



TELUS Corporation (TU)

Updated November 22nd, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$23	5 Year CAGR Estimate:	4.4%	Market Cap:	\$31.4 B
Fair Value Price:	\$15	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	12/9/2021
% Fair Value:	149%	5 Year Valuation Multiple Estimate:	-7.6%	Dividend Payment Date:	1/4/2022
Dividend Yield:	4.6%	5 Year Price Target	\$23	Years Of Dividend Growth:	14
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	5.2%

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 \$31.4 billion. On March 17th, 2020, TELUS implemented a 2-for-1 stock split.

In early November, TELUS reported (11/5/21) financial results for the third quarter of fiscal 2021. The company grew its revenue and EBITDA 7% and 8%, respectively, thanks to client additions of 43,000 over last year's quarter. It also grew its adjusted earnings-per-share 4% thanks to higher internet and data service margins and growth in network revenue amid higher subscriber count. Due to business momentum and a positive outlook, TELUS raised its dividend by 5.2%.

Telecommunications companies are largely protected from the coronavirus crisis. The shutdown of stores for a considerable period, as well as social distancing restrictions, weighed on the results of TELUS in the previous quarters but the company has begun to recover. Management expects 8%-10% revenue growth and EBITDA growth this year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.95	\$1.01	\$0.98	\$1.01	\$0.86	\$0.75	\$0.95	\$1.03	\$1.08	\$0.84	\$0.95	\$1.40
DPS	\$0.55	\$0.60	\$0.64	\$0.64	\$0.62	\$0.65	\$0.75	\$0.79	\$0.85	\$0.89	\$1.05	\$1.22
Shares¹	1299	1304	1247	1218	1189	1180	1190	1200	1204	1296	1360	1300

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 managed to grow its earnings-per-share by 3.6% per year during 2010-2019. Moreover, thanks to the strong momentum of the company in wireless and wireline additions and the low comparison base formed this year, we expect annual earnings-per-share growth rate of 8% 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. This growth rate will keep the payout ratio within reasonable levels for a telecommunications company.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.8	15.1	17.2	17.1	18.5	20.1	18.3	17.4	17.0	21.3	24.2	16.3
Avg. Yld.	4.2%	3.9%	3.8%	3.7%	3.9%	4.3%	4.3%	4.4%	4.6%	5.0%	4.6%	5.3%

¹ In millions.

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Excluding the outlier years 2016 and 2020, 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 24.2, 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 -7.6% annualized drag due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	57.8%	59.2%	65.7%	64.1%	71.6%	87.4%	79.3%	76.9%	78.7%	106%	111%	87.2%

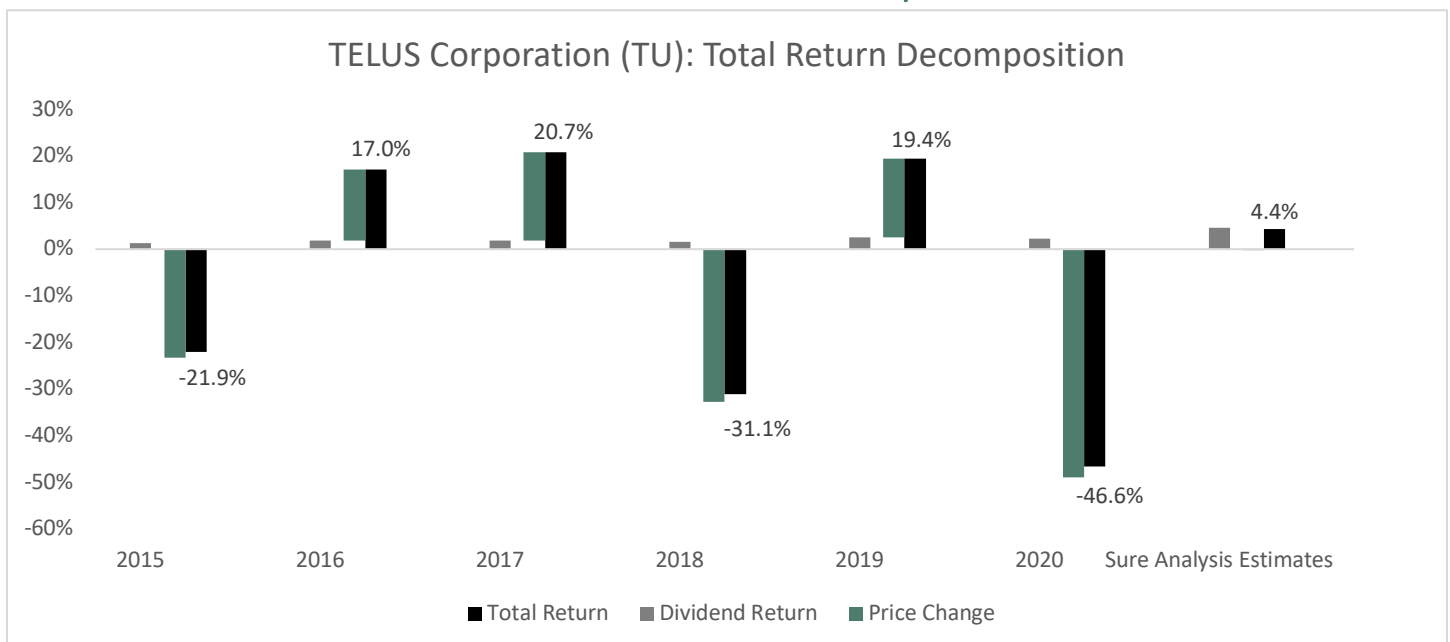
TELUS' main competitive advantage comes from being an entrenched player in a capital-intensive and highly regulated industry. Indeed, according to Canada's telecommunications regulator – the Canadian Radio-television and Telecommunications Commissions (CRTC) – the Top 5 telecommunications providers gather 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 27% 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. However, thanks to its ongoing recovery from the pandemic, TELUS has rallied to new all-time highs, at a decade-high valuation level. As a result, we expect the stock to offer a 4.4% average annual return over the next five years and thus we rate it as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	10,442	10,855	11,009	10,803	9,739	9,609	10,266	10,877	10,992	11,450
Gross Profit	5,662	6,034	6,190	6,004	5,405	5,357	5,711	5,963	6,419	6,772
Gross Margin	54.2%	55.6%	56.2%	55.6%	55.5%	55.7%	55.6%	54.8%	58.4%	59.1%
SG&A Exp.	1,914	2,243	2,354	2,253	2,122	2,219	2,002	2,235	2,286	2,762
D&A Exp.	1,831	1,866	1,751	1,661	1,496	1,546	1,674	1,749	1,942	2,248
Operating Profit	1,972	1,984	2,138	2,139	1,825	1,619	2,060	1,996	2,209	1,773
Operating Margin	18.9%	18.3%	19.4%	19.8%	18.7%	16.8%	20.1%	18.4%	20.1%	15.5%
Net Profit	1,229	1,204	1,257	1,291	1,083	924	1,203	1,235	1,316	901
Net Margin	11.8%	11.1%	11.4%	11.9%	11.1%	9.6%	11.7%	11.4%	12.0%	7.9%
Free Cash Flow	691	1,269	1,111	(124)	(794)	243	668	913	25	1,308
Income Tax	380	416	460	454	411	322	455	426	353	337

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	19,523	20,551	20,254	20,000	19,029	21,566	24,694	24,270	29,071	33,982
Acc. Receivable	1,119	1,223	1,101	1,008	827	856	930	888	1,167	1,653
Inventories	346	352	306	276	259	237	302	276	335	319
Goodwill & Int.	9,613	9,934	9,643	9,953	9,906	10,496	11,844	11,513	13,889	17,457
Total Liabilities	12,164	12,825	12,727	13,579	13,500	14,867	17,173	16,678	20,911	24,099
Accounts Payable	398	425	430	395	343	1,728	570	504	683	671
Long-Term Debt	6,835	6,693	7,413	8,106	8,747	9,665	10,942	10,426	14,219	15,989
Total Equity	7,359	7,726	7,527	6,421	5,529	6,686	7,488	7,532	8,075	9,469
D/E Ratio	0.93	0.87	0.98	1.26	1.58	1.45	1.46	1.38	1.76	1.69

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.3%	6.0%	6.2%	6.4%	5.5%	4.5%	5.2%	5.0%	4.9%	2.9%
Return on Equity	16.3%	16.0%	16.5%	18.5%	18.1%	15.1%	17.0%	16.4%	16.9%	10.3%
ROIC	8.6%	8.4%	8.6%	8.8%	7.5%	6.0%	6.9%	6.8%	6.5%	3.7%
Shares Out.	1299	1304	1247	1218	1189	1180	1190	1200	1204	1296
Revenue/Share	8.01	8.29	8.56	8.74	8.06	8.10	8.66	9.11	9.13	8.96
FCF/Share	0.53	0.97	0.86	(0.10)	(0.66)	0.21	0.56	0.76	0.02	1.02

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

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