

TELUS Corporation

4Q23 Preview: Focus shifting from 2H23 competitive moves to '24 outlook

Reiterate Rating: BUY | PO: 30.00 CAD | Price: 23.93 CAD

Underlying market dynamics are healthy

We update our TELUS estimates ahead of 4Q23 results, which we expect in early February. We believe 4Q results will show robust competition for wireless and broadband subscribers but within a growing overall market. Promotional offers were short-lived over the holidays as was the case during the back-to-school period. We view this as strong evidence the feared post-merger 'price war' has not and will not emerge.

Promotions did pressure ARPU

Competitive intensity is typically seasonally elevated in 4Q. Promotions were focused on more data at lower prices rather than the aggressive handset discounting we saw last year. Attractive holiday offers fueled subscriber activity and comparison shopping amongst carriers. As a result, we expect wireless churn to increase year-over-year (y/y) and wireless average revenue per user (ARPU) to decrease by ~50bps y/y. Less attractive handset promotions than last year will support a y/y decline in wireless equipment revenue and will be a tailwind to margins. Estimate changes are in Exhibit 1 on page 3.

TELUS Int'l faces headwinds and slower recovery

TELUS International (DLCX) continued to experience a delayed sales growth recovery. We understand TELUS faces elongated sales cycles and long decision timelines. We assumed TIXT would return to adj. EBITDA growth in 4Q, but we have adjusted our outlook and now expect flat EBITDA with growth now emerging in 2024.

We forecast C\$2.3bn FCF and 6%+ Adj. EBITDA n '24E

TELUS will release 2024E guidance with 4Q results. We forecast 4.7% 2024 operating revenue growth and 6.2% Adjusted EBITDA growth. We forecast flat capex at C\$2.7bn and strong free cash flow growth (FCF) to C\$2.3bn. Lifeworks synergies and cost containment savings from a program launched in July '23 should begin to contribute more meaningfully to adj. EBITDA growth by mid-year.

Estimates (Dec) (C\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.05	1.22	0.93	1.07	1.28
GAAP EPS	1.22	1.15	0.48	0.93	1.16
EPS Change (YoY)	-1.9%	16.2%	-23.8%	15.1%	19.6%
Consensus EPS (Bloomberg)			0.94	1.10	1.31
DPS	1.27	1.36	1.45	1.56	1.67
EPS (TU - C\$)	1.05	1.22	0.93	1.07	1.28
DPS (TU - C\$)	1.27	1.36	1.45	1.56	1.67
Valuation (Dec)					
P/E	22.8x	19.6x	25.7x	22.4x	18.7x
GAAP P/E	19.6x	20.8x	49.9x	25.7x	20.6x
Dividend Yield	5.3%	5.7%	6.1%	6.5%	7.0%
EV / EBITDA*	10.3x	9.4x	8.8x	8.3x	7.7x
Free Cash Flow Yield*	3.7%	3.3%	3.7%	6.7%	8.3%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 04 January 2024 05:00AM EST

04 January 2024

Equity

Key Changes

(C\$)	Previous	Current
2023E Rev (m)	20,155.8	20,087.6
2024E Rev (m)	21,161.4	20,994.0
2025E Rev (m)	22,191.6	22,088.4
2023E EPS	0.95	0.93
2024E EPS	1.16	1.07
2025E EPS	1.34	1.28

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Stock Data

Price (TOR / NYS)	23.93 CAD / 17.90 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 - 29.01 CAD
Market Value (mn)	35,012 CAD
Free Float	99.8%
Average Daily Value	112.63 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 TM	High

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iQprofileSM TELUS Corporation

iQmethodSM – Bus Performance*

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	5.6%	4.8%	3.5%	4.9%	5.9%
Return on Equity	10.0%	10.2%	7.8%	9.3%	11.8%
Operating Margin	17.8%	16.0%	11.4%	15.4%	17.2%
Free Cash Flow	1,291	1,164	1,281	2,356	2,918

iQmethodSM – Quality of Earnings*

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	3.1x	2.8x	3.1x	3.2x	3.0x
Asset Replacement Ratio	1.5x	1.6x	1.2x	1.1x	1.1x
Tax Rate	25.5%	26.0%	23.1%	22.7%	22.7%
Net Debt-to-Equity Ratio	126.1%	136.9%	153.0%	166.9%	171.4%
Interest Cover	3.9x	4.7x	1.7x	2.3x	2.4x

Income Statement Data (Dec)

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	17,258	18,412	20,088	20,994	22,088
% Change	11.6%	6.7%	9.1%	4.5%	5.2%
Gross Profit	17,258	18,412	20,088	20,994	22,088
% Change	11.6%	6.7%	9.1%	4.5%	5.2%
EBITDA	6,069	6,643	7,091	7,537	8,100
% Change	6.5%	9.5%	6.7%	6.3%	7.5%
Net Interest & Other Income	(796)	(632)	(1,350)	(1,432)	(1,556)
Net Income (Adjusted)	1,430	1,713	1,356	1,570	1,889
% Change	5.1%	19.8%	-20.9%	15.8%	20.3%

Free Cash Flow Data (Dec)

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,698	1,718	721	1,389	1,737
Depreciation & Amortization	3,216	3,452	4,055	4,105	4,132
Change in Working Capital	(82)	(193)	(447)	(408)	(188)
Deferred Taxation Charge	47	31	(227)	0	0
Other Adjustments, Net	(491)	(197)	137	0	0
Capital Expenditure	(3,097)	(3,647)	(2,958)	(2,730)	(2,763)
Free Cash Flow	1,291	1,164	1,281	2,356	2,918
% Change	-26.3%	-9.8%	10.1%	83.9%	23.9%
Share / Issue Repurchase	827	0	0	0	0
Cost of Dividends Paid	(1,045)	(1,188)	(1,328)	(2,283)	(2,442)
Change in Debt	(71)	2,205	3,380	(800)	(800)

Balance Sheet Data (Dec)

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	723	974	2,696	969	645
Trade Receivables	2,877	3,440	3,781	4,103	4,299
Other Current Assets	1,432	1,678	1,805	1,884	1,978
Property, Plant & Equipment	15,926	17,084	17,194	17,375	17,561
Other Non-Current Assets	27,036	30,870	32,156	31,600	30,044
Total Assets	47,994	54,046	57,632	55,931	54,528
Short-Term Debt	3,041	2,645	4,480	4,180	5,280
Other Current Liabilities	5,232	5,636	5,471	5,464	5,567
Long-Term Debt	17,925	22,496	24,707	24,207	22,307
Other Non-Current Liabilities	5,737	5,611	5,656	5,656	5,656
Total Liabilities	31,935	36,388	40,314	39,507	38,810
Total Equity	16,059	17,658	17,318	16,423	15,718
Total Equity & Liabilities	47,994	54,046	57,632	55,931	54,528

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Telecom Services-Wireless/Cellular

Company Description

TELUS is Canada's second-largest incumbent telco, with three principal business segments: 1) a national wireless service provider (one of three) with a market share of about 30% (on a network shared with BCE), 2) the incumbent wireline telecom business in Canada's two western provinces and eastern Quebec (home to a total of 8mn people, or 25% of Canada's population), and 3) non-ILEC businesses (agriculture and health) reported within the telecom segment.

Investment Rationale

TELUS is well positioned to benefit from wireless market growth as wireless penetration (at 90%) rises closer to the developed market average (at 120%). Investments TELUS has made to deploy fiber to the home (over 80% of footprint) and to grow subsidiaries within TELUS wireline should drive superior revenue growth, margin expansion, and free cash flow growth.

Stock Data

Average Daily Volume	6283,786
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2022	2023
Q1	0.30A	0.27A
Q2	0.36A	0.19A
Q3	0.34A	0.26E
Q4	0.23A	0.22E

Key Changes

(C\$)	Previous	Current
2023E EPS	0.95	0.93
2024E EPS	1.16	1.07
2025E EPS	1.34	1.28

Exhibit 1: TELUS estimate change summary

We lowered our 4Q23 estimate. Reflects elevated competition and slower than expected turnaround at DLCX

	New 4Q23	old 4Q23	Change %	Y/Y %	New 2023	old 2023	Change %	Y/Y %	New 2024	old 2024	Change %	Y/Y %
Consolidated												
Total Revenue	5,170	5,238	-1.3%	2.2%	20,088	20,156	-0.3%	9.1%	20,994	21,161	-0.8%	4.5%
Total adjusted EBITDA	1,789	1,822	-1.8%	5.9%	7,091	7,124	-0.5%	6.7%	7,537	7,718	-2.3%	6.3%
Diluted adjusted EPS	0.22	0.23	-5.9%	-4.8%	0.93	0.95	-1.5%	-23.7%	1.07	1.16	-7.8%	14.4%
Free cash flow	329	353	-6.8%	1.9%	1,498	1,522	-1.6%	17.6%	2,311	2,345	-1.4%	54.2%
Ttech												
Revenue	4,439	4,508	-1.5%	1.6%	17,184	17,253	-0.4%	9.1%	17,914	18,063	-0.8%	4.2%
Adj. EBITDA	1,574	1,598	-1.5%	6.4%	6,351	6,375	-0.4%	8.1%	6,706	6,839	-2.0%	5.6%
Capex	422	428	-1.5%	-32.7%	2,622	2,628	-0.2%	-21.4%	2,575	2,596	-0.8%	-1.8%
DLCX												
Revenue	936	936	0.0%	9.4%	3,649	3,649	0.0%	13.5%	3,862	3,880	-0.5%	5.9%
Adj. EBITDA	215	224	-4.1%	2.3%	740	749	-1.2%	-3.8%	831	879	-5.4%	12.4%
Wireless adjusted EBITDA	38	38	0.0%	15.6%	127	127	0.0%	-5.8%	155	156	-0.5%	21.7%
Operating metrics												
Phone net adds	106	106	0.0%	-5.0%	423	423	0.0%	5.6%	402	402	0.0%	-5.0%
Mobile device net adds	106	106	0.0%	0.0%	467	467	0.0%	26.9%	476	476	0.0%	2.0%
Broadband net adds	33	40	-17.3%	-21.4%	140	147	-4.7%	-1.4%	133	140	-4.7%	-5.0%
IPTV net adds	16	16	0.0%	-5.0%	62	62	0.0%	3.6%	59	59	0.0%	-5.0%
Voice net adds	-8	-8			-32	-32		18.5%	-28	-28	0.0%	-12.5%

Source: BofA Global Research estimates

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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

I, David W. Barden, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Telecom Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	AT&T Inc.	T	T US	David W. Barden, CFA
	Cogent	CCOI	CCOI US	David W. Barden, CFA
	Digital Realty Trust Inc	DLR	DLR US	David W. Barden, CFA
	Dycom Industries, Inc.	DY	DY US	Alexander Waters
	Equinix, Inc.	EQIX	EQIX US	David W. Barden, CFA
	Quebecor Inc.	YQBRB	QBR/B CN	Matthew Griffiths, CFA
	Rogers Communications	RCI	RCI US	David W. Barden, CFA
	Rogers Communications	YRCIB	RCI/B CN	David W. Barden, CFA
	TELUS Corporation	YT	T CN	David W. Barden, CFA
	TELUS Corporation	TU	TU US	David W. Barden, CFA
	T-Mobile US	TMUS	TMUS US	David W. Barden, CFA
NEUTRAL				
	BCE Inc.	YBCE	BCE CN	David W. Barden, CFA
	BCE Inc.	BCE	BCE US	David W. Barden, CFA
	Crown Castle Inc	CCI	CCI US	David W. Barden, CFA
	SBA Communications Corporation	SBAC	SBAC US	David W. Barden, CFA
	Verizon Communications Inc.	VZ	VZ US	David W. Barden, CFA
UNDERPERFORM				
	Cogeco Communications Inc.	YCCA	CCA CN	Matthew Griffiths, CFA
	Dish Network Corporation	DISH	DISH US	David W. Barden, CFA
	Lumen Technologies Inc.	LUMN	LUMN US	David W. Barden, CFA
	Uniti Group Inc	UNIT	UNIT US	David W. Barden, CFA

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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Important Disclosures

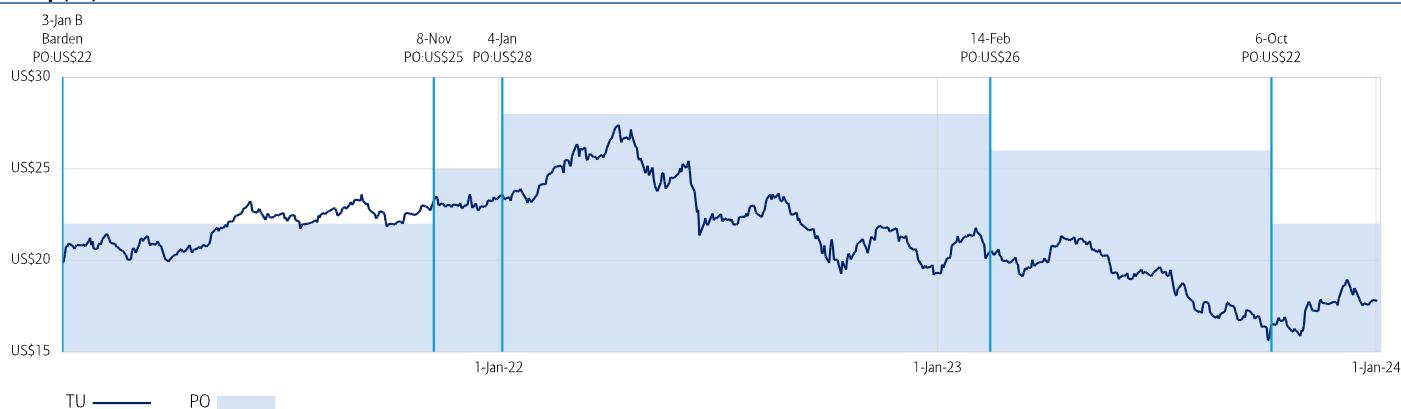
TELUS Corp (YT) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

TELUS Corp (TU) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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