

## TELUS Corporation (TU)

**\$18.30** (As of 08/19/20)

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)

**4-Sell**

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: A

### Summary

TELUS reported mixed second-quarter 2020 results, with the top line beating the Zacks Consensus Estimate and the bottom line missing the same. The company launched 5G networks in Vancouver, Montreal, Calgary, Edmonton and the Greater Toronto Area. It plans to expand to an additional 26 markets across Canada through 2020. TELUS acquired a 100% stake in Mobile Klinik to grow its wireless business. Its 4G LTE network covers 99% of the country's population. However, it is facing challenges stemming from the COVID-19 pandemic. A huge capital outlay and a debt-laden balance sheet are denting its profitability. Investments in broadband infrastructure have led to a substantial outflow of funds. Its margins continue to be strained as cable TV operators are transitioning from phone services based on the 'circuit-switched' technology to VoIP.

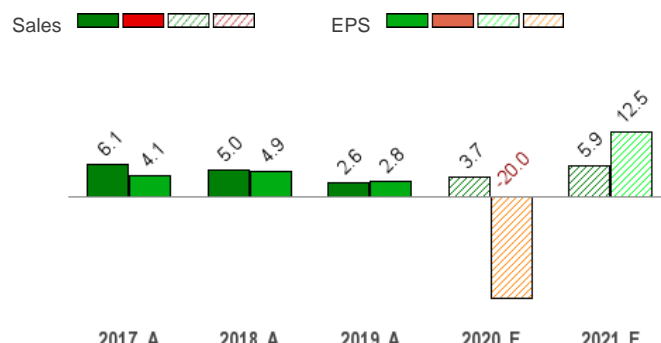
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$20.91 - \$13.54
20 Day Average Volume (sh)	940,109
Market Cap	\$23.4 B
YTD Price Change	-5.5%
Beta	0.69
Dividend / Div Yld	\$0.87 / 4.6%
Industry	<a href="#">Diversified Communication Services</a>
Zacks Industry Rank	Top 45% (114 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-14.3%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	-3.4%
Expected Report Date	11/05/2020
Earnings ESP	0.0%
P/E TTM	12.2
P/E F1	20.8
PEG F1	2.6
P/S TTM	2.1

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,139 E
2020	2,754 A	2,689 A	2,922 E	2,974 E	11,460 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	\$0.24 E	\$0.21 E	\$0.28 E	\$0.23 E	\$0.99 E
2020	\$0.24 A	\$0.18 A	\$0.25 E	\$0.21 E	\$0.88 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 08/19/2020. The reports text is as of 08/20/2020.

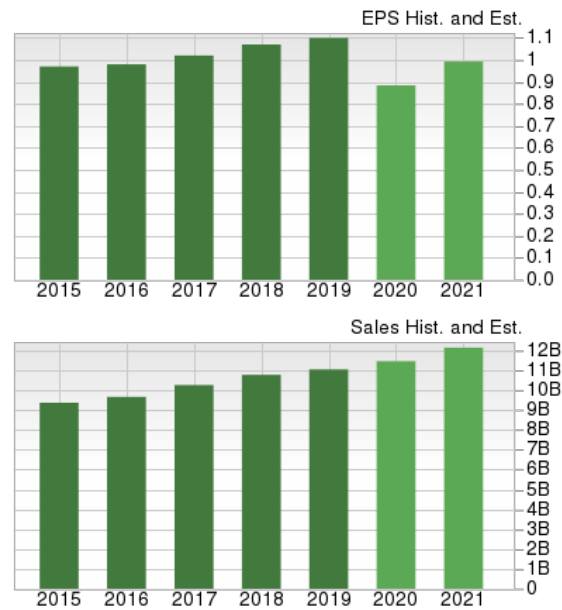
## Overview

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** (51.5% of total operating revenues in second-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** (48.5%): 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.



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## Reasons To Buy:

▲ TELUS launched 5G networks in Vancouver, Montreal, Calgary, Edmonton and the Greater Toronto Area. It plans to expand to an additional 26 markets across Canada throughout 2020. The company acquired a 100% stake in Mobile Klinik to grow its wireless business. It is positioned to benefit from increasing penetration of smart devices, wireless data services and wireline fiber optic networks. The company expects balanced growth in its wireless and wireline businesses backed by investments in high-speed broadband technology. TELUS secured 600 MHz spectrum licenses in British Columbia, Alberta, Saskatchewan, Ontario and Quebec for \$931 million. Equating to a national average of 11.3 MHz, these licenses will allow it to provide better mobile broadband connectivity at a time when the industry is moving from 4G LTE to 5G. The deployment of this spectrum is important to TELUS' 5G growth strategy along with network quality, speed and coverage.

TELUS launched 5G networks in Vancouver, Montreal, Calgary, Edmonton and the Greater Toronto Area. It plans to expand to an additional 26 markets across Canada throughout 2020.

▲ 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 likely 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 C\$6 billion spectrum-related investments since 2008 and C\$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 across 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, supporting the expansion of Canadian business enterprises.

▲ Between 2013 and 2021, TELUS intends to invest more than C\$300 million to expand its PureFibre network in the eastern part of Quebec, with C\$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 additions. Furthermore, TELUS International and TELUS Health are likely to contribute to the company's growth, organically and from acquisitions.

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## Reasons To Sell:

- ▼ Efforts to offset capital expenditure for upgrading the network infrastructure by raising fees have reduced demand for TELUS' legacy voice and data services. Moreover, the company's huge debts are worrisome. As of Jun 30, 2020, it had \$708 million in cash and equivalents with \$12,955 million of long-term debt compared with the respective tallies of \$789 million and \$13,336 million at the end of the previous quarter. TELUS currently has a debt-to-capital ratio of 0.6 compared with 0.69 of the industry. The times interest earned (TIE) ratio has decreased over the past quarters to 3.6 at present relative to 0.6 of the industry. This indicates that the company is less likely to meet its debt obligations. However, TELUS has a dividend payout rate of 89.6% compared with 60.8% of the industry. The rate has also increased steadily over the past quarters. It is to be seen whether TELUS can turn the tables in the coming days amid disruptions stemming from the COVID-19 pandemic.
- ▼ TELUS faces strong wireless competition from Rogers Communications and Bell. An intensifying competitive environment arising from small regional carriers like MTS in Manitoba and SaskTel in Saskatchewan raise concerns. Such competitive pressure has resulted in reduced subscriber additions 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 funds, 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' Q2 Earnings Miss Estimates, Revenues Rise Y/Y

TELUS reported mixed second-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 June-end quarter fell 43.9% year over year to C\$290 million or C\$0.23 per share. This reflects impact from the COVID-19 pandemic, higher income tax, increased depreciation and amortization charges, and higher financing costs.

Adjusted net income was C\$316 million or C\$0.25 per share (\$227.9 million or 18 cents per share) compared with C\$416 million or C\$0.35 per share in the prior-year quarter. The bottom line missed the Zacks Consensus Estimate by 3 cents.

#### Revenues

Quarterly total operating revenues increased 3.6% year over year to C\$3,728 million (\$2,689 million). This reflects the current economic environment wherein TELUS' business customers are facing lower operations. The top line surpassed the consensus estimate of \$2,646 million.

#### Segment Results

Revenues in **TELUS Wireless** declined 7.6% year over year to C\$1,846 million due to lower network, and equipment and other service revenues. Network revenues fell 3.3% to C\$1,472 million, reflecting a 5.8% decline in mobile phone ARPU. Equipment and other service revenues were C\$360 million, down 20.9% year over year. This was caused by lower contracted volumes resulting from customers' reduced shopping habits due to the COVID-19 pandemic.

The segment's adjusted EBITDA of C\$890 million decreased 3.7% over the same period a year ago, due to the impacts of the pandemic including lower roaming revenues resulting from restricted travel. Adjusted EBITDA margin was 48.2% compared with 46.3% in the year-ago quarter. Capital expenditures increased 4.9% year over year to C\$234 million.

Revenues in **TELUS Wireline** increased 17.1% year over year to C\$1,961 million, supported by data services revenue growth and other operating income growth of C\$68 million. Data services revenues were C\$1,493 million, up 18%. This was led by higher revenues from the company's diverse portfolio of solutions including TELUS International customer care and business services. Voice service (local and long distance) revenues were C\$236 million, down 5.2%. Other service and equipment revenues were C\$95 million, remaining stable.

The segment's adjusted EBITDA of C\$471 million decreased 1.5% from the year-ago quarter figure. Adjusted EBITDA margin was 24.9% compared with 28.5% in the prior-year quarter, impacted by declines in legacy voice and data services, and higher employee benefit expenses mainly from business acquisitions. Capital expenditures were down 4.6% year over year to C\$522 million.

#### Other Details

Overall, EBITDA was C\$1,359 million, down 1% year over year. This reflects the financial impacts arising from the pandemic, primarily from lower wireless roaming revenues partly offset by growth in wireline data service margins. Adjusted EBITDA decreased 2.9% year over year to C\$1,361 million.

#### Cash Flow & Liquidity

In the first six months of 2020, TELUS generated C\$2,639 million of cash from operating activities compared with C\$1,950 million in the year-ago period. Free cash flow for the same period increased 121.4% year over year to C\$1,056 million.

As of Jun 30, the company had C\$971 million (\$711.7 million) of net cash and temporary investments with C\$17,956 million (\$13,160.9 million) of long-term debt.

#### Guidance

Due to uncertainties stemming from the COVID-19 pandemic, TELUS withdrew its consolidated financial guidance for 2020. However, the company intends to provide an outlook while issuing its third-quarter results.

*Conversion rate used:*

*C\$1 = \$0.721295 (period average from Apr 1, 2020 to Jun 30, 2020)*

*C\$1 = \$0.732952 (as of Jun 30, 2020)*

Quarter Ending **06/2020**

Report Date	Jul 31, 2020
Sales Surprise	1.63%
EPS Surprise	-14.29%
Quarterly EPS	0.18
Annual EPS (TTM)	0.96

## Recent News

On Jul 7, 2020, TELUS announced that it is expanding its 'Internet for Good' program to people living with disabilities who receive financial disability assistance from the provincial governments in British Columbia and Alberta. Under this program, the company provides high-speed broadband Internet at home for C\$9.95 a month.

On Jul 1, TELUS acquired 100% of Mobile Klinik, a storefront wireless device repair and sales business, for a consideration of C\$165 million. The investment was made with a view to grow TELUS' wireless business.

On Jun 18, TELUS announced that it is launching the first wave of its 5G network in Vancouver, Montreal, Calgary, Edmonton and the Greater Toronto Area. The company will expand to an additional 26 markets in Canada throughout the remainder of this year.

On Jun 2, 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 C\$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 almost C\$3.5 billion in Alberta.

## Valuation

TELUS shares are up 2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 14.5% and 9.8% over the past year, respectively.

The S&P 500 Index is up 15.6% in the past year.

The stock is currently trading at 8.6X trailing 12-month EV/EBITDA, which compares to 14.65X for the Zacks sub-industry, 18.59X for the Zacks sector and 12.83X 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 8.34X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$19 price target reflects 1X 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	8.6	14.65	18.59	12.83
	5-Year High	9.52	14.79	21.06	12.85
	5-Year Low	6.86	6.88	10.59	8.25
	5-Year Median	8.34	11.23	13.92	10.91
P/E F12M	Current	19.2	12.9	12.73	22.9
	5-Year High	21.49	17.08	15.28	22.9
	5-Year Low	12.2	10.04	11.3	15.25
	5-Year Median	15.95	14.77	13.72	17.58
P/S F12M	Current	1.98	1.2	2.7	3.72
	5-Year High	2.2	3.93	3.29	3.72
	5-Year Low	1.47	1.05	1.75	2.53
	5-Year Median	1.94	1.29	2.07	3.05

As of 08/19/2020

## Industry Analysis Zacks Industry Rank: Top 45% (114 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Deutsche Telekom AG (DTEGY)	Outperform	1
Shenandoah Telecommunications Co (SHEN)	Outperform	2
BCE, Inc. (BCE)	Neutral	3
Swisscom AG (SCMWY)	Neutral	2
Telefonica SA (TEF)	Neutral	3
Telenor ASA (TELNY)	Neutral	3
Telstra Corp. (TLSYY)	Neutral	4
VEON Ltd. (VEON)	Neutral	3

Industry Comparison Industry: Diversified Communication Services				Industry Peers		
	TU	X Industry	S&P 500	BCE	DTEGY	TEF
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	4	-	-	3	1	3
VGM Score	B	-	-	B	C	A
Market Cap	23.39 B	9.21 B	23.61 B	39.06 B	85.47 B	22.12 B
# of Analysts	7	1	14	7	2	3
Dividend Yield	4.62%	1.13%	1.65%	5.67%	3.61%	7.11%
Value Score	B	-	-	B	B	A
Cash/Price	0.03	0.10	0.07	0.03	0.10	0.51
EV/EBITDA	8.51	6.29	13.36	7.88	5.06	10.43
PEG Ratio	2.61	1.56	2.99	4.23	1.35	0.49
Price/Book (P/B)	2.62	2.30	3.16	3.16	1.69	1.03
Price/Cash Flow (P/CF)	6.78	5.82	12.71	6.73	3.43	5.53
P/E (F1)	20.86	16.59	21.82	19.21	13.50	8.81
Price/Sales (P/S)	2.09	1.25	2.47	2.25	0.87	0.43
Earnings Yield	4.81%	6.03%	4.37%	5.21%	7.41%	11.27%
Debt/Equity	1.45	1.31	0.76	1.46	1.58	2.50
Cash Flow (\$/share)	2.70	2.32	6.94	6.42	5.23	0.77
Growth Score	B	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	1.92%	1.30%	10.44%	-0.04%	7.01%	-1.17%
Proj. EPS Growth (F1/F0)	-19.61%	-3.64%	-5.97%	-14.83%	23.15%	-33.79%
Curr. Cash Flow Growth	7.95%	0.87%	5.22%	5.00%	14.82%	-28.39%
Hist. Cash Flow Growth (3-5 yrs)	2.83%	0.12%	8.52%	2.41%	7.59%	-4.61%
Current Ratio	0.91	0.90	1.33	0.92	0.74	1.19
Debt/Capital	59.19%	54.21%	44.50%	54.21%	61.19%	71.47%
Net Margin	9.53%	7.57%	10.13%	10.75%	4.18%	0.39%
Return on Equity	13.33%	13.07%	14.67%	16.56%	10.08%	12.65%
Sales/Assets	0.38	0.43	0.51	0.38	0.51	0.39
Proj. Sales Growth (F1/F0)	3.12%	0.00%	-1.54%	-4.83%	27.47%	-9.01%
Momentum Score	A	-	-	D	A	C
Daily Price Chg	-0.44%	0.00%	-0.38%	-0.02%	0.06%	0.47%
1 Week Price Chg	1.22%	0.03%	1.09%	0.92%	3.48%	3.37%
4 Week Price Chg	6.77%	0.00%	2.23%	3.60%	1.58%	-9.94%
12 Week Price Chg	7.84%	5.90%	6.91%	5.57%	15.06%	-7.99%
52 Week Price Chg	2.01%	-0.24%	2.28%	-7.36%	9.35%	-35.16%
20 Day Average Volume	940,109	72,088	1,899,976	759,100	84,087	1,441,073
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.06%	18.22%	0.00%
(F1) EPS Est 4 week change	-3.43%	0.00%	1.70%	0.45%	19.82%	-2.03%
(F1) EPS Est 12 week change	-2.06%	-1.17%	3.08%	-2.11%	23.72%	-0.68%
(Q1) EPS Est Mthly Chg	1.35%	0.00%	0.83%	-0.88%	NA	NA

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## 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.

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### 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>B</b>
Growth Score	<b>B</b>
Momentum Score	<b>A</b>
VGM Score	<b>B</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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