172	6456	6978	6658	7893	9410	12138	13031	13760	14201
Total Equity	7554	7759	7513	7686	8015	7454	7672	9014	9416	10259
D/E Ratio	0.82	0.83	0.93	0.87	0.98	1.26	1.58	1.45	1.46	1.38

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	5.2%	5.4%	6.1%	6.0%	6.2%	6.4%	5.6%	4.4%	5.2%	5.0%
Return on Equity	13.7%	13.7%	15.9%	15.8%	16.5%	18.4%	18.3%	14.7%	16.9%	16.3%
ROIC	7.2%	7.5%	8.5%	8.4%	8.6%	8.7%	7.5%	5.8%	6.9%	6.7%
Shares Out.	635.4	644.7	649.7	651.9	623.4	609.0	594.3	590.0	595.0	600.0
Revenue/Share	15.10	15.17	15.84	16.57	17.63	19.30	20.58	21.46	22.44	23.61
FCF/Share	1.26	1.48	1.05	1.94	1.78	-0.22	-1.68	0.54	1.46	1.98

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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