



AT&T Inc. (T)

Updated July 24th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	14.7%	Volatility Percentile:	27.4%
Fair Value Price:	\$43	5 Year Growth Estimate:	3.0%	Momentum Percentile:	59.1%
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.5%	Growth Percentile:	14.2%
Dividend Yield:	6.2%	5 Year Price Target	\$50	Valuation Percentile:	91.7%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	89.7%

Overview & Current Events

While the history of AT&T dates back to Alexander Graham Bell and the original telephone in the late-1800's, the current iteration of the firm is rooted in a spun off "baby bell," SBC, that acquired AT&T Corp. in 2005 and changed its name to AT&T Inc. Today AT&T is the largest communications company in the world, operating in four distinct business units: AT&T Communications (providing mobile, broadband, video and other communications services to more than 100 million U.S. consumers and more than 3 million businesses), WarnerMedia (including Turner, HBO and Warner Bros.), AT&T Latin America (offering pay-TV and wireless service to 11 countries) and Xandr (providing advertising). The \$241 billion market cap company, with over 260,000 employees, generated \$170 billion in annual revenue last year.

On July 24th, 2019 AT&T reported Q2 2019 results for the period ending June 30th, 2019. For the quarter the company generated \$45.0 billion in revenue, up 15.3% from the year-ago quarter, primarily driven by the Time Warner acquisition (the deal closed June 14th, 2018). Declines in AT&T's legacy wireline services and domestic and wireless video equipment were more than offset by the addition of WarnerMedia and improvement in the domestic wireless services. Reported net income came in at \$3.7 billion or \$0.51 per share compared to \$5.1 billion or \$0.81 per share in the year-ago quarter. On an adjusted basis earnings-per-share totaled \$0.89 compared to \$0.91 previously.

AT&T also updated its 2019 outlook. The company reiterated its expectation for low single-digit adjusted EPS growth, a dividend payout ratio below 60% and end-of-year net debt to adjusted EBITDA ratio that was expected to be in the 2.5x range. As of the most recent report, net debt stood at \$162 billion, down from \$180 billion at the merger close last year, which was aided by the sale of the company's stake in Hulu and Hudson Yards. The current net debt to adjusted EBITDA ratio is 2.7x (down from 2.8x last quarter).

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$2.12	\$2.29	\$2.20	\$2.33	\$2.50	\$2.50	\$2.69	\$2.84	\$3.05	\$3.52	\$3.60	\$4.18
DPS	\$1.64	\$1.68	\$1.72	\$1.76	\$1.80	\$1.84	\$1.88	\$1.92	\$1.96	\$2.00	\$2.04	\$2.24
Shares	5,902	5,911	5,927	5,581	5,226	5,187	6,145	6,139	6,139	7,282	7,300	7,300

AT&T is a colossal business, easily generating annual profits north of \$20 billion annually, but it is not a fast grower. From 2007 through 2018 AT&T grew earnings-per-share by 2.2% per annum. While the company is picking up growth opportunities, notably in its recent acquisitions of DirecTV and Time Warner, we are cognizant of both the premiums paid and the fact that the company's legacy businesses are steady or declining. The company is optimistic about generating reasonable growth and the payout ratio is falling, resulting in excess funds to divert toward paying down debt and focusing on the business. Moreover, after the debt picture is under control, management has indicated the potential for share repurchases down the line. We are forecasting 3% annual growth over the intermediate-term.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.1	11.7	13.4	14.5	14.2	13.8	12.6	13.8	12.7	9.5	9.2	12.0
Avg. Yld.	6.4%	6.3%	5.8%	5.2%	5.1%	5.3%	5.6%	4.9%	5.1%	6.0%	6.2%	4.5%

Disclosure: This analyst is long the security discussed in this research report.



AT&T Inc. (T)

Updated July 24th, 2019 by Eli Inkrot

During the past decade shares of AT&T have traded with an average P/E ratio of around 12 to 13 times earnings, with a range of 8 to 16. We believe something in the middle of that range is fair, given that growth prospects are roughly the same as they have been, the dividend is robust and the payout ratio is getting better. At the current valuation, there is the potential for a sizable uptick in valuation.

AT&T has a record of not only paying but also increasing its dividend for 35 consecutive years. Granted this payment has only been increasing by 4 cents annually for the last decade, but it remains an important driver of shareholder returns. From this point, with a well above average dividend yield, protecting the payout is more important than growing it.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	77%	73%	78%	76%	72%	74%	70%	68%	64%	57%	57%	54%

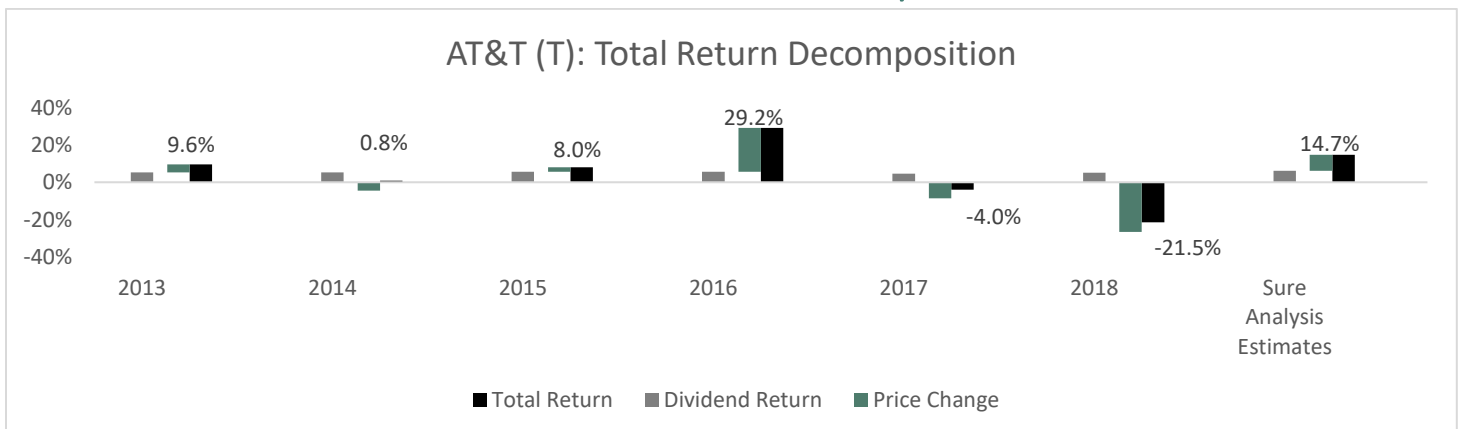
AT&T has a competitive advantage with its entrenched position in various important industries. Although this position could be eroding due to technological change, it remains that the company has direct contact with 170 million customers. However, the debt is an issue. At the close of the Time Warner merger it equaled \$180 billion and the net debt to adjusted EBITDA metric came in at 3.0x. By the end of 2018 this number got down to 2.8x. The goal is to get it down to \$150 billion and 2.5x by yearend 2019, with CEO Randall Stephenson saying, “our top priority is reducing our debt.” That’s likely music to investor’s ears, but the execution of this plan will still be key.

During the last recession AT&T posted results of \$2.76, \$2.16, \$2.12 and \$2.29 in earnings-per-share for the 2007 through 2010 period. The company did not eclipse its pre-recession high on an earnings basis until 2016, but the dividend did continue to grow throughout the entire period. Speaking of which, we are encouraged with the progress made on the dividend payout ratio, moving from 77% in 2009 down to 57% today. Some bemoan the slow rate of dividend growth, but we believe it has (and will continue to be) prudent given the company’s current financial position.

Final Thoughts & Recommendation

Shares are up 6% since our last report. In our view AT&T faces two main challenges: a slow moving business and a significant debt load. If it can overcome these obstacles the valuation multiple could expand. Total return potential is quite appealing, with a 6.2% starting yield, a moderate 3% expected growth rate and the potential for a 5.5% annualized improvement in valuation, adding up to a 14.7% prospective gains. Even modest improvement from this point has the potential to generate substantial shareholder returns. We acknowledge the risks in the business, especially as it relates to the transition away from legacy businesses, but we believe the current value proposition more than makes up for this. We continue to award the security with a buy rating.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst is long the security discussed in this research report.



AT&T Inc. (T)

Updated July 24th, 2019 by Eli Inkrot

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue (\$B)	122.5	124.3	126.7	127.4	128.8	132.4	146.8	163.8	160.5	170.8
Gross Profit	71942	74023	71819	72206	77561	72302	79755	86596	82736	91337
Gross Margin	58.7%	59.6%	56.7%	56.7%	60.2%	54.6%	54.3%	52.9%	51.5%	53.5%
SG&A Exp.	31427	34986	41314	41066	28414	39697	32919	36845	35465	36765
D&A Exp.	N/A	19379	18377	18143	18395	18273	22016	25847	24387	28430
Operating Profit	21000	19658	12128	12997	30752	14332	24820	23904	22884	26142
Op. Margin	17.1%	15.8%	9.6%	10.2%	23.9%	10.8%	16.9%	14.6%	14.3%	15.3%
Net Profit	12138	19085	3944	7264	18418	6442	13345	12976	29450	19370
Net Margin	9.9%	15.4%	3.1%	5.7%	14.3%	4.9%	9.1%	7.9%	18.3%	11.3%
Free Cash Flow	17111	15692	14633	19711	13852	10139	16662	16926	17363	22844
Income Tax	6091	-1162	2532	2900	9328	3619	7005	6479	-14.7B	4920

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	268.3	269.4	270.4	272.3	277.8	296.8	402.7	403.8	444.1	531.9
Cash & Equivalents	3741	1437	3045	4868	3339	8603	5121	5788	50498	5204
Acc. Receivable	14845	13610	13231	12657	12918	14527	16532	16794	16522	26472
Goodwill/Int. (\$B)	134.4	134.1	130.2	128.5	131.5	136.7	225.3	222.1	219.7	310.2
Total Liab. (\$B)	166.3	157.4	164.6	179.6	186.3	206.6	279.0	279.7	302.1	338.0
Accounts Payable	21260	7437	10485	12076	11561	14984	21047	22027	24439	27018
LT Debt (\$B)	76.3	66.2	64.8	69.8	74.8	81.8	126.2	123.5	164.3	176.5
Total Equity (\$B)	101.6	111.6	105.5	92.4	91.0	89.7	122.7	123.1	140.9	184.1
D/E Ratio	0.75	0.59	0.61	0.76	0.82	0.91	1.03	1.00	1.17	0.96

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.5%	7.1%	1.5%	2.7%	6.7%	2.2%	3.8%	3.2%	6.9%	4.0%
Return on Equity	12.3%	17.9%	3.6%	7.3%	20.1%	7.1%	12.6%	10.6%	22.3%	11.9%
ROIC	6.9%	10.7%	2.3%	4.4%	11.2%	3.8%	6.3%	5.2%	10.6%	5.7%
Shares Out.	5,902	5,911	5,927	5,581	5,226	5,187	6,145	6,139	6,139	7,282
Revenue/Share	20.68	20.93	21.30	21.89	23.91	25.37	26.00	26.46	25.97	25.09
FCF/Share	2.89	2.64	2.46	3.39	2.57	1.94	2.95	2.73	2.81	3.36

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.