



TELUS Corporation (TU)

Updated February 21st, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$21	5 Year CAGR Estimate:	6.7%	Market Cap:	\$29.6 B
Fair Value Price:	\$16	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	3/9/2023
% Fair Value:	133%	5 Year Valuation Multiple Estimate:	-5.5%	Dividend Payment Date:	4/3/2023
Dividend Yield:	5.0%	5 Year Price Target	\$23	Years Of Dividend Growth:	14
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

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 \$29.6 billion. On March 17th, 2020, TELUS implemented a 2-for-1 stock split.

In early February, TELUS reported (2/9/23) financial results for the fourth quarter of fiscal 2022. The company grew its revenue and EBITDA by 8.6% and 9.5%, respectively, thanks to strong customer growth. It posted total mobile and fixed customer growth of 301,000 and mobile net additions of 112,000. However, due to restructuring and other expenses, earnings-per-share remained flat.

The pandemic weighed on the results of TELUS in the previous quarters but the company has begun to recover strongly. Management provided positive guidance for 2023, expecting 11%-14% revenue growth and 9.5%-11.0% EBITDA growth. Nevertheless, as the high costs of TELUS have taken their toll on the bottom line in recent quarters, we have assumed 3% growth of earnings-per-share this year in order to be on the safe side.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.98	\$1.01	\$0.86	\$0.75	\$0.95	\$1.03	\$1.08	\$0.84	\$0.84	\$0.87	\$0.90	\$1.32
DPS	\$0.64	\$0.64	\$0.62	\$0.65	\$0.75	\$0.79	\$0.85	\$0.89	\$1.02	\$1.04	\$1.05	\$1.22
Shares¹	1247	1218	1189	1180	1190	1200	1204	1296	1375	1436	1450	1450

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 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.2	17.1	18.5	20.1	18.3	17.4	17.0	21.3	26.2	26.4	23.3	17.6
Avg. Yld.	3.8%	3.7%	3.9%	4.3%	4.3%	4.4%	4.6%	5.0%	4.6%	4.5%	5.0%	5.2%

¹ In millions.

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Excluding the outlier years 2016 and 2020-2021, TELUS has traded at an average price-to-earnings ratio of 17.6 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 23.3, which is much higher than the historical average. If the stock reverts to its average valuation level over the next five years, it will incur a -5.5% annualized drag due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	65.7%	64.1%	71.6%	87.4%	79.3%	76.9%	78.7%	106%	121%	120%	117%	92.0%

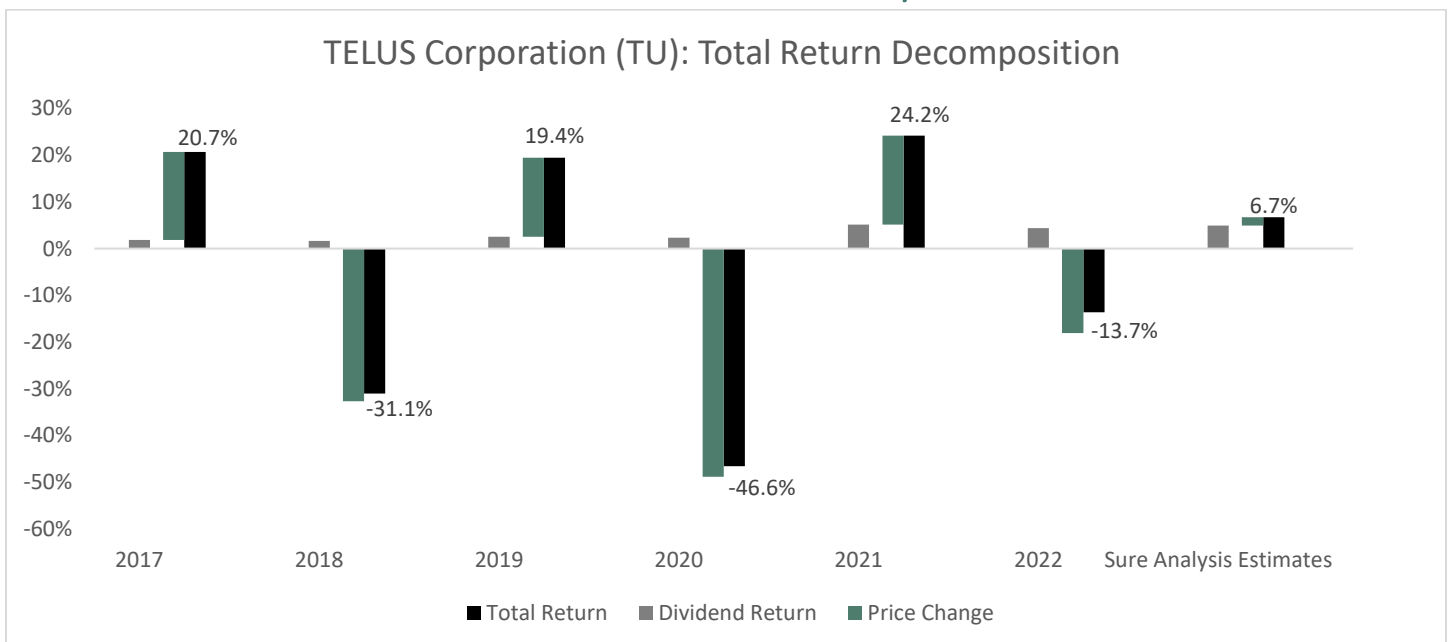
TELUS' main competitive advantage comes from being an entrenched player in a capital-intensive and highly regulated industry. Indeed, according to Canada's telecommunications regulator – the Canadian Radio-television and Telecommunications Commissions (CRTC) – the Top 5 telecommunications providers gather 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. Since the onset of the pandemic, the volatility of the stock has increased but the business of TELUS has proved resilient to this 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 is trading at a rich valuation level. As a result, we expect the stock to offer a 6.7% average annual return over the next five years thanks to 8.0% growth and its 5.0% dividend, partly offset by a -5.5% valuation headwind. The stock maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	11,009	10,803	9,739	9,609	10,266	10,877	10,992	11,450	13,430	14,060
Gross Profit	6,190	6,004	5,405	5,357	5,711	5,963	6,419	6,772	8,087	8,597
Gross Margin	56.2%	55.6%	55.5%	55.7%	55.6%	54.8%	58.4%	59.1%	60.2%	61.1%
SG&A Exp.	2,354	2,253	2,122	2,219	2,002	2,235	2,286	2,762	3,405	3,765
D&A Exp.	1,751	1,661	1,496	1,546	1,674	1,749	1,942	2,248	2,565	2,653
Operating Profit	2,138	2,139	1,825	1,619	2,060	1,996	2,209	1,773	2,123	2,183
Operating Margin	19.4%	19.8%	18.7%	16.8%	20.1%	18.4%	20.1%	15.5%	15.8%	15.5%
Net Profit	1,257	1,291	1,083	924	1,203	1,235	1,316	901	1,320	1,241
Net Margin	11.4%	11.9%	11.1%	9.6%	11.7%	11.4%	12.0%	7.9%	9.8%	8.8%
Free Cash Flow	1,111	(124)	(794)	243	668	913	25	1,308	(740)	895
Income Tax	460	454	411	322	455	426	353	337	463	464

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	20,254	20,000	19,029	21,566	24,694	24,270	29,071	33,982	37,642	39,822
Acc. Receivable	1,101	1,008	827	856	930	888	1,167	1,653	1,903	2,218
Inventories	306	276	259	237	302	276	335	319	351	396
Goodwill & Int.	9,643	9,953	9,906	10,496	11,844	11,513	13,889	17,457	19,424	20,886
Total Liabilities	12,727	13,579	13,500	14,867	17,173	16,678	20,911	24,099	25,047	26,811
Accounts Payable	430	395	343	1,728	570	504	683	671	951	1,018
Long-Term Debt	7,413	8,106	8,747	9,665	10,942	10,426	14,219	15,989	16,444	18,524
Total Equity	7,527	6,421	5,529	6,686	7,488	7,532	8,075	9,469	11,855	12,208
LTD/E Ratio	0.98	1.26	1.58	1.45	1.46	1.38	1.76	1.69	1.39	1.52

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.2%	6.4%	5.5%	4.5%	5.2%	5.0%	4.9%	2.9%	3.7%	3.2%
Return on Equity	16.5%	18.5%	18.1%	15.1%	17.0%	16.4%	16.9%	10.3%	12.4%	10.3%
ROIC	8.6%	8.8%	7.5%	6.0%	6.9%	6.8%	6.5%	3.7%	4.8%	4.1%
Shares Out.	1247	1218	1189	1180	1190	1200	1204	1296	1375	1403
Revenue/Share	8.56	8.74	8.06	8.10	8.66	9.11	9.13	8.96	9.94	10.02
FCF/Share	0.86	(0.10)	(0.66)	0.21	0.56	0.76	0.02	1.02	(0.55)	0.64

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

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