TELUS

Communication Services
TSX: T
Market Outperform | Buy

June 30, 2022

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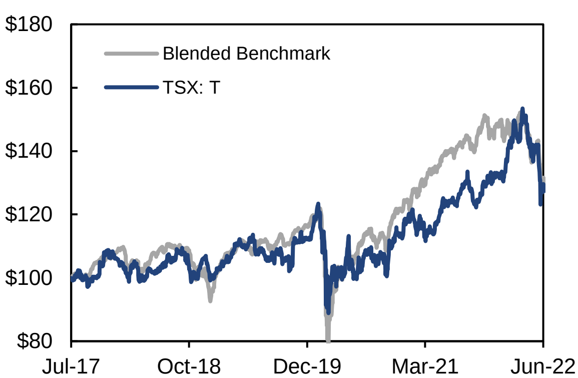
Return on Investment	
Current Share Price	$28.56
Target Price	$34.00
Dividend Yield	4.72%
Implied Return	24%
Conviction Rating	2

Market Profile	
52-Week Range	$27.34 - $34.65
Market Capitalization ($mm)	$39,464
Net Debt ($mm)	$20,800
Minority Interest ($mm)	$953
Enterprise Value ($mm)	$61,217
Beta (5-Year Monthly)	0.67

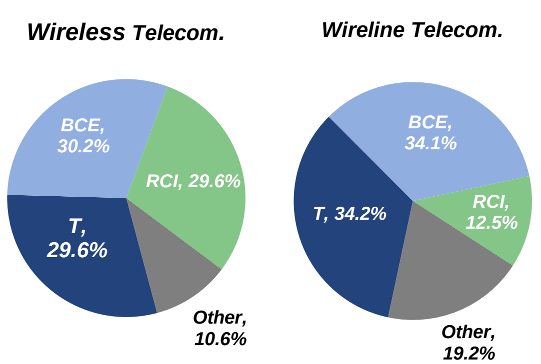
Metrics	2021A	2022E	2023E
Revenue ($mm)	$17,258	$18,203	$19,710
EBITDA ($mm)	$6,069	$6,612	$7,154
EPS	$1.23	$1.14	$1.30
EV/EBITDA	10.1x	9.3x	8.6x

Historical Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: Canadian Market Concentration



Source: IBIS World

Business Description

TELUS (TSX: T) is a diversified telecommunications technology company that provides a broad range of products and services including mobile, television, data and cloud-based services, IP, entertainment, video, and security across its networks. In addition to its core operations, T has three subsidiaries: (1) TELUS Health; (2) TELUS Agriculture; and (3) TELUS International (TSX: TIXT). The Health subsidiary is Canada's leading digital health technology provider and aims to improve access to health and wellness services. The Agriculture subsidiary provides digital solutions throughout the agriculture value chain. T's International subsidiary designs, builds, and delivers solutions for global brands across High-Growth industry verticals. The Company currently has 36mm subscriber connections and is headquartered in Vancouver, Canada.

Industry Overview and Competitive Landscape

The Canadian telecommunications sector is highly concentrated with Bell (TSX: BCE), Rogers (TSX: RCI-B) and T each controlling ~30% of the national market share in wireless and wireline telecommunication services. T has pursued a different strategy from major Canadian peers, where it has eschewed ownership of media assets and instead expanded into digital services through acquisitions complementary to its Health, Agriculture, and International subsidiaries. Most notably, in June 2022 T announced the acquisition of digital health provider LifeWorks for $2.9B, offering shareholders cash or stock and is expected to bolster T's bundling capabilities for corporate clients.

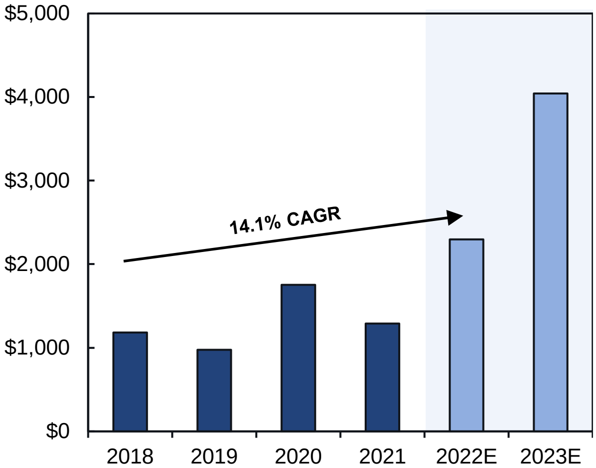
Conversely, RCI-B has been pursuing a $26B merger with Shaw Communications (TSX: SJR-B) to achieve the economies of scale required to deliver substantial wireless and wireline network investments. The RCI-B – SJR-B merger has raised antitrust concerns and has forced SJR-B to sell Freedom Mobile to Quebecor, which may be insufficient when addressing the Competition Bureau's concerns.

T's strategy of partnering, acquiring, and divesting to accelerate presence in high growth markets while maintaining focus on its core business leaves the Company well-positioned to execute acquisitions with less regulatory scrutiny and retain market share in its wireless and wireline infrastructure-based operations.

Mandate Fit

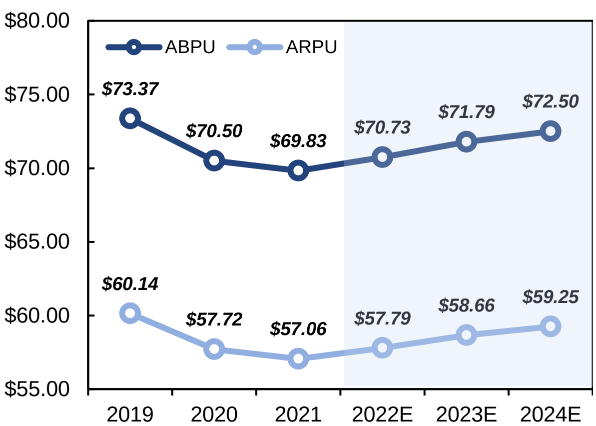
Quality Management: The Company is led by Darren Entwistle, the longest serving CEO in the global telecommunications industry. During his tenure, T has grown from a regional telephone company to a national communications and technology leader with an earnings CAGR of 6.2% since 2000. T has been able to maintain its "TELUS family" culture despite the organization's growth; it consistently ranks in Canada's Top 10 Most Admired Cultures by Waterstone Human Capital. T is focused on returning capital to shareholders and announced in May 2022 that it would target 7% - 10% annual dividend increases from 2023 to the end of 2025. The Company targets a common share dividend payout ratio of 60% - 75% of free cash flow. Despite a high payout ratio, T can continue to make small, high-volume acquisitions to accelerate growth.

Figure 2: Free Cash Flow ($mm)



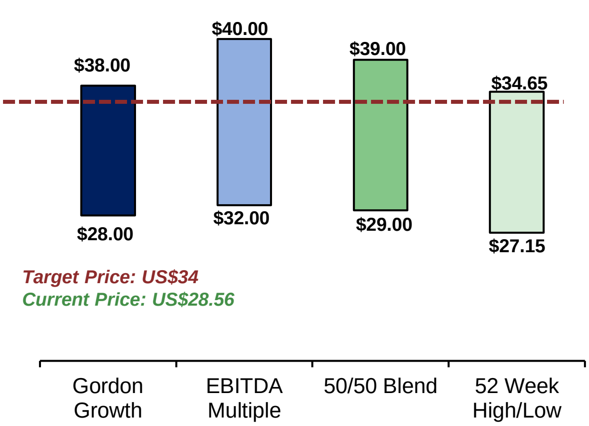
Source: Company Filings, S&P Capital IQ

Figure 3: ARPU & ARBU



Source: Company Filings, Street Research

Figure 4: Valuation Football Field



Source: CPMT Estimates

Competitive Advantage: T is well-positioned to capitalize on the growth of 5G and fiberoptic through its accelerated investments in its broadband network while continuing to grow its diversified Healthcare, Agriculture, and International subsidiaries through M&A. Its differentiated growth strategy relative to its peers allows for more access to more fragmented, high growth markets of which its entry does not require regulatory approval. T is expected to have fiberoptic coverage of 85% - 90% of its targeted broadband footprint by year-end 2022, providing a first-mover advantage given the stickiness of connected fiberoptic customers. The Company's fixed data services, voice systems, and equipment provides T with higher-than-average operating leverage and positions T to earn higher margins than its peers as its fiberoptic and 5G assets are completed and operational efficiencies can be realized.

Strong Balance Sheet: T possesses a strong LTM EBITDA interest coverage ratio of 6.7x while maintaining a lower-than-average debt/equity ratio amongst its major Canadian peers. The Company had $2.1B in available liquidity as of Q1 2022 and received an investment grade rating of BBB+ and Baa from S&P and Moody's. Maintaining a strong financial position enables T to execute on strategic inorganic growth opportunities across its Healthcare, Agriculture, and International subsidiaries.

Growing Free Cash Flow: T boasts a strong five-year FCF CAGR despite accelerated investments in 5G, broadband and digitization to increase system capacity and reliability. The Company believes these accelerated capital investments in its 5G and fiberoptic infrastructure will accelerate top-line growth and operating expense efficiency. FCF is expected to be strengthened by an expected capex decline of ~$1B in 2022 alongside strong EBITDA growth.

Original Investment Thesis

The Fund entered into a position in 2015 with the thesis that the Company's industry-leading average revenue per user coupled with the lowest churn rate would continue to drive shareholder value through EPS and dividend growth. The CPMT divested its position in August 2021 due to concerns regarding the Company's future growth prospects and balance sheet strength, as the Company issued more debt to capitalize on 5G and fiberoptic.

Revised Investment Thesis & Valuation

The Fund believes that T's data focused strategy, accelerated investments in Fiberoptic, and the pursuit high-growth industry verticals instead of media assets position the Company for outsized growth vs its peers. The IPO of TIXT affirms the Company's growth strategy as the segment saw EBITDA grow at 33% YoY. T's dominant market position in western Canada allows its wireline and wireless assets to generate predictable cash flow. The Company's unique global growth strategy provides the opportunity for multiple expansion while prioritizing return of capital to shareholders.

T was valued using a five-year DCF with a WACC of 7.79% and a 9.0x NTM EV/EBITDA to arrive at a target price of $34**.** The Fund elected to reduce the peer average multiple due to the uncertainties regarding the regulatory environment and capital constraints T could experience as a result of its accelerated investments in fiberoptic and 5G. T trades at a discount to its major Canadian peers on a NTM EV/EBITDA basis, which represents an attractive valuation for the Company given its best-in-class management team and differentiated strategy. The CPMT recommends a Buy as the name exemplifies the Fund's mandate points and provides unique exposure to the communications services sector.