



TELUS Corporation (TU)

Updated November 15th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$15	5 Year CAGR Estimate:	12.6%	Market Cap:	\$23.2 B
Fair Value Price:	\$13	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	12/11/2024
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.5%	Dividend Payment Date:	1/2/2025
Dividend Yield:	7.7%	5 Year Price Target	\$21	Years Of Dividend Growth:	21
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

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 \$23.2 billion. On March 17th, 2020, TELUS implemented a 2-for-1 stock split.

In early November, TELUS reported (11/8/24) financial results for the third quarter of fiscal 2024. The company posted decent customer growth. It posted total mobile customer growth of 130,000, growth of fixed customers by 58,000 and an industry-leading churn rate of 0.9% at its postpaid mobile business. Revenue grew 2% thanks to higher service revenues in TELUS digital experience segment. Earnings-per-share grew 12%, primarily thanks to material synergies achieved from the acquisition of LifeWorks, which took place in 2022. Management stated that it still expects to reach the low end of its previous guidance for 2%-4% growth of revenue and 5.5%-7.5% growth of adjusted EBITDA in 2024. Accordingly, we have kept our forecast for earnings-per-share in 2024 intact at \$0.75.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.01	\$0.86	\$0.75	\$0.95	\$1.03	\$1.08	\$0.84	\$0.84	\$0.87	\$0.71	\$0.75	\$1.21
DPS	\$0.64	\$0.62	\$0.65	\$0.75	\$0.79	\$0.85	\$0.89	\$1.02	\$1.04	\$1.09	\$1.16	\$1.19
Shares¹	1218	1189	1180	1190	1200	1204	1296	1375	1436	1440	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 decent momentum of the company in wireless and wireline additions and especially the low comparison base formed this year, we expect annual earnings-per-share growth of 10% 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 marginal annual dividend growth rate (0.5%) 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.1	18.5	20.1	18.3	17.4	17.0	21.3	26.2	26.4	26.5	20.0	17.6
Avg. Yld.	3.7%	3.9%	4.3%	4.3%	4.4%	4.6%	5.0%	4.6%	4.5%	5.8%	7.7%	5.6%

¹ In millions.

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Excluding the outlier years 2016 and 2020-2023, 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 20.0, which is higher than the historical average. If the stock reverts to its average valuation level over the next five years, it will incur a -2.5% annualized drag due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	64.1%	71.6%	87.4%	79.3%	76.9%	78.7%	106%	121%	120%	154%	155%	98.5%

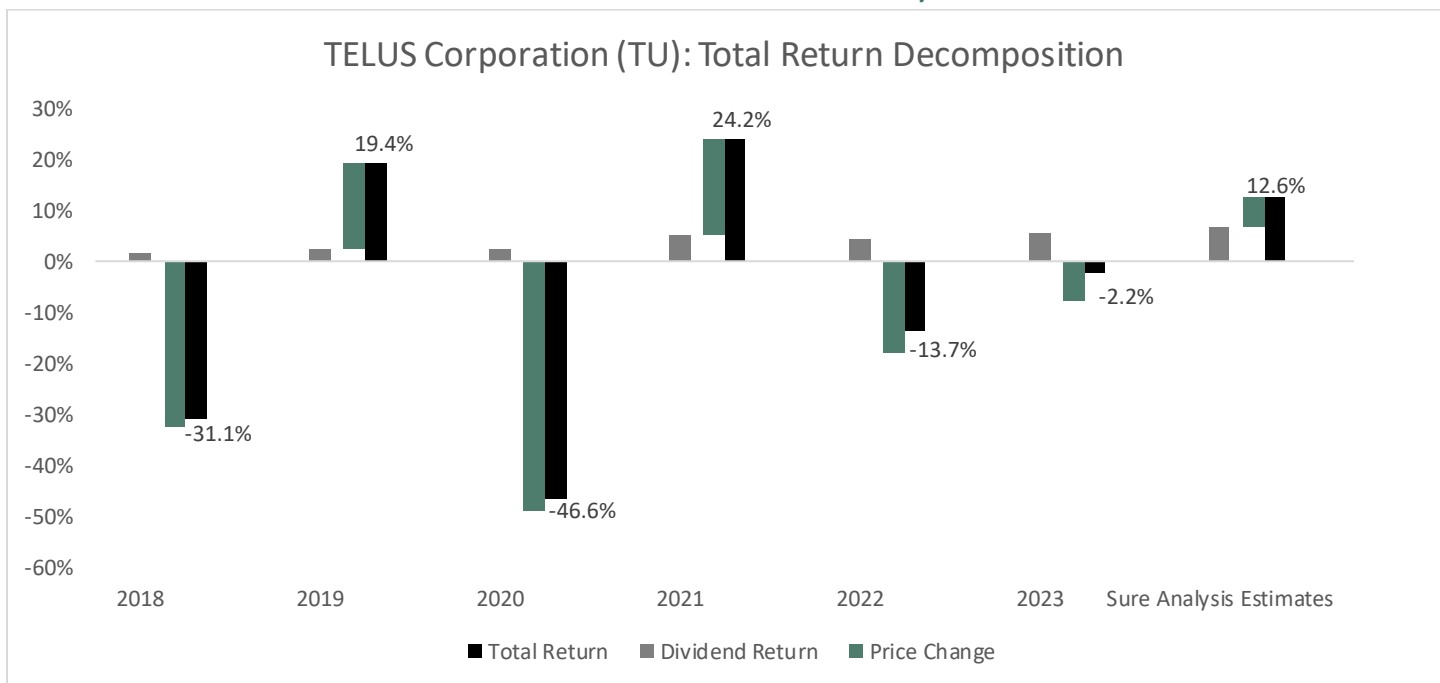
TELUS' main competitive advantage comes from being an entrenched player in a capital-intensive and highly regulated industry. Indeed, according to Canada's telecommunications regulator – the Canadian Radio-television and Telecommunications Commissions (CRTC) – the Top 5 telecommunications providers gather 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 manageable amount of debt, as its liabilities comprise less than three-quarters of its total assets while its interest expense consumes 44% 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 proved resilient to this crisis.

Final Thoughts & Recommendation

TELUS Corporation is one of Canada's largest telecommunications providers. Its attractive dividend yield, its overall business stability and its resilience to recessions make it attractive for conservative, income-seeking investors. TELUS is now hurt by a slowing economy and somewhat heating competition but we expect it to recover in the long run. We expect TELUS to offer a 12.6% average annual return over the next five years thanks to 10.0% earnings growth and its 7.7% dividend, partly offset by a -2.5% valuation headwind. The stock maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	10,803	9,739	9,609	10,266	10,877	10,992	11,450	13,430	14,060	14,816
Gross Profit	6,004	5,405	5,357	5,711	5,963	6,419	6,772	8,087	8,597	9,234
Gross Margin	55.6%	55.5%	55.7%	55.6%	54.8%	58.4%	59.1%	60.2%	61.1%	62.3%
SG&A Exp.	2,253	2,122	2,219	2,002	2,235	2,286	2,762	3,405	3,765	4,553
D&A Exp.	1,661	1,496	1,546	1,674	1,749	1,942	2,248	2,565	2,653	3,014
Operating Profit	2,139	1,825	1,619	2,060	1,996	2,209	1,773	2,123	2,183	1,677
Operating Margin	19.8%	18.7%	16.8%	20.1%	18.4%	20.1%	15.5%	15.8%	15.5%	11.3%
Net Profit	1,291	1,083	924	1,203	1,235	1,316	901	1,320	1,241	623
Net Margin	11.9%	11.1%	9.6%	11.7%	11.4%	12.0%	7.9%	9.8%	8.8%	4.2%
Free Cash Flow	(124)	(794)	243	668	913	25	1,308	(740)	895	954
Income Tax	454	411	322	455	426	353	337	463	464	164

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	20,000	19,029	21,566	24,694	24,270	29,071	33,982	37,642	39,822	42,316
Acc. Receivable	1,008	827	856	930	888	1,167	1,653	1,903	2,218	2,499
Inventories	276	259	237	302	276	335	319	351	396	365
Goodwill & Int.	9,953	9,906	10,496	11,844	11,513	13,889	17,457	19,424	20,886	22,448
Total Liabilities	13,579	13,500	14,867	17,173	16,678	20,911	24,099	25,047	26,811	29,273
Accounts Payable	395	343	1,728	570	504	683	671	951	1,018	751
Long-Term Debt	8,106	8,747	9,665	10,942	10,426	14,219	15,989	16,444	18,524	20,694
Total Equity	6,421	5,529	6,686	7,488	7,532	8,075	9,469	11,855	12,208	12,145
LTD/E Ratio	1.26	1.58	1.45	1.46	1.38	1.76	1.69	1.39	1.52	1.70

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.4%	5.5%	4.5%	5.2%	5.0%	4.9%	2.9%	3.7%	3.2%	1.5%
Return on Equity	18.5%	18.1%	15.1%	17.0%	16.4%	16.9%	10.3%	12.4%	10.3%	4.8%
ROIC	8.8%	7.5%	6.0%	6.9%	6.8%	6.5%	3.7%	4.8%	4.1%	1.9%
Shares Out.	1218	1189	1180	1190	1200	1204	1296	1375	1403	1457
Revenue/Share	8.74	8.06	8.10	8.66	9.11	9.13	8.96	9.94	10.02	10.17
FCF/Share	(0.10)	(0.66)	0.21	0.56	0.76	0.02	1.02	(0.55)	0.64	0.65

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

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