Deutsche Telekom AG (DTEGY)

Updated June 10th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$17	**5 Year CAGR Estimate:**	10.0%	**Volatility Percentile:**	13.6%
Fair Value Price:	$18	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	65.3%
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.1%	**Growth Percentile:**	23.8%
Dividend Yield:	4.9%	**5 Year Price Target**	$22	**Valuation Percentile:**	58.2%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	48.9%

Overview & Current Events

Deutsche Telekom is the largest telecommunications company in Europe and the second-largest telecommunications company in the world. The company operates through the following segments: Germany, United States, Europe, and System Solutions. The German segment provides fixed-network and mobile solutions as well as wholesale telecommunications services. The United States segment includes T-Mobile (Deutsche Telekom owns ~62% of T-Mobile), while Europe encompasses all fixed-network and mobile operations outside Germany. The Systems Solution segment provides information and communication technology systems. Deutsche Telekom has over 160 million mobile customers, 29 million fixed-network lines, and more than 18 million broadband lines. United States investors can initiate an ownership stake in Deutsche Telekom through American Depository Receipts that trade over-the-counter under the ticker DTEGY with a market capitalization of US$82 billion.

In early May, Deutsche Telekom reported (5/9/19) financial results for the first quarter of fiscal 2019. Net revenue increased 8.7% and currency-adjusted comparable net revenue rose 3.5%. The U.S. segment was the major growth driver, as it maintained its strong momentum, with 15.9% net revenue growth and 7.0% currency-adjusted net revenue growth. The strong performance resulted primarily from higher service revenues thanks to the rise in the average branded customer base. Revenue in the German segment remained essentially flat while revenue in System Solutions declined 2.1%. Despite overall net revenue growth, Deutsche Telekom posted the same earnings-per-share as in last year's quarter (€0.25), mostly due to higher depreciation amounts and higher interest expense.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.64	$0.91	$0.92	$0.66	$0.63	$0.79	$0.77	$0.61	$0.89	$1.13	***$1.20***	***$1.46***
DPS	$1.04	$1.03	$0.99	$0.88	$0.93	$0.68	$0.56	$0.63	$0.65	$0.77	***$0.83***	***$1.05***
Shares	4361.3	4321.3	4321.3	4321.3	4451.5	4476.0	4586.7	4677.0	4761.5	4761.0	***4740.0***	***4740.0***

Deutsche Telekom's earnings growth has been somewhat volatile, partly due to the spinoff of T-Mobile in 2012. Even including the impact of this spinoff, the company grew its earnings-per-share by about 6% per year over the last decade. We believe that this level of growth is likely to continue for the foreseeable future, mostly thanks to continuous growth of T-Mobile. However, due to markedly strong performance in 2018, the earnings of that year will raise the bar for future comparisons. Accordingly, we expect a 4% annual earnings-per-share growth rate beyond this year.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	20.0	14.4	14.9	17.2	20.4	20.3	23.1	27.7	20.2	14.6	***14.2***	***15.0***
Avg. Yld.	8.1%	7.9%	7.2%	7.7%	7.2%	4.2%	3.2%	3.7%	3.6%	4.7%	***4.9%***	***4.8%***

Deutsche Telekom's price-to-earnings ratio has been volatile over the last decade, ranging from as high as 27.7 to as low as 14, with an average value of 19.3. We believe this historical valuation multiple is far too rich for a company like Deutsche Telekom. Given comparable valuations in the domestic telecommunications industry, our target for Deutsche

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Telekom's fair value is a price-to-earnings ratio of 15. The stock is trading at an earnings multiple of 14.2 today. If it approaches our fair estimate of 15 over the next five years, it will enjoy a 1.1% annualized gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

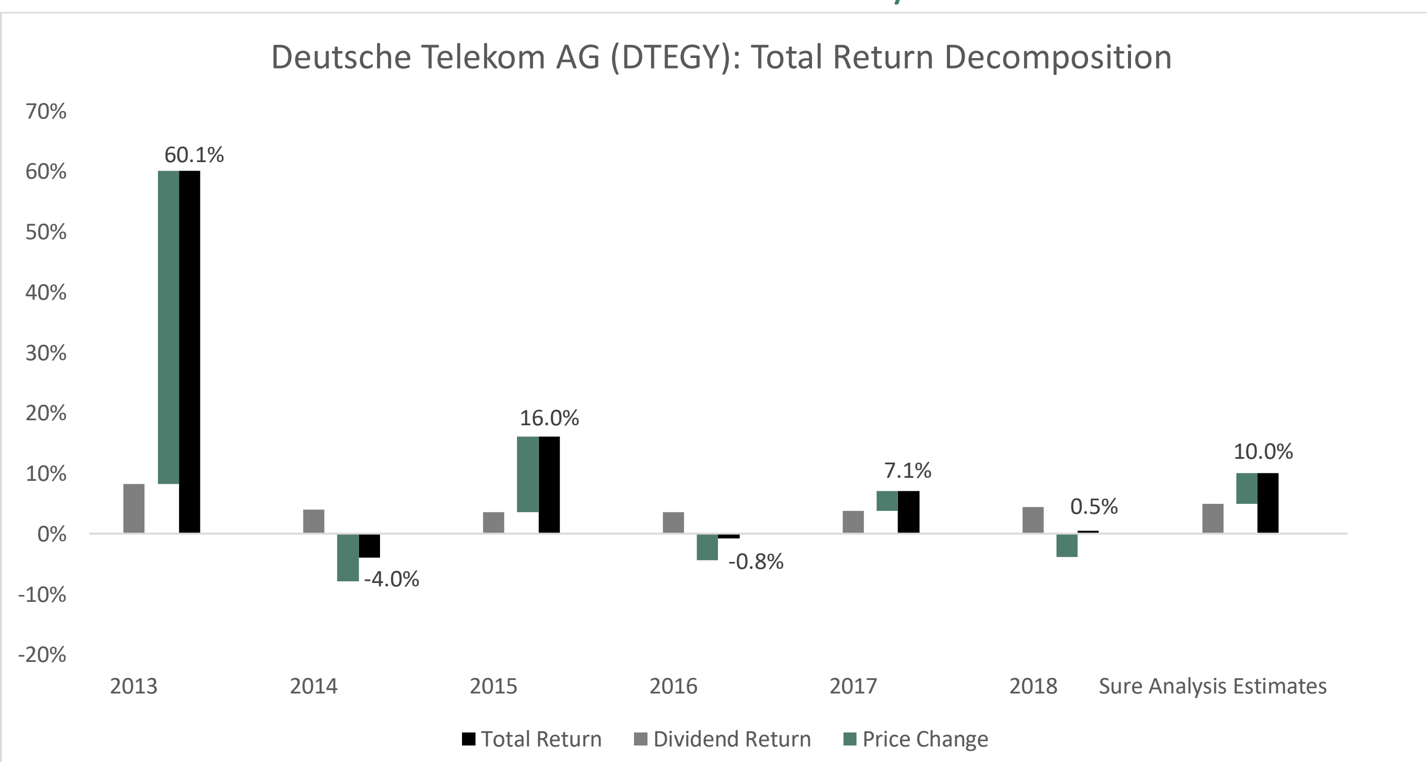
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	163%	113%	108%	133%	148%	86.1%	72.7%	103%	73.0%	68.1%	***69.2%***	***71.9%***

Deutsche Telekom has undisputed leadership within the European telecommunications market and is investing aggressively to maintain this position. Last year, the company invested a record €12.2 billion (US$14.0 billion) to build out its telecommunications network. Deutsche Telekom also has an investment-grade BBB+ credit rating from Standard & Poor's, which allows it to raise capital at attractive rates to continue investing in its future as a business.

Final Thoughts & Recommendation

Deutsche Telekom provides exactly what most investors in the telecommunications sector are looking for: stability, cash flow, and a high dividend payout. Moreover, the company's global business model combined with its ~62% ownership of T-Mobile gives it exposure to telecommunications markets worldwide. In addition, the stock has been trading in a narrow range, between $14 and $20, in the last five years. This means that most returns usually come from its generous dividend. This feature also makes it easier to hold the stock for the long term, without emotional pressure to sell during market sell-offs. At its current price, Deutsche Telekom is likely to offer a 10.0% average annual return over the next five years thanks to 4% annual earnings growth, its 4.9% dividend and a 1.1% annualized expansion of its valuation level. As a result, the stock earns a buy recommendation from Sure Dividend at current prices, even though it is still not the most compelling investment opportunity in its sector (AT&T currently holds this title).

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue										
Gross Profit										
Gross Margin										
SG&A Exp.										
D&A Exp.										
Operating Profit										
Op. Margin										
Net Profit										
Net Margin										
Free Cash Flow										

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)										
Cash & Equivalents										
Acc. Receivable										
Inventories										
Goodwill & Int.										
Total Liab. ($B)										
Accounts Payable										
Long-Term Debt										
Total Equity										
D/E Ratio										

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets										
Return on Equity										
ROIC										
Revenue/Share										
FCF/Share										

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