

TELUS Corporation (TU)

\$14.78 (As of 03/20/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: D

Summary

TELUS' efforts to offset substantial capital expenditure for upgrading network infrastructure have significantly reduced demand for its legacy voice and data services as customers tend to switch to lower-priced carriers. 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, thereby resulting in subscriber loss. Significant investments in broadband infrastructure results in substantial outflow of fund, leading to soft margins. High capital investments for network upgrades and debt-laden balance sheet tend to reduce its profitability. However, TELUS is well positioned to benefit from increased penetration of smartphones and growth of wireline fiber optic networks.

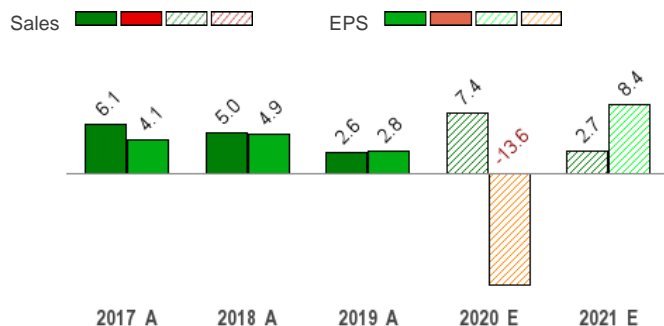
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.91 - \$13.76
20 Day Average Volume (sh)	2,055,703
Market Cap	\$17.9 B
YTD Price Change	-23.7%
Beta	0.70
Dividend / Div Yld	\$0.87 / 5.9%
Industry	Diversified Communication Services
Zacks Industry Rank	Bottom 34% (167 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.9%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	-6.5%
Expected Report Date	05/14/2020
Earnings ESP	0.0%
P/E TTM	6.8
P/E F1	15.6
PEG F1	1.9
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,188 E
2020					11,866 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					\$1.03 E
2020	\$0.27 E	\$0.26 E	\$0.28 E	\$0.27 E	\$0.95 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 03/20/2020. The reports text is as of 03/23/2020.

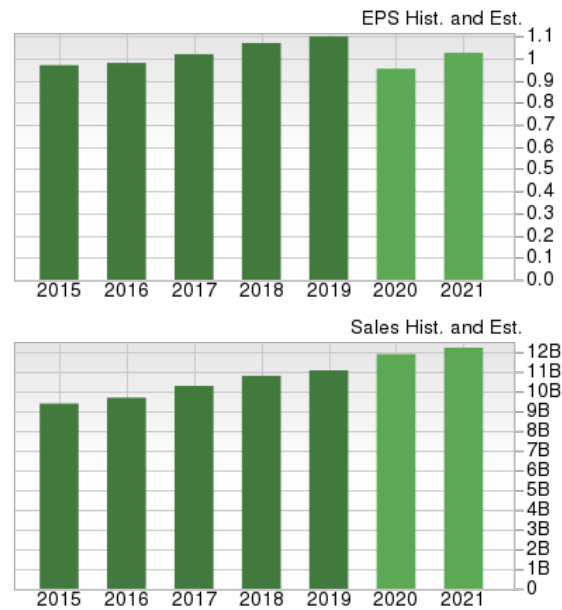
Overview

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** (44.9% of total operating revenues in fourth-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** (55.1%): 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 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 Dec 31, 2019, it had C\$535 million of net cash and temporary investments, with C\$17,142 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.

Risks

- 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.
 - On Feb 4, TELUS and its global unit, TELUS International, announced the closing of the acquisition of 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 profile, organically and from acquisitions.
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Last Earnings Report

TELUS Q4 Earnings Miss Estimates, Revenues Rise Y/Y

TELUS reported unimpressive fourth-quarter 2019 results, wherein the bottom line and the top line marginally missed the respective Zacks Consensus Estimate.

Net Income

Net income for the December quarter increased 3.1% year over year to C\$368 million or C\$0.61 per share, driven by EBITDA growth partly offset by higher depreciation and amortization due to increase in asset base. For 2019, net income was C\$1,776 million or C\$2.90 per share compared with C\$1,624 million or C\$2.68 per share in 2018. Fourth-quarter adjusted net income was C\$400 million or C\$0.67 per share (\$303 million or 50 cents per share) compared with C\$409 million or C\$0.69 per share in the year-ago quarter. The bottom line missed the Zacks Consensus Estimate by 2 cents.

Revenues

Quarterly aggregate operating revenues increased 2.5% year over year to C\$3,858 million (\$2,922.7 million) driven by growth in wireless network revenues and wireline data services revenues. The top line, however, lagged the consensus estimate of \$2,926 million. For 2019, revenues grew 2% year over year to C\$14,658 million.

Quarterly Segment Results

Operating revenues at **TELUS Wireless** slipped 0.5% year over year to C\$2,169 million (\$1,643.1 million), as network revenue growth was more than offset by a decrease in equipment and other service revenues. Network revenues increased 1.5% to C\$1,531 million, reflecting 5.5% growth in the subscriber base over the last 12 months, partly offset by declining mobile phone ARPU. Equipment and other service revenues were C\$619 million, down 4% year over year, reflecting lower wireless contracted volumes due to market offers and lower prices on certain handsets. The segment's adjusted EBITDA of C\$911 million increased 6.9% over the same period a year ago, reflecting higher network revenue growth driven by a larger subscriber base, savings from cost efficiency programs and the implementation of IFRS 16. Adjusted EBITDA margin was 41.9% compared with 39.1% in the year-ago quarter. Capital expenditures decreased 5.9% year over year to C\$238 million.

TELUS Wireline operating revenues increased 7.3% year over year to C\$1,770 million (\$1,340.9 million) driven by higher data services revenue growth. Data services revenues were C\$1,330 million, up 10.8%. This was driven by growth in customer care and business services (CCBS) revenues, increased Internet and third wave data service, health and TV revenues, along with revenues from home and business smart technology lines of business. Voice service (local and long distance) revenues were C\$240 million, down 7.3%. Other service and equipment revenues were C\$106 million, up 6%. The segment's adjusted EBITDA of C\$502 million increased 9.6% from the year-ago quarter figure. This was driven by increased contribution from higher Internet margins and expansion in CCBS business from additional services for existing customers. Adjusted EBITDA margin was 28.4% compared with 27.7% in the prior-year quarter. Capital expenditures were up 10% year over year to C\$504 million.

Other Details

Overall EBITDA was C\$1,368 million, up 10.8% year over year. This reflects increased wireless network revenues, growth in wireline data service margins, a higher EBITDA contribution from CCBS and health businesses. However, the momentum was partly offset by continued declines in wireline legacy voice and data services. Adjusted EBITDA increased 7.9% year over year to C\$1,413 million.

Cash Flow & Liquidity

In 2019, TELUS generated C\$3,927 million of cash from operating activities compared with C\$4,058 million in 2018. Free cash flow for the same period declined 22.8% year over year to C\$932 million. As of Dec 31, 2019, the company had C\$535 million (\$411 million) of net cash and temporary investments with C\$17,142 million (\$13,168 million) of long-term debt, compared with the respective tallies of C\$414 million and C\$13,265 million a year ago.

2020 Outlook

TELUS' financial targets for 2020 reflect growth in data services across wireless and wireline. The company intends to continue generating subscriber growth in its key segments, including wireless, Internet, TV, as well as home automation and security. Increasing demand for reliable access and fast data services is expected to support customer growth. TELUS Health and TELUS International are also likely to continue contributing to the company's growth profile. In 2020, TELUS expects revenue growth of 6-8%. Adjusted EBITDA is anticipated to increase 5-7% year over year. Free cash flow is estimated in the range of C\$1,400 million to C\$1,700 million, while capital expenditures are likely to be around C\$2,750 million.

Conversion rate used:

C\$1 = \$0.757560 (period average from Oct 1, 2019 to Dec 31, 2019)

C\$1 = \$0.768174 (as of Dec 31, 2019)

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	-0.09%
EPS Surprise	-3.85%
Quarterly EPS	0.25
Annual EPS (TTM)	1.09

Recent News

On Mar 19, 2020, 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.

On Mar 10, 2020, TELUS announced plans to expand its Health for Good program with the Canadian Mental Health Association (CMHA) Peel Dufferin Branch. Powered by TELUS Health, the CMHA Peel Dufferin Mobile Health Clinic is a specially-equipped clinic on wheels that will provide primary medical care, mental health care and addiction supports directly to underserved citizens. The company has committed C\$10 million to augment the program to communities across Canada over the next five years. The Mobile Health Clinics are equipped with TELUS Health's electronic medical record technology and TELUS LTE Wi-Fi network technology. Already operational in Montreal, Vancouver, Victoria, Calgary, Edmonton, Ottawa, Waterloo Region, and Halifax, these clinics operate in communities where frontline care is urgently needed and act as a vital link between the community and local health authority.

On Feb 18, 2020, TELUS announced that it has secured the award for best network in Canada for 4G, video, speeds and latency from Opensignal, an independent mobile analytics company specializing in quantifying mobile network experience. Also, the company is Canada's Speedtest (owned by Ookla) award winner for fastest network speed and best mobile coverage for the third and fourth quarter of 2019. TELUS achieved a Speed Score of 71.67, with average speeds of 81.06 Mbps for download and 14.92 Mbps for upload. Since 2000, the company has invested more than C\$181 billion in network infrastructure and spectrum to augment coverage, speed and reliability. It plans to invest an additional C\$40 billion over the next three years in critical technology components to support the rollout of 5G networks.

Valuation

TELUS shares are down 18.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 47% and 32.7% over the past year, respectively.

The S&P 500 Index is down 18.3% in the past year.

The stock is currently trading at 7.55X trailing 12-month EV/EBITDA, which compares to 10.51X for the Zacks sub-industry, 14.55X for the Zacks sector and 8.52X 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 Underperform recommendation indicates that the stock will perform worse than the market. Our \$12 price target reflects 0.79X 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	7.55	10.51	14.55	8.52
	5-Year High	9.52	14.34	19.33	12.88
	5-Year Low	6.86	7.05	10.6	8.31
	5-Year Median	8.32	11.23	13.18	10.78
P/E F12M	Current	15.23	9.18	9.9	13.75
	5-Year High	18.67	17.81	15.4	19.34
	5-Year Low	12.2	9.18	9.9	13.75
	5-Year Median	15.86	15.23	13.83	17.42
P/S F12M	Current	1.51	1.25	2.08	2.5
	5-Year High	2.16	3.93	3.29	3.43
	5-Year Low	1.48	1.14	1.75	2.5
	5-Year Median	1.95	1.3	2.03	3

As of 03/20/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (167 out of 254)



Top Peers

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

Industry Comparison Industry: Diversified Communication Services				Industry Peers		
	TU Underperform	X Industry	S&P 500	BCE Neutral	DTEGY Neutral	TEF Neutral
VGM Score	F	-	-	C	A	B
Market Cap	17.87 B	6.86 B	15.82 B	32.45 B	59.59 B	23.68 B
# of Analysts	5	1	13	7	2	3
Dividend Yield	5.89%	0.00%	2.79%	6.94%	6.02%	7.24%
Value Score	D	-	-	C	B	B
Cash/Price	0.02	0.05	0.06	0.00	0.16	0.44
EV/EBITDA	7.26	6.79	9.77	6.99	5.19	11.04
PEG Ratio	1.96	1.55	1.42	3.22	1.52	NA
Price/Book (P/B)	2.22	1.43	2.07	2.47	1.19	0.83
Price/Cash Flow (P/CF)	5.47	4.81	8.39	5.59	2.75	5.91
P/E (F1)	15.67	13.21	12.42	13.30	10.13	7.20
Price/Sales (P/S)	1.61	0.76	1.68	1.80	0.66	0.44
Earnings Yield	6.43%	7.52%	7.97%	7.52%	9.90%	13.82%
Debt/Equity	1.61	0.88	0.70	1.29	1.59	1.92
Cash Flow (\$/share)	2.70	2.49	7.01	6.42	4.56	0.77
Growth Score	D	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	1.94%	1.94%	10.85%	-0.15%	15.06%	2.14%
Proj. EPS Growth (F1/F0)	-13.27%	7.86%	4.90%	2.22%	7.86%	-13.24%
Curr. Cash Flow Growth	7.95%	-4.81%	6.03%	5.00%	-6.88%	-28.39%
Hist. Cash Flow Growth (3-5 yrs)	2.83%	0.12%	8.55%	2.41%	3.48%	-18.14%
Current Ratio	0.78	0.80	1.23	0.56	0.70	0.81
Debt/Capital	61.66%	48.39%	42.57%	51.15%	61.36%	65.78%
Net Margin	11.92%	7.36%	11.57%	12.84%	3.47%	2.41%
Return on Equity	16.37%	11.29%	16.74%	18.89%	10.76%	13.93%
Sales/Assets	0.41	0.48	0.54	0.40	0.49	0.39
Proj. Sales Growth (F1/F0)	5.97%	0.00%	3.13%	1.55%	NA	-4.13%
Momentum Score	D	-	-	B	A	F
Daily Price Chg	-4.77%	0.00%	-4.39%	-4.60%	2.75%	-7.88%
1 Week Price Chg	-10.26%	-9.68%	-11.01%	-12.59%	-20.01%	-21.63%
4 Week Price Chg	-24.67%	-23.91%	-36.57%	-26.71%	-30.20%	-32.44%
12 Week Price Chg	-22.92%	-23.36%	-34.28%	-22.14%	-23.36%	-35.68%
52 Week Price Chg	-18.72%	-25.11%	-27.95%	-18.76%	-30.24%	-48.36%
20 Day Average Volume	2,055,703	119,896	3,981,936	2,097,537	395,253	3,729,565
(F1) EPS Est 1 week change	0.00%	0.00%	-0.01%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.47%	0.00%	-0.85%	0.00%	2.07%	-9.26%
(F1) EPS Est 12 week change	-10.72%	-9.75%	-1.70%	-5.23%	1.23%	-14.60%
(Q1) EPS Est Mthly Chg	-2.75%	-1.38%	-0.88%	0.00%	NA	NA

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	D
Growth Score	D
Momentum Score	D
VGM Score	F

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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