

TELUS Corporation (TU)

\$38.98 (As of 01/16/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/13/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

Summary

TELUS is well positioned to benefit from increased penetration of smartphones, higher average revenue per unit, accelerated wireless data services and growth of wireline fiber optic networks. Backed by investments in high-speed broadband technology, the company expects balanced growth in wireless and wireline businesses. It is focused on implementing cost-efficiency strategies for the expansion of Canadian business enterprises and customer growth. However, as the company operates in a highly competitive environment, its margins remain strained as cable TV operators migrate from phone services based on 'circuit-switched' technology to less costly Voice-over-Internet Protocol. High capital investments for network upgrades tend to reduce its profitability. The company's debt-laden balance sheet is an added concern.

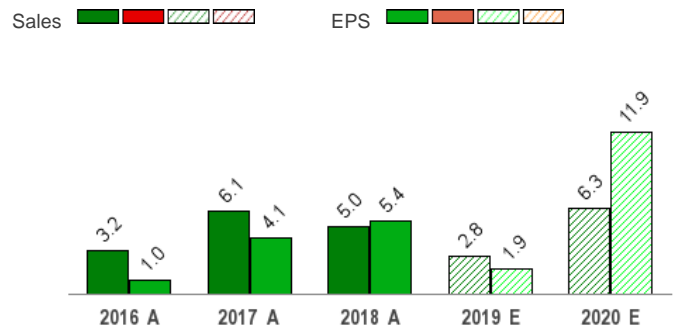
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$39.08 - \$34.27
20 Day Average Volume (sh)	304,461
Market Cap	\$23.5 B
YTD Price Change	0.7%
Beta	0.67
Dividend / Div Yld	\$1.75 / 4.5%
Industry	Diversified Communication Services
Zacks Industry Rank	Bottom 22% (199 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.6%
Last Sales Surprise	-2.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/13/2020
Earnings ESP	0.0%
P/E TTM	17.7
P/E F1	16.0
PEG F1	2.0
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					11,773 E
2019	2,637 A	2,752 A	2,800 A	2,903 E	11,075 E
2018	2,672 A	2,676 A	2,888 A	2,888 A	10,770 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$2.44 E
2019	\$0.56 A	\$0.53 A	\$0.58 A	\$0.50 E	\$2.18 E
2018	\$0.60 A	\$0.54 A	\$0.57 A	\$0.53 A	\$2.14 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 01/16/2020. The reports text is as of 01/17/2020.

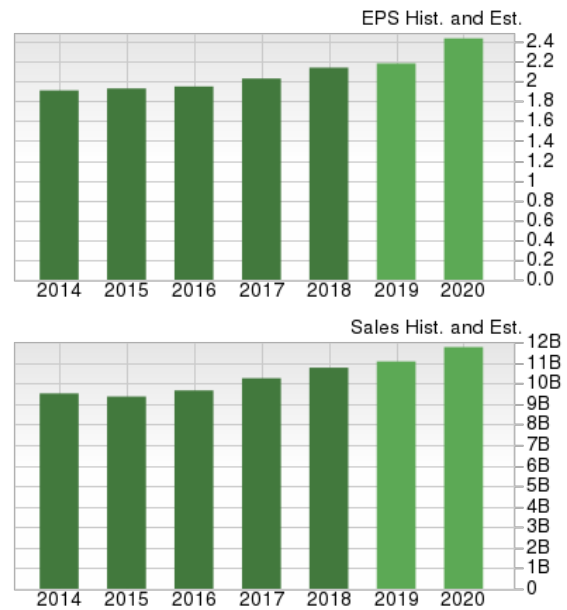
Overview

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** (44.4% of total operating revenues in third-quarter 2019): 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** (55.6%): 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. Moreover, 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' 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 profile, organically and from acquisitions.
- ▲ TELUS intends to acquire Competence Call Center for approximately C\$1.3 billion (nearly \$1 billion). The transaction, which is subject to regulatory approvals, is expected to close in first-quarter 2020. The deal is aimed at fostering its operational and financial strength by focusing more on customer experience, content moderation, risk management, consulting services and back-end operations to expand footprint in Europe. This, in turn, is likely to augment its scale of operations and help the company to emerge as a market leader in customer service by providing top-notch business process solutions to some of the world's most established brands.

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 Sep 30, 2019, it had C\$370 million of net cash and temporary investments, with C\$16,140 million of long-term debt.
- ▼ 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 Q3 Earnings Surpass Estimates, Revenues Miss

TELUS reported mixed third-quarter 2019 financial results, wherein the bottom line surpassed the Zacks Consensus Estimate but the top line missed the same.

Net Income

In the September quarter, net income decreased 2.3% year over year to C\$433 million or C\$0.72 per share (\$327.9 million or 55 cents) as EBITDA growth was primarily offset by higher depreciation and amortization charges due to rise in the company's asset base, including investments in broadband technologies and business acquisitions.

Adjusted net income was C\$458 million or C\$0.76 per share (\$346.9 million or 58 cents) compared with C\$445 million or C\$0.74 per share in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate by 2 cents.

Revenues

Quarterly total operating revenues declined 2% year over year to C\$3,697 million (\$2,800 million) due to lower revenues at TELUS Wireless. The top line lagged the consensus estimate of \$2,875 million.

Segments in Detail

Operating revenues at **Wireless** segment decreased 2.9% year over year to C\$2,099 million (\$1,589.7 million). This was due to lower non-recurring equity income attributable to the sale of TELUS Garden in the third quarter of 2018. Network revenues increased 2% to C\$1,578 million driven by 5.5% subscriber growth, partly offset by decline in mobile phone ARPU. Equipment and other service revenues were C\$504 million, down 1.6% year over year, mainly due to lower volumes.

The segment's adjusted EBITDA of C\$976 million increased 7% from the prior-year quarter, reflecting higher network revenue growth driven by a larger subscriber base, savings from cost reduction programs, and the implementation of IFRS 16. Adjusted EBITDA margin was 46.5% compared with 43.9% in the year-ago quarter. Capital expenditures increased 15.1% year over year to C\$251 million.

Wireline segment's operating revenues remained almost flat year over year at C\$1,678 million (\$1,270.9 million), indicating data services revenue growth, partly offset by decline in legacy voice service revenues. Data services revenues were C\$1,266 million, up 8.4%. The increase was driven by higher customer care and business services (CCBS) revenues, mainly due to growth in business volumes, which reflected higher revenue per customer. Voice service (local and long distance) revenues were C\$244 million, down 8.6%.

Other service and equipment revenues were C\$95 million, down 2.1%. The segment's adjusted EBITDA of C\$487 million increased 10.9% from the prior-year quarter figure. This was due to greater contribution from CCBS business, higher Internet margins, and higher health margins. Adjusted EBITDA margin was 29% compared with 27.6% in the year-ago quarter. Capital expenditures were down 8.6% year over year to C\$497 million.

Other Details

Overall EBITDA was C\$1,434 million, up 6.3% year over year due to higher wireless network revenue growth, increase in wireline data service margins, higher EBITDA contribution from CCBS and health businesses, and the effects of implementation of IFRS 16. However, the momentum was partly offset by decline in wireline legacy voice and legacy data services, and decrease in EBITDA contribution from legacy business services. Adjusted EBITDA increased 8.3% year over year to C\$1,463 million.

Cash Flow & Liquidity

During the first nine months of 2019, TELUS generated C\$3,098 million of cash from operating activities compared with C\$3,110 million in the year-ago period. For the same period, free cash flow declined 25.9% year over year to C\$797 million.

As of Sep 30, 2019, the Canadian telecommunications company had C\$370 million (\$279.4 million) of net cash and temporary investments, with C\$16,140 million (\$12,188.6 million) of long-term debt.

Conversion rate used:

C\$1 = \$0.757364 (period average from Jul 1, 2019 to Sep 30, 2019)

C\$1 = \$0.755182 (as of Sep 30, 2019)

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	-2.58%
EPS Surprise	3.57%
Quarterly EPS	0.58
Annual EPS (TTM)	2.20

Recent News

On Dec 9, 2019, TELUS announced that it has showcased SHAKEN/STIR authentication standard for telecom regulators — Canadian Radio-television and Telecommunications Commission, and the Federal Communications Commission. With the help of the avant-garde technological solution, the service providers will have the option of providing opt-in call-filtering services to the subscribers, which will automatically block high-risk robocalls. This marked another milestone to protect the consumers from illegal robocalls. Per the Canadian federal telecom regulator, the telecom companies will bear the onus of reducing the occurrence of caller ID spoofing with the implementation of SHAKEN/STIR by September 2020.

On Dec 4, 2019, TELUS announced that it is planning to acquire Competence Call Center for approximately C\$1.3 billion (nearly \$1 billion). The transaction, which is subject to regulatory approvals, is expected to close in first-quarter 2020. Post completion, the Canadian telco firm is expected to emerge as a market leader in customer service by providing top-notch business process solutions to some of the world's most established brands. The deal, one of the biggest in TELUS' history, is aimed at fostering its operational and financial strength by focusing more on customer experience, content moderation, risk management, consulting services and back-end operations to expand footprint in Europe.

Valuation

TELUS shares are up 12% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 29.4% over the past year, but stocks in the Zacks Utilities sector are up 3.5% in the same time frame.

The S&P 500 Index is up 23.2% in the past year.

The stock is currently trading at 8.77X trailing 12-month EV/EBITDA, which compares to 11.14X for the Zacks sub-industry, 17.99X for the Zacks sector and 12.12X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 9.5X and as low as 6.9X, with a 5-year median of 8.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$41 price target reflects 2.58X 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	8.77	11.14	17.99	12.12
	5-Year High	9.47	14.75	18.07	12.86
	5-Year Low	6.91	7.13	10.62	8.48
	5-Year Median	8.3	11.22	12.97	10.67
P/E F12M	Current	15.91	10.89	13.64	18.97
	5-Year High	18.67	17.71	15.33	19.34
	5-Year Low	12.2	10.67	12.61	15.17
	5-Year Median	15.85	15.21	13.68	17.44
P/S F12M	Current	2	1.29	2.94	3.53
	5-Year High	2.16	4.11	3.26	3.53
	5-Year Low	1.55	1.13	1.7	2.54
	5-Year Median	1.95	1.33	1.95	3

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Bottom 22% (199 out of 254)



Top Peers

BCE, Inc. (BCE)	Neutral
Deutsche Telekom AG (DETEGY)	Neutral
Swisscom AG (SCMWY)	Neutral
Shenandoah Telecommunications Co (SHEN)	Neutral
Telefonica SA (TEF)	Neutral
Telstra Corp. (TLSYY)	Neutral
VEON Ltd. (VEON)	Neutral
Telenor ASA (TELNY)	Underperform

Industry Comparison Industry: Diversified Communication Services				Industry Peers		
	TU Neutral	X Industry	S&P 500	BCE Neutral	DTEGY Neutral	TEF Neutral
VGM Score	B	-	-	C	A	C
Market Cap	23.54 B	9.69 B	24.61 B	42.66 B	77.75 B	35.20 B
# of Analysts	8	1	13	8	1	2
Dividend Yield	4.50%	0.00%	1.74%	5.11%	4.62%	4.87%
Value Score	B	-	-	C	A	A
Cash/Price	0.01	0.09	0.04	0.02	0.13	0.37
EV/EBITDA	9.01	7.12	14.24	8.94	5.92	8.33
PEG Ratio	2.01	1.79	2.07	4.05	1.73	0.97
Price/Book (P/B)	2.85	2.06	3.38	3.26	1.55	1.25
Price/Cash Flow (P/CF)	7.71	6.21	13.75	7.67	3.58	6.30
P/E (F1)	16.07	16.01	19.09	16.58	13.39	8.86
Price/Sales (P/S)	2.13	1.05	2.68	2.37	0.87	0.64
Earnings Yield	6.23%	6.20%	5.24%	6.04%	7.47%	11.21%
Debt/Equity	1.49	0.88	0.72	1.30	1.59	2.11
Cash Flow (\$/share)	5.05	2.79	6.94	6.15	4.56	1.08
Growth Score	C	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	1.45%	-0.55%	10.56%	-0.55%	15.06%	2.14%
Proj. EPS Growth (F1/F0)	11.57%	9.65%	7.57%	6.75%	6.09%	59.38%
Curr. Cash Flow Growth	5.20%	-4.22%	14.73%	4.14%	-6.88%	20.62%
Hist. Cash Flow Growth (3-5 yrs)	0.13%	-1.64%	9.00%	0.57%	3.48%	-2.35%
Current Ratio	0.80	0.86	1.24	0.60	0.70	0.88
Debt/Capital	59.79%	50.85%	42.99%	51.35%	61.36%	67.84%
Net Margin	11.91%	7.54%	11.14%	12.61%	3.47%	4.03%
Return on Equity	16.54%	12.43%	17.16%	18.75%	10.76%	14.38%
Sales/Assets	0.42	0.49	0.55	0.40	0.49	0.40
Proj. Sales Growth (F1/F0)	6.30%	0.89%	4.16%	1.99%	NA	-0.30%
Momentum Score	B	-	-	C	B	F
Daily Price Chg	0.85%	0.12%	0.89%	0.79%	0.12%	1.04%
1 Week Price Chg	-0.54%	0.00%	0.39%	0.94%	0.92%	-3.39%
4 Week Price Chg	1.72%	0.71%	2.65%	1.75%	0.00%	-5.96%
12 Week Price Chg	10.96%	3.06%	7.55%	1.18%	-7.79%	-14.29%
52 Week Price Chg	12.69%	0.58%	22.12%	12.70%	-1.66%	-21.98%
20 Day Average Volume	304,461	46,373	1,536,375	642,637	166,223	1,252,930
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.04%	0.00%	-1.92%
(F1) EPS Est 12 week change	2.53%	-0.95%	-0.40%	0.71%	6.09%	-2.75%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	0.00%	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	B
VGM Score	B

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.

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