



Verizon Communications (VZ)

Updated January 29th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$53	5 Year CAGR Estimate:	12.9%	Volatility Percentile:	34.4%
Fair Value Price:	\$66	5 Year Growth Estimate:	4.0%	Momentum Percentile:	68.6%
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.4%	Growth Percentile:	21.9%
Dividend Yield:	4.5%	5 Year Price Target	\$80	Valuation Percentile:	78.9%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	72.2%

Overview & Current Events

Verizon Communications was created by a merger between Bell Atlantic Corp and GTE Corp in June, 2000. Verizon operates in the Telecommunications Services sector of the economy and is one of the largest wireless carrier in the country. Wireless contributes three-quarters of all revenues for the company. Verizon also offers broadband and cable services, which account for about a quarter of sales. The company's network covers ~298 million people and 98% of the U.S. Verizon has a market cap of almost \$228 billion.

Verizon reported financial results for the fourth quarter and full year 2018 on January 29th. The company's adjusted earnings-per-share (EPS) totaled \$1.12 for the quarter, \$0.03 above estimates and represented growth of more than 30% from 2017. The adjusted EPS total did not include a \$0.50 per share charge for the company's Wireless restructuring. Revenue grew 0.9% to \$34.3 billion and was \$160 million below estimates. For 2018, Verizon had adjusted EPS of \$4.71, well above the company's midpoint of \$4.35 and 26% higher than 2017's result. Revenue grew 4% to \$131 billion year-over-year.

The wireless business had 1.2 million retail postpaid net additions in the quarter, 873K of which were smartphone adds. Subscribers increased by a net 16.4 million in 2018. Wireless revenue grew 2% for the quarter and 1.5% for the year. Postpaid phone churn was 0.82% during the fourth quarter, though this was the first time in almost two years that the churn rate was above 0.80%. Wireline had net adds of 54K in the fourth quarter, though FiOS video subscribers declined by 46K. Wireline revenues declined 3.2% for the quarter and 3% for the year. Verizon benefited from tax reform passed at the end of 2017. The company saw a 41% increase in cash flow from operations in 2018 while improving free cash flow to \$17.7 billion from \$7.1 billion. The company also reduced its total net debt to \$113.1 billion from \$117.1 billion. Verizon expects to earn \$4.71 per share in 2019, the same as 2018's result and \$0.02 below consensus estimates. Revenue is expected to grow at a low single digit rate. The stock finished the trading day lower by 3.25%.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$2.40	\$2.21	\$2.15	\$2.32	\$4.00	\$3.35	\$3.99	\$3.87	\$3.75	\$4.71	\$4.71	\$5.73
DPS	\$1.87	\$1.93	\$1.96	\$2.02	\$2.08	\$2.16	\$2.23	\$2.29	\$2.32	\$2.37	\$2.41	\$2.93
Shares	2835.7	2828.1	2835.5	2858.3	4141.1	4155.4	4073.2	4076.7	4079.5	4050	4025	3950

Verizon has seen its EPS grow at a rate of almost 5% per year for the past 10 years. The company's guidance for 2019 calls for a similar EPS result as last year. We have lowered our forward growth rate to 4% from 5% due to the company's guidance. While a lower growth rate is not an ideal situation, Verizon is a clear beneficiary of a lower tax rate. The company added \$10 billion to its free cash flow in 2018. The company's effective tax rate should be ~25% in 2019. Applying the historical earnings growth rate to the company's guidance for 2019 means that shares of Verizon could earn \$5.55 per share by 2023.

Verizon gave shareholders a 2.1% dividend increase for payment made this past November. The company has now increased its dividend for the past 14 years and has a 10-year average dividend growth rate of 3.5%.

Disclosure: This analyst has a long position in the security discussed in this research report.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.7	13.8	17.1	18.1	12.2	14.5	11.8	13.3	12.3	13.1	11.3	14.0
Avg. Yld.	6.1%	6.3%	5.3%	4.8%	4.3%	4.4%	4.7%	4.5%	4.8%	4.1%	4.5%	3.7%

Shares of Verizon have decreased \$4, or 7%, since our October 25th update. Based off the current share price and projected 2019 EPS, Verizon has a forward P/E of 11.3. This is below the decade long average P/E of 14. If shares were to return to this ratio by 2024, then the stock's multiple could expand 4.4% per year through 2024. With a 4.5% dividend yield, Verizon offers investors a yield that is more than double that of the S&P 500 and is well above the yield of the 10-year Treasury Bond.

Safety, Quality, Competitive Advantage, & Recession Resiliency

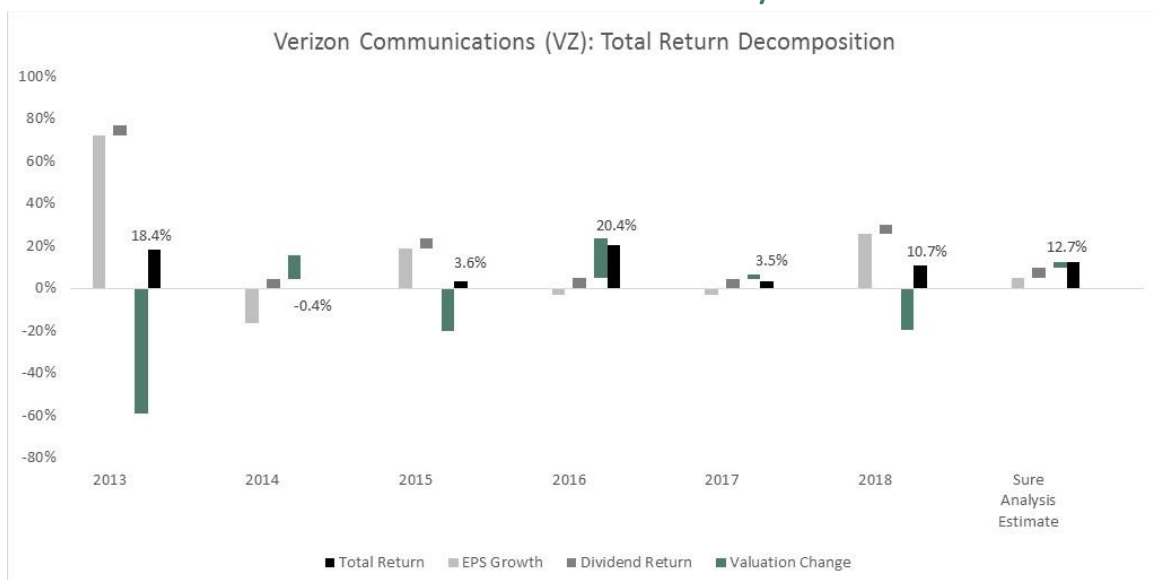
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	77.9%	87.3%	91.2%	87%	52%	64.5%	55.9%	59.2%	62.1%	50.3%	51.2%	51.1%

Verizon is often considered the best wireless carrier in the U.S. This is evident by the company's wireless net additions and very low churn rate. While investors aren't likely to see a sizeable pickup in EPS growth, Verizon offers a very high and stable dividend yield. The company has seen its cash flow increase dramatically thanks to a lower tax rate. While the current net debt level is still high, it was at reduced during the previous year. Verizon's stock also weathered the selloff in late 2018 very well, gaining almost 7% for the year while the S&P 500 dropped 6%.

Final Thoughts & Recommendation

Following fourth quarter and full year results, we now anticipate that Verizon will offer a total return of 12.9% per year through 2024, up from 10.4% previously. This return is a combination of a lower expected earnings growth rate (4%), dividend yield (4.5%) and multiple expansion (4.4%). Verizon saw its wireless business post strong net adds figures, but the wireline division declined year-over-year. We find that shares are trading below fair value. The company's dividend should make the stock attractive to income investors, but the potential for an expanded P/E could entice value investors as well. Verizon is a buy at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue (\$B)	97.35	107.81	106.57	110.88	115.85	120.55	127.08	131.62	125.98	126.03
Gross Profit	58739	63229	62416	65000	69571	75663	77148	79063	74556	74478
Gross Margin	60.3%	58.6%	58.6%	58.6%	60.1%	62.8%	60.7%	60.1%	59.2%	59.1%
SG&A Exp.	41517	30717	31366	35624	39951	27089	41016	29986	30562	28336
D&A Exp.	14610	16534	16405	16496	16460	16606	16533	16017	15928	16954
Operating Profit	2612	15978	14645	12880	13160	31968	19599	33060	28066	29188
Op. Margin	2.7%	14.8%	13.7%	11.6%	11.4%	26.5%	15.4%	25.1%	22.3%	23.2%
Net Profit	-2193	4894	2549	2404	875	11497	9625	17879	13127	30101
Net Margin	-2.3%	4.5%	2.4%	2.2%	0.8%	9.5%	7.6%	13.6%	10.4%	23.9%
Free Cash Flow	10319	14518	16119	13315	11013	21634	13086	11310	5217	7475
Income Tax	-2319	1919	2467	285	-660	5730	3314	9865	7378	-9956

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets (\$B)	202.35	226.91	220.01	230.46	225.22	274.10	232.62	244.18	244.18	257.14
Cash & Equivalents	9782	2009	6668	13362	3093	53528	10598	4470	2880	2079
Acc. Receivable	11703	12573	11781	11776	12576	12439	13993	13457	17513	23493
Inventories	2092	1426	1131	940	1075	1020	1153	1252	1202	1034
Goodwill/Int. (\$B)	73.21	101.30	100.81	102.49	107.82	106.18	105.71	119.50	122.78	127.84
Total Liab. (\$B)	123.45	142.76	133.09	144.55	139.69	178.68	218.94	226.33	220.15	212.46
Accounts Payable	3856	4337	3936	4194	4454	4954	5598	5700	7084	7063
LT Debt (\$B)	51.95	62.26	52.79	55.15	51.99	93.59	113.27	109.73	108.08	117.10
Total Equity	41706	41382	38569	35970	33157	38836	12298	16428	22524	43096
D/E Ratio	1.25	1.50	1.37	1.53	1.57	2.41	9.21	6.68	4.80	2.72

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-1.1%	2.3%	1.1%	1.1%	0.4%	4.6%	3.8%	7.5%	5.4%	12.0%
Return on Equity	-4.8%	11.8%	6.4%	6.5%	2.5%	31.9%	37.6%	125%	67.4%	91.7%
ROIC	-1.8%	3.5%	1.8%	1.7%	0.6%	7.0%	6.1%	14.0%	10.1%	20.5%
Shares Out.	2841	2835.7	2828.1	2835.5	2858.3	4141.1	4155.4	4073.2	4076.7	4079.5
Revenue/Share	34.17	37.95	37.62	39.05	40.48	41.95	31.92	32.16	30.83	30.82
FCF/Share	3.62	5.11	5.69	4.69	3.85	7.53	3.29	2.76	1.28	1.83

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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