



TELUS Corporation (TU)

Updated November 18th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$19	5 Year CAGR Estimate:	6.0%	Market Cap:	\$24.6 B
Fair Value Price:	\$15	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	12/10/2020
% Fair Value:	130%	5 Year Valuation Multiple Estimate:	-5.0%	Dividend Payment Date:	1/4/2021
Dividend Yield:	4.7%	5 Year Price Target	\$21	Years Of Dividend Growth:	12
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	7.9%

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 but all the figures in this report are in USD. The stock currently has a market capitalization of \$24.6 billion. On March 17th, 2020, TELUS implemented a 2-for-1 stock split.

In early November, TELUS reported (11/6/20) financial results for the third quarter of fiscal 2020. The company grew its revenue by 7.7% thanks to client additions of 277,000 over last year's quarter. However, its adjusted earnings-per-share fell -28% due to the pandemic, which caused a steep decrease in wireless roaming revenue. The company was also hurt by the temporary shutdown of some of its retail stores. TELUS began to reopen its stores in the final weeks of the second quarter.

Telecommunications companies are largely protected from the coronavirus crisis but the shutdown of stores for a considerable period has taken its toll on the results of this year. Management expects free cash flow at the lower end of its target range of \$1.4-\$1.7 billion but raised the quarterly dividend by 7.9%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.78	\$0.95	\$1.01	\$0.98	\$1.01	\$0.86	\$0.75	\$0.95	\$1.03	\$1.08	\$0.90	\$1.26
DPS	\$0.48	\$0.55	\$0.60	\$0.64	\$0.64	\$0.62	\$0.65	\$0.75	\$0.79	\$0.85	\$0.89	\$1.03
Shares¹	1289	1299	1304	1247	1218	1189	1180	1190	1200	1204	1288	1200

TELUS pays out the majority of its earnings 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 3.6% per year over the last decade. Moreover, thanks to the strong momentum of the company in wireless and wireline additions and the low comparison base formed this year due to the dip in earnings, we expect an annual earnings-per-share growth rate of 7% over the next five years.

In terms of dividend payments, before the onset of the pandemic, TELUS had a publicly communicated target of 7%-10% annual dividend growth through 2022. We have assumed a much lower annual dividend growth rate (3%) over the next five years, in order to be on the safe side, given the ongoing downturn caused by the pandemic. This growth rate will keep the payout ratio within reasonable levels for a telecommunications company.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.6	13.8	15.1	17.2	17.1	18.5	20.1	18.3	17.4	17.0	21.1	16.3
Avg. Yld.	4.8%	4.2%	3.9%	3.8%	3.7%	3.9%	4.3%	4.3%	4.4%	4.6%	4.7%	5.0%

¹ In millions.

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Excluding the outlier year 2016, TELUS has traded at an average price-to-earnings ratio of 16.3 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-to-earnings ratio of 21.1, which is a decade-high level, much higher than the historical average. If the stock reverts to its average valuation level over the next five years, it will incur a -5.0% annualized drag due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	60.9%	57.8%	59.2%	65.7%	64.1%	71.6%	87.4%	79.3%	76.9%	78.7%	98.9%	81.7%

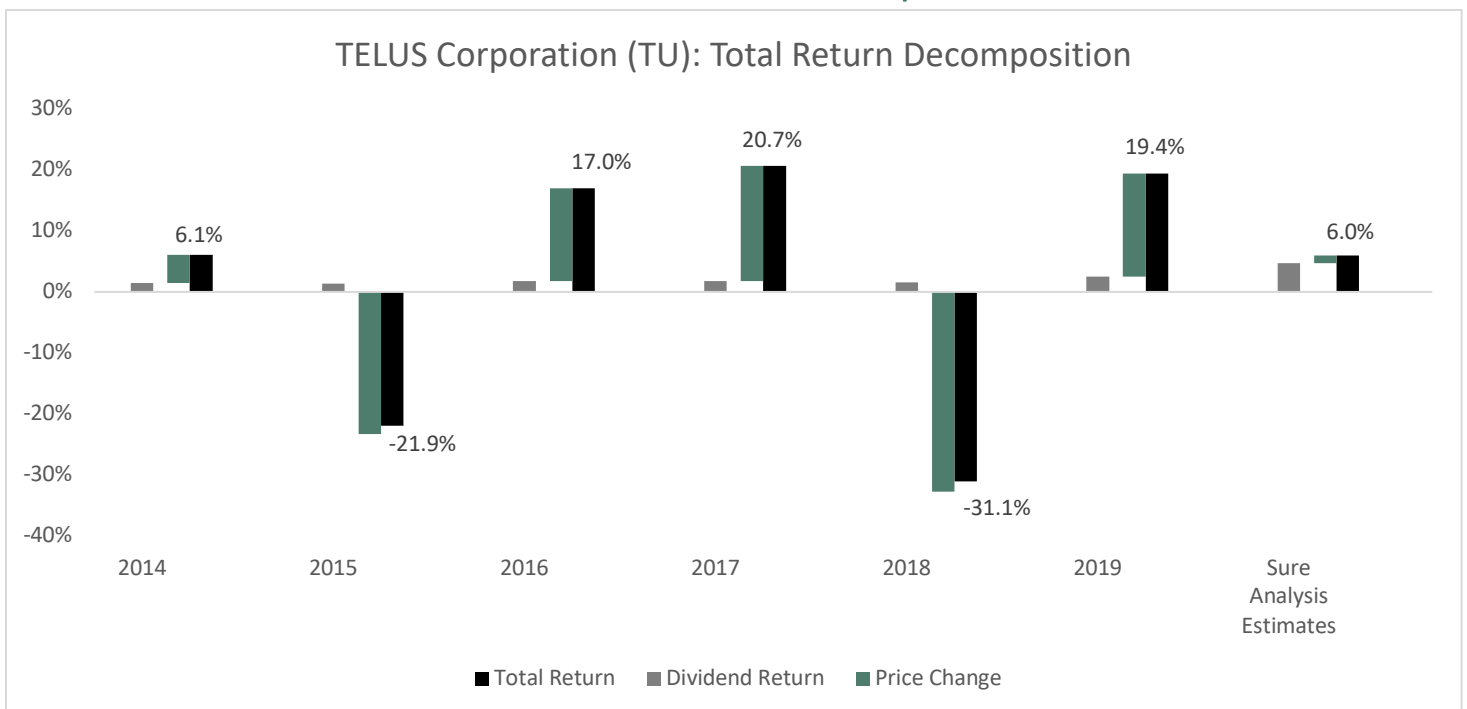
TELUS' main competitive advantage comes from being an entrenched player in a capital-intensive and highly regulated industry. Indeed, according to Canada's telecommunications regulator – the Canadian Radio-television and Telecommunications Commissions (CRTC) – the Top 5 telecommunications providers gather 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 26% of its operating income. At the security level, TELUS has traded with remarkably little stock price volatility since the 2007-2009 financial crisis. In the ongoing downturn, the volatility of the stock has increased but we view the business prospects of TELUS as fairly resilient to the current crisis.

Final Thoughts & Recommendation

TELUS Corporation is one of Canada's largest telecommunications providers. The company's attractive dividend yield, its overall business stability and its resilience to recessions make it attractive for conservative, income-seeking investors. We expect the stock to offer a 6.0% average annual return over the next five years. We thus maintain our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	9,445	10,442	10,855	11,009	10,803	9,739	9,609	10,266	10,877	10,992
Gross Profit	5,338	5,662	6,034	6,190	6,004	5,405	5,357	5,711	5,963	6,419
Gross Margin	56.5%	54.2%	55.6%	56.2%	55.6%	55.5%	55.7%	55.6%	54.8%	58.4%
SG&A Exp.	1,848	1,914	2,243	2,354	2,253	2,122	2,219	2,002	2,235	2,286
D&A Exp.	1,688	1,831	1,866	1,751	1,661	1,496	1,546	1,674	1,749	1,942
Operating Profit	1,851	1,972	1,984	2,138	2,139	1,825	1,619	2,060	1,996	2,209
Operating Margin	19.6%	18.9%	18.3%	19.4%	19.8%	18.7%	16.8%	20.1%	18.4%	20.1%
Net Profit	1,016	1,229	1,204	1,257	1,291	1,083	924	1,203	1,235	1,316
Net Margin	10.8%	11.8%	11.1%	11.4%	11.9%	11.1%	9.6%	11.7%	11.4%	12.0%
Free Cash Flow	920	691	1,269	1,111	(124)	(794)	243	668	913	25
Income Tax	325	380	416	460	454	411	322	455	426	353

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	19,621	19,523	20,551	20,254	20,000	19,029	21,566	24,694	24,270	29,071
Cash & Equivalents	17	---	---	---	---	---	---	---	---	---
Acc. Receivable	1,203	1,119	1,223	1,101	1,008	827	856	930	888	1,167
Inventories	283	346	352	306	276	259	237	302	276	335
Goodwill & Int.	9,722	9,613	9,934	9,643	9,953	9,906	10,496	11,844	11,513	13,889
Total Liabilities	11,841	12,164	12,825	12,727	13,579	13,500	14,867	17,173	16,678	20,911
Accounts Payable	448	398	425	430	395	343	1,728	570	504	683
Long-Term Debt	6,455	6,835	6,693	7,413	8,106	8,747	9,665	10,942	10,426	14,219
Total Equity	7,758	7,359	7,726	7,527	6,421	5,529	6,686	7,488	7,532	8,075
D/E Ratio	0.83	0.93	0.87	0.98	1.26	1.58	1.45	1.46	1.38	1.76

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	5.4%	6.3%	6.0%	6.2%	6.4%	5.5%	4.5%	5.2%	5.0%	4.9%
Return on Equity	13.6%	16.3%	16.0%	16.5%	18.5%	18.1%	15.1%	17.0%	16.4%	16.9%
ROIC	7.4%	8.6%	8.4%	8.6%	8.8%	7.5%	6.0%	6.9%	6.8%	6.5%
Shares Out.	644.7	649.7	651.9	623.4	609.0	594.3	590.0	595.0	600.0	602.0
Revenue/Share	14.71	16.02	16.57	17.12	17.48	16.12	16.20	17.31	18.22	18.26
FCF/Share	1.43	1.06	1.94	1.73	(0.20)	(1.32)	0.41	1.13	1.53	0.04

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

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