

TELUS Corporation (TU)

\$18.19 (As of 06/03/20)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/10/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

Summary

TELUS reported mixed first-quarter 2020 results, with the top line beating the Zacks Consensus Estimate and the bottom line missing the same. The company expects balanced growth in the wireless and wireline businesses backed by investments in broadband technology. TELUS' 4G LTE network covers 99% of the country's population. Also, the addition of 600 MHz spectrum will help it increase capacity. TELUS International and TELUS Health are likely to contribute to the company's growth. However, huge capital investments and debt-laden balance sheet dent its profitability. Significant investments in broadband infrastructure have led to a substantial outflow of funds. Its margins continue to be strained as cable TV operators transition from phone services based on 'circuit-switched' technology to Voice-over-Internet Protocol.

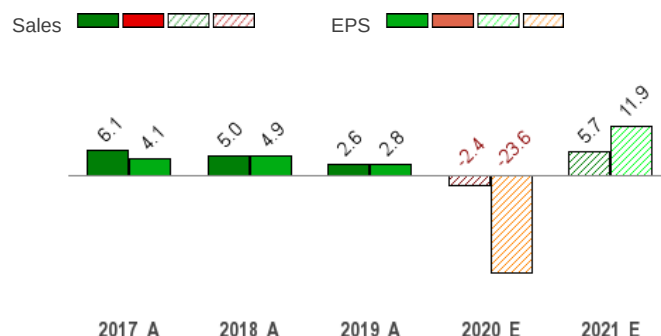
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.91 - \$13.54
20 Day Average Volume (sh)	1,288,339
Market Cap	\$23.2 B
YTD Price Change	-6.1%
Beta	0.68
Dividend / Div Yld	\$0.83 / 4.8%
Industry	Diversified Communication Services
Zacks Industry Rank	Top 31% (78 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.0%
Last Sales Surprise	4.6%
EPS F1 Est- 4 week change	-3.1%
Expected Report Date	08/07/2020
Earnings ESP	0.0%
P/E TTM	9.8
P/E F1	21.7
PEG F1	2.7
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					11,404 E
2020	2,754 A	2,661 E	2,768 E	2,811 E	10,784 E
2019	2,637 A	2,752 A	2,800 A	2,923 A	11,046 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.22 E	\$0.23 E	\$0.26 E	\$0.22 E	\$0.94 E
2020	\$0.24 A	\$0.22 E	\$0.25 E	\$0.22 E	\$0.84 E
2019	\$0.28 A	\$0.27 A	\$0.29 A	\$0.25 A	\$1.10 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

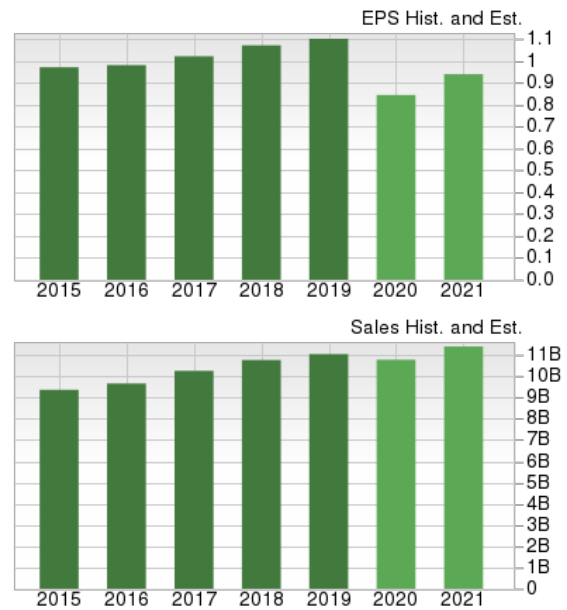
Overview

TELUS Corporation is a leading Canadian telecom service provider based in Burnaby, British Columbia (with executive offices in Vancouver). The company is one of the largest telecom carriers in Canada (the largest in western Canada), covering 95% of the country's population. TELUS provides wireless, wireline, and Internet communications services for voice and data to businesses and consumers. The company operates as the incumbent local exchange carrier (ILEC) in British Columbia, Alberta and parts of Quebec.

The company achieved a strong foothold in the Canadian healthcare telecom market through its acquisition of Emergis, a business process outsourcer specializing in healthcare and financial services. This acquisition strengthened TELUS' industry solutions for healthcare and financial services. Furthermore, the acquisition of Toronto-based Fastvibe Corporation, a leading provider of innovative and superior quality web streaming solutions for businesses, has added a unique technical, event and production web management capability to the company's expertise.

TELUS reports operating results in two segments, namely, TELUS Wireline and TELUS Wireless. Following is a snapshot of the company's operating segments:

- **TELUS Wireline** (49.7% of total operating revenues in first-quarter 2020): Offers voice services (local, long distance and call management), data, Internet (high-speed, dial-up and entertainment), video (TELUS TV) and other services to consumers and businesses. The company provides hosting and infrastructure solutions and managed solutions (business security) as well as converged data and voice services. TELUS' data solutions include IP networks, private line, network management and hosting services.
- **TELUS Wireless** (50.3%): Offers digital wireless voice, data and Internet services on its high-speed network. Digital voice services include PCS postpaid, PCS prepaid and push-to-talk services while Internet and data services cover TELUS Mobile TV, TELUS Mobile Radio, TELUS Mobile Music, web browsing, Windows Live Messenger, social networking and messaging services.



Reasons To Buy:

- ▲ TELUS is poised to benefit from the increasing penetration of smart devices, wireless data services and wireline fiber optic networks. The Canadian telecommunications company expects balanced growth in the wireless and wireline businesses supported by healthy investment in high-speed broadband technology. It aims to invest \$175 million in networks across Quebec. TELUS has secured new 600 MHz spectrum licenses in British Columbia, Alberta, Saskatchewan, Ontario and Quebec for a consideration of \$931 million. Equating to a national average of 11.3 MHz, these licenses will allow it to provide improved mobile broadband connectivity at a time when the industry is moving from 4G LTE to 5G. The deployment of this latest spectrum is important to TELUS' 5G growth strategy coupled with better network quality, speed and coverage. The 600 MHz band can travel distances in rural areas and penetrate barriers to better reach in-building locations.
- ▲ TELUS and its global unit, TELUS International, acquired Competence Call Center (CCC). TELUS International currently holds a 100% interest in CCC. The combined business has an expanded portfolio of customer experience, digital transformation, content moderation, IT lifecycle, advisory and digital consulting, risk management, and back-office support that will enable new go-to-market opportunities and drive growth. The acquisition is expected to add significant scale to TELUS International, an important and differentiated growth driver for the company, and will support TELUS' consolidated financial and operating results including revenues, EBITDA and free cash flow growth.
- ▲ TELUS' 4G LTE network covers 99% of the country's population and the addition of 600 MHz spectrum will help it increase urban capacity, while expanding the rural availability of wireless broadband service. It has made more than \$6 billion spectrum-related investments since 2008 and over \$54 billion in technology across the country since 2000. The company is focused on execution of its strategies along with amplifying efforts on cost efficiency for margin-accretive customer growth and investments to support its expansion strategy. With the expansion of Internet of Things marketplace into Canada, TELUS is focusing to consolidate its foothold in the market. It has introduced the TELUS Global IoT Connectivity platform to deliver seamless connectivity and simplified billing across 200 networks globally, thus supporting the expansion of Canadian business enterprises.
- ▲ Between 2013 and 2021, TELUS intends to invest more than \$300 million to expand its PureFibre network in the eastern part of Quebec, with \$72 million in support from the federal and provincial governments. In the next two years, it aims to offer direct fiber access to 93% of Greater Quebec City and Eastern Quebec residents. The company plans to generate subscriber growth in its key growth segments, including wireless, high-speed Internet and TELUS TV. Increasing demand for reliable access and fast-data services are expected to support customer addition. Furthermore, TELUS International and TELUS Health are likely to contribute to the company's growth, organically and from acquisitions.

TELUS expects balanced growth in the wireless and wireline businesses supported by healthy investments in high-speed broadband technology.

Reasons To Sell:

- ▼ Efforts to offset substantial capital expenditure for upgrading the network infrastructure by raising fees have significantly reduced demand for TELUS' legacy voice and data services as customers tend to switch to lower-priced carriers. Moreover, the company's high debts are worrisome. As of Mar 31, 2020, it had C\$1,058 million of net cash and temporary investments with C\$17,884 million of long-term debt compared with the respective tallies of C\$535 million and C\$17,142 million at the end of the prior quarter.
- ▼ As of Mar 31, 2020, the company had \$789 million in cash and equivalents with \$13,336 million of long-term debt compared with the respective tallies of \$403 million and \$12,918 million at the end of the prior quarter. TELUS currently has a debt-to-capital ratio of 0.59 compared with 0.67 of the sub-industry. The times interest earned has decreased over the past few quarters to 3.8 at present relative to 1.6 for the sub-industry. This shows that the company is less likely to clear its debt. However, TELUS has a dividend payout rate of 82% compared with 60.6% of the sub-industry. The rate has also increased steadily over the past several quarters, indicating that the company is sharing more of its earnings with stockholders. It is to be seen whether TELUS can turn the tables in the coming days despite disruptions caused by the COVID-19 pandemic.
- ▼ TELUS faces strong wireless competition from Rogers Communications and Bell. Intensifying competitive threat arising from small regional carriers like MTS in Manitoba and SaskTel in Saskatchewan raises concern. Such competitive pressure has resulted in reduced subscriber addition for the company. Also, Shaw Communications' decision to venture into the Canadian wireless market with the WIND Mobile acquisition has raised competition for TELUS.
- ▼ On the wireline business, competition has increased with cable TV operators moving from offering phone services based on 'circuit-switched' technology to less costly Voice-over-Internet Protocol. Capital expenditure in the wireline segment includes significant investments in broadband infrastructure to bring in more business and residential customers directly under fiber optic cable. This has resulted in substantial outflow of fund, leading to soft margins.

TELUS continues to face intense competition in wireless as well as in traditional telephony, and from VoIP-focused competitors in both consumer and business markets.

Last Earnings Report

TELUS Q1 Earnings Miss Estimates, Revenues Rise Y/Y

TELUS reported mixed first-quarter 2020 results, with the top line beating the Zacks Consensus Estimate and the bottom line missing the same.

Net Income

Net income in the March quarter decreased 18.2% year over year to C\$350 million or C\$0.28 per share, as EBITDA growth was more than offset by higher depreciation and amortization due to growth in the company's capital assets from recent acquisitions, including Competence Call Center (CCC) and ADT Canada, as well as ongoing investments to support the expansion of its broadband footprint. First-quarter adjusted net income was C\$400 million or C\$0.32 per share (\$298.2 million or 24 cents per share) compared with C\$453 million or C\$0.38 per share in the year-ago quarter. The bottom line missed the Zacks Consensus Estimate by a penny.

Revenues

Quarterly total operating revenues increased 5.4% year over year to C\$3,694 million (\$2,754 million), reflecting the company's leadership in broadband network and excellent customer service. The top line surpassed the consensus estimate of \$2,632 million.

Segment Results

Operating revenues in **TELUS Wireless** slipped 2% year over year to C\$1,898 million (\$1,415 million), as network revenue growth was more than offset by a decrease in equipment and other service revenues. Network revenues increased 1.3% to C\$1,511 million, reflecting 5.6% growth in the subscriber base over the last 12 months, partly offset by declining mobile phone ARPU. Equipment and other service revenues were C\$374 million, down 12.4% year over year. This reflects lower contracted volumes, including the impact of the COVID-19 pandemic, as customers reduced their shopping habits and as a significant number of physical sales channels were closed in the final weeks of March. The segment's adjusted EBITDA of C\$940 million increased 2.6% over the same period a year ago, reflecting higher network revenues driven by a larger subscriber base, higher equipment margins and savings from cost efficiency programs. Adjusted EBITDA margin was 49.5% compared with 47.4% in the year-ago quarter. Capital expenditures increased 9.6% year over year to C\$194 million.

TELUS Wireline operating revenues increased 14.3% year over year to C\$1,873 million (\$1,396.4 million) driven by data services revenue growth, partly offset by a decline in legacy voice services revenues. Data services revenues were C\$1,444 million, up 18.5%. This was driven by a combination of higher revenues from the company's diverse portfolio of solutions, including TELUS International customer care and business services which included contribution from the acquisition of CCC, growth in business volumes from both expanded services and customer growth. Voice service (local and long distance) revenues were C\$236 million, down 6.7%. Other service and equipment revenues were C\$98 million, remaining stable. The segment's adjusted EBITDA of C\$535 million increased 7.2% from the year-ago quarter figure. This was driven by increased contribution from TELUS International customer care, expanded services for existing customers, growth in home and business smart technology and higher Internet margins. Adjusted EBITDA margin was 28.5% compared with 30.4% in the prior-year quarter. Capital expenditures were up 0.4% year over year to C\$471 million.

Other Details

Overall EBITDA was C\$1,409 million, up 2.2% year over year. This reflects growth in wireline data service margins and an increased EBITDA contribution from TELUS International customer care as well as higher wireless network revenues driven by a growing subscriber base. However, the momentum was partly offset by the impacts of the COVID-19 pandemic, mainly due to the travel restrictions and border closures mandated by various governments. Adjusted EBITDA increased 4.2% year over year to C\$1,475 million.

Cash Flow & Liquidity

During the first quarter of 2020, TELUS generated C\$1,177 million of cash from operating activities compared with C\$790 million in the year-ago quarter. Free cash flow for the same period increased 256.2% year over year to C\$545 million. As of Mar 31, 2020, the company had C\$1,058 million (\$746.5 million) of net cash and temporary investments with C\$17,884 million (\$12,618.5 million) of long-term debt, compared with the respective tallies of C\$535 million and C\$17,142 million at the end of the prior quarter.

Guidance Withdrawn

During these unprecedented times, TELUS has experienced incremental demand for some of its products and services due to physical distancing. However, the company is currently unable to predict the full range of positive and negative impacts of the crisis on its business and previously-issued guidance. As a result, TELUS has withdrawn its consolidated financial guidance for 2020. It intends to provide an update on the assumptions and guidance when it reports second quarter results at the end of July.

Conversion rate used:

C\$1 = \$0.745525 (period average from Jan 1, 2020 to Mar 31, 2020)

C\$1 = \$0.705574 (as of Mar 31, 2020)

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	4.63%
EPS Surprise	-4.00%
Quarterly EPS	0.24
Annual EPS (TTM)	1.04

Recent News

On Jun 2, 2020, TELUS announced that it has selected telecommunications equipment from Nokia and Ericsson to deploy 5G services across its network. Notably, another Canadian carrier BCE also snubbed China-based telecom equipment provider, Huawei, in favor of these Nordic firms as relations between Canada and China turned sour with a go-ahead in the extradition case of Meng Wanzhou, the CFO of Huawei.

On Apr 14, TELUS announced that as part of its \$16-billion multiyear investment, the company will be leveraging a significant portion of its network investments to support Alberta amid the coronavirus pandemic. It will also augment its high-speed Internet networks to 282,000 homes and businesses across the remote areas of the Canadian province. The company also stated that it will re-allocate its 2020 capital expenditure with the investments originally targeted for 2021, thereby bringing its total network investments to nearly \$3.5 billion in Alberta. Further, these investments are directly aimed to generate 3,500 employment opportunities during this hour of crisis.

On Apr 8, TELUS announced the deployment of its virtual video functionality to conduct video visits, access health information and update patient health records amid COVID-19 pandemic. This information will be integrated into its electronic medical records offering. The virtual visit will enable a seamless workflow and minimize task redundancy to preserve continuity of care and documentation with industry-recognized protocols. Markedly, this technology will be available to nearly 26,000 Canadian family doctors.

On Apr 6, TELUS announced that it has collaborated with local school boards across British Columbia to offer its "Internet for Good" services to students in need. Under this program, the company provides high-speed broadband Internet at home for C\$9.95 a month. The move underscores TELUS' commitment toward keeping people safe and connected during these struggling times. The company provides more than 100,000 low-income British Columbian families with access to the Internet and digital literacy training tools.

On Mar 27, TELUS announced that it has waived fees under its 'Internet for Good' program for 60 days to support low-income and deprived families in Canada with seamless wireless connectivity. The step is primarily aimed at helping low-income users to cope with the coronavirus-induced crisis by providing them with enhanced digital services for free. Specifically designed to encourage digital equality, the program provides underprivileged families with seamless accessibility of high-speed Internet services and broadband connectivity.

On Mar 19, TELUS announced that it has committed to donate \$10 million to its Friendly Future Foundation to aid public health care agencies and address Canadian community needs amid the raging coronavirus pandemic. Markedly, this funding will be utilized for purchasing advanced medical equipment as well as providing utmost support for virtual education programs, food security and mental health initiatives.

Valuation

TELUS shares are down 3.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 40.4% and 16.8% over the past year, respectively.

The S&P 500 Index is up 9.1% in the past year.

The stock is currently trading at 8.73X trailing 12-month EV/EBITDA, which compares to 13.89X for the Zacks sub-industry, 18.92X for the Zacks sector and 11.40X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 9.52X and as low as 6.86X, with a 5-year median of 8.32X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$19 price target reflects 0.92X forward 12-month earnings.

The table below shows summary valuation data for TU

Valuation Multiples - TU					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	8.73	13.89	18.92	11.4
	5-Year High	9.52	14.34	20.97	12.86
	5-Year Low	6.86	6.88	10.59	8.26
	5-Year Median	8.32	11.08	13.59	10.81
P/E F12M	Current	20.58	12.05	12.84	22.29
	5-Year High	20.58	17.46	15.32	22.29
	5-Year Low	12.2	10.04	11.4	15.23
	5-Year Median	15.88	14.97	13.79	17.49
P/S F12M	Current	2.1	1.05	2.75	3.47
	5-Year High	2.16	3.93	3.29	3.47
	5-Year Low	1.47	1.05	1.75	2.53
	5-Year Median	1.94	1.3	2.05	3.02

As of 06/03/2020

Industry Analysis Zacks Industry Rank: Top 31% (78 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Telstra Corp. (TLSYY)	Outperform	1
BCE, Inc. (BCE)	Neutral	3
Swisscom AG (SCMWY)	Neutral	3
Shenandoah Telecommunications Co (SHEN)	Neutral	4
Telefonica SA (TEF)	Neutral	3
Telenor ASA (TELNY)	Neutral	3
VEON Ltd. (VEON)	Neutral	3
Deutsche Telekom AG (DEGTY)	Underperform	4

Industry Comparison Industry: Diversified Communication Services				Industry Peers		
	TU	X Industry	S&P 500	BCE	DTEGY	TEF
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	C	-	-	C	A	B
Market Cap	23.25 B	7.51 B	22.50 B	39.20 B	80.42 B	27.36 B
# of Analysts	7	3	14	8	2	3
Dividend Yield	4.79%	0.53%	1.88%	5.50%	2.66%	6.26%
Value Score	B	-	-	B	A	A
Cash/Price	0.04	0.08	0.06	0.05	0.13	0.39
EV/EBITDA	8.55	6.74	12.98	7.92	6.03	11.51
PEG Ratio	2.70	2.35	3.05	4.14	2.26	NA
Price/Book (P/B)	2.38	1.88	3.11	2.71	1.60	1.15
Price/Cash Flow (P/CF)	6.74	5.97	12.18	6.75	3.70	6.83
P/E (F1)	21.58	18.46	22.19	18.46	15.71	10.83
Price/Sales (P/S)	2.07	1.50	2.40	2.19	0.90	0.51
Earnings Yield	4.62%	5.42%	4.31%	5.42%	6.39%	9.30%
Debt/Equity	1.37	1.29	0.76	1.31	1.59	2.25
Cash Flow (\$/share)	2.70	1.94	7.01	6.42	4.56	0.77
Growth Score	C	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	2.23%	1.61%	10.87%	0.21%	NA	0.99%
Proj. EPS Growth (F1/F0)	-23.31%	-4.00%	-10.74%	-11.03%	-6.11%	-33.33%
Curr. Cash Flow Growth	7.95%	-4.22%	5.48%	5.00%	-6.88%	-28.39%
Hist. Cash Flow Growth (3-5 yrs)	2.83%	-0.03%	8.55%	2.41%	3.48%	-4.61%
Current Ratio	0.90	0.87	1.29	0.88	0.70	0.79
Debt/Capital	57.83%	55.71%	44.75%	52.13%	61.36%	69.25%
Net Margin	11.25%	7.16%	10.59%	12.63%	3.47%	1.32%
Return on Equity	14.94%	11.51%	16.29%	18.24%	10.76%	13.32%
Sales/Assets	0.39	0.47	0.55	0.39	0.49	0.40
Proj. Sales Growth (F1/F0)	-2.96%	-0.24%	-2.65%	-6.77%	NA	-11.31%
Momentum Score	F	-	-	F	A	F
Daily Price Chg	1.22%	1.31%	2.42%	1.69%	3.41%	4.77%
1 Week Price Chg	7.36%	1.02%	4.60%	6.14%	6.25%	5.54%
4 Week Price Chg	12.84%	7.95%	13.40%	7.94%	22.13%	13.33%
12 Week Price Chg	5.79%	2.81%	12.78%	2.82%	15.76%	7.77%
52 Week Price Chg	-3.78%	-4.92%	0.89%	-6.07%	-1.63%	-36.43%
20 Day Average Volume	1,288,339	97,974	2,528,787	1,115,425	316,917	1,229,858
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.37%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.12%	0.00%	-0.14%	-2.94%	13.76%	-3.31%
(F1) EPS Est 12 week change	-23.38%	-13.07%	-16.00%	-12.96%	-11.16%	-28.78%
(Q1) EPS Est Mthly Chg	-10.62%	-8.82%	-0.02%	-9.67%	NA	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	C
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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