

## TELUS Corporation

# 4Q23 Preview: TELUS reports Feb 9, BMO: Call at 12:30PM ET

Maintain Rating: BUY | PO: 30.00 CAD | Price: 23.51 CAD

## A volume-driven 4Q, we are slightly below the Street

We maintain our Buy rating on TELUS ahead of 4Q results and 2024 guidance due to its consistent subscriber growth, moderating fiber investment, growing free cash flow, and longer-term opportunities to lower costs through digitalization and asset rationalization. Our 4Q estimates are generally in line with the Street (see Exhibit 1 below). We expect TELUS to describe a competitively intense quarter in which it continued to grow subscribers and maintained general stable pricing. The Street will likely be focused on wireless and broadband growth expectations built into the 2024 guidance ranges.

## Beginning to reap FCF returns on fiber in 2024

TELUS will share its 2024 guidance with 4Q results. We forecast revenue growth of 4.7% y/y to C\$20.95bn (Street at C\$21.00bn), adjusted EBITDA growth of 6.3% y/y to C\$7.54bn (Street at C\$7.58bn), and free cash flow of C\$2.4bn (Street at C\$2.3bn). With rising FCF that can begin covering the dividend without the dividend reinvestment plan discount (equity), we expect TELUS to comment on when the discount will end.

### Exhibit 1: TELUS estimate summary

BofA forecasts 4Q23 adj. EBITDA of \$1.79bn versus Street at \$1.82bn

	4Q23E Consensus	4Q23E BofA	Growth y/y %	2023E Consensus	2023E BofA	Growth y/y %
<b>Consolidated</b>						
Revenue	5,267	5,170	2.2%	20,245	20,088	9.1%
Adjusted EBITDA	1,819	1,789	5.9%	7,122	7,091	6.7%
Adjusted EPS	0.23	0.22	-4.8%	0.94	0.93	-20.4%
FCF	314	329	1.9%	1,483	1,498	17.6%
<b>Tteck (Telecom)</b>						
Revenue	4,476	4,439	1.6%	17,222	17,184	9.1%
Adj. EBITDA	1,602	1,574	6.4%	6,380	6,351	8.1%
Service revenue	1,753	1,754	3.5%	6,921	6,922	5.0%
Capex	362	422	-32.7%	2,562	2,622	-21.4%
Mobile phone net adds	117	106	-5.0%	434	423	5.6%
Broadband net adds	35	33	-21.4%	142	140	-1.4%
TV net adds	14	16	-5.0%	60	62	3.6%
Mobile phone churn	1.26	1.27	4.1%	1.00	1.05	10.9%
Blended ARPU	58.36	58.40	-0.5%	58.61	58.47	0.6%
<b>DLCX (TELUS International)</b>						
Revenue	940	936	9.4%	3,653	3,649	13.5%
Adj. EBITDA	217	215	2.3%	742	740	-3.8%
Capex	36	38	15.6%	125	127	-5.8%

Source: BofA Global Research

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## Conference call scheduled for 12:30PM ET

TELUS will host a conference call on February 9 at 12:30PM ET.

08 February 2024

### Equity

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### Stock Data

Price (TOR / NYS)	23.51 CAD / 17.46 USD
Price Objective	30.00 CAD / 22.00 USD
Date Established	6-Oct-2023 / 6-Oct-2023
Investment Opinion	B-1-7 / A-1-7
52-Week Range	21.15 CAD - 28.95 CAD
Market Value (mn)	34,354 CAD
Free Float	99.8%
Average Daily Value	91.89 USD
Shares Outstanding (mn)	1,463.1 / 1,463.1
BofA Ticker / Exchange	YT / TOR
BofA Ticker / Exchange	TU / NYS
Bloomberg / Reuters	T CN / T.TO
ROE (2023E)	7.8%
Net Dbt to Eqty (Dec-2022A)	136.9%
ESGMeter™	High

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**Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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Timestamp: 08 February 2024 05:00AM EST

## Price objective basis & risk

### TELUS Corporation (YT / TU)

Our C\$30 (US\$22) price objective is based on a forward EV/EBITDA of 9.3x, which is a premium to TELUS's historical average of 8.2x but within its range of 6.9x - 9.8x. We believe the premium is justified by its higher growth, more attractive business mix, and solid execution.

Downside risks to our PO are a decline in historically high sector multiples, an acceleration of wireless margin/average revenue per user (ARPU) compression in a maturing and competitive market, ARPU pressure from more aggressive regulation and competition from Freedom Mobile, further economic slowdown in Western Canada, and, in the wireline segment, and failure to show progress in expanding cash flow margins.

Upside risks are better-than-expected revenue growth driven by strong execution, with the key drivers being continuing investments in fibre-to-the-premise (FTTP) and increasing wireless data consumption, and better-than-expected improvement in wireline cash flow margins.

## Analyst Certification

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### TELUS Corp (YT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### TELUS Corp (TU) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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