Verizon Communications (VZ)

Updated October 25th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$60	**5 Year CAGR Estimate:**	9.6%	**Volatility Percentile:**	28.5%
Fair Value Price:	$67	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	48.5%
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.3%	**Growth Percentile:**	27.8%
Dividend Yield:	4.1%	**5 Year Price Target**	$82	**Valuation Percentile:**	81.6%
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Total Return Percentile:**	73.7%

Overview & Current Events

Verizon Communications was created by a merger between Bell Atlantic Corp and GTE Corp in June 2000. Verizon is one of the largest wireless carriers in the country. Wireless contributes three-quarters of all revenues, and broadband and cable services 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 capitalization of nearly $250 billion, with annual sales of $131 billion.

Verizon has now launched 5G Ultra-Wideband in several cities as it continues its rollout of 5G service. At the end of July, customers in parts of Atlanta, Detroit, Indianapolis and Washington, D.C. were able to access the company's 5G network. 5G service for Dallas and Omaha was activated on 10/25/2019. Verizon is the first of the major carriers to turn on 5G service, which it plans to bring to 30 cities by year end.

Verizon reported financial results for the third quarter on 10/25/2019. The company earned $1.25 per share, beating estimates by $0.01 and growing 2.5% from the same quarter a year ago. Revenue improved 0.9% to $32.9 billion, which was $152 million above estimates.

Wireless revenue grew 2.6% to $23.6 billion, with service revenue growing 2.7%. Postpaid smartphone net adds came to 615K for the quarter, more than doubling the result for Q3 2018. postpaid phone adds totaled 444K. Phone gross adds was 10.2%. Retail postpaid phone churn was 0.82% as Verizon continues to be near the top of its industry in phone churn. Wireline revenue declined 4% to $7.1 billion. Fios revenue grew 2.3% and had 36K net adds.

Verizon maintains its expectations for earnings-per-share for the year to increase at a low-single-digit rate from 2018 versus previous guidance of no growth. Revenues for the year are still expected to grow at a low-single-digit rate.

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	***$4.80***	***$5.84***
DPS	$1.87	$1.93	$1.96	$2.02	$2.08	$2.16	$2.23	$2.29	$2.32	$2.37	***$2.41***	***$2.72***
Shares[1]	2836	2828	2836	2858	4141	4155	4073	4077	4080	4050	***4025***	***3950***

Verizon has seen its earnings-per-share grow at a rate of almost 5% per year for the past 10 years. We have lowered our forward growth rate to 4% from 5% due to the company's guidance of low-single-digit earnings growth. 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 our expected earnings growth rate to the company's guidance for 2019 means that shares of Verizon could earn $5.84 per share by 2024.

Verizon increased its dividend 2.1% for the upcoming 11/1/2019 payment. We have reduced our expectations for annual dividend increases to 2% from 4% given the company's history of low-single-digit growth.

[1] Share count in millions

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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	***12.5***	***14.0***
Avg. Yld.	6.1%	6.3%	5.3%	4.8%	4.3%	4.4%	4.7%	4.5%	4.8%	4.1%	***4.1%***	***3.3%***

Shares of Verizon have increased $5, or 11%, since our 8/6/2019 update. Based off the current share price and expectations for 2019 earnings-per-share, Verizon has a forward P/E of 12.5. This is below the average P/E of 14 for the past decade. If shares were to return to this ratio by 2024, the valuation would be a 2.3% tailwind to total annual returns over this time. With a dividend yield above 4%, Verizon's stock offers investors a yield that is more than double that of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	78%	87%	91%	87%	52%	65%	56%	59%	61%	50%	***51%***	***47%***

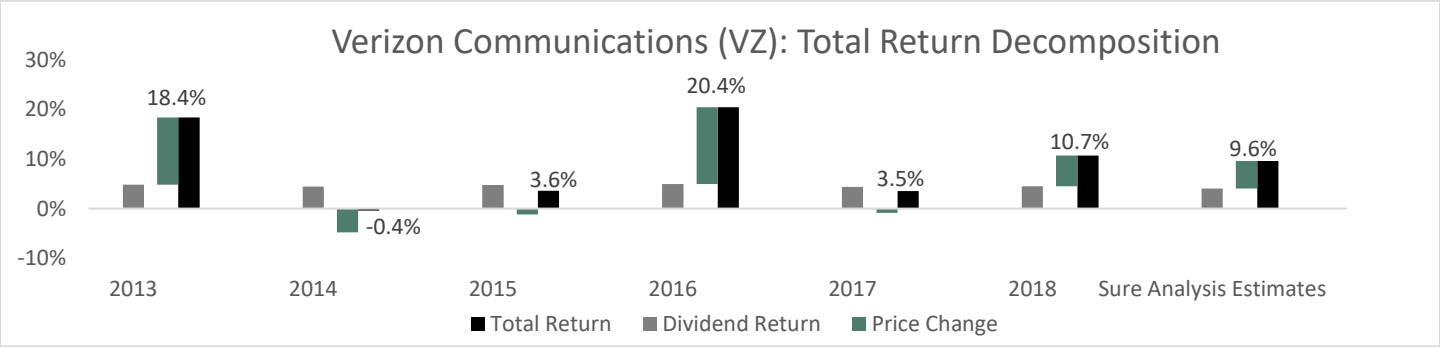
While investors aren't likely to see a sizeable pickup in earnings growth, Verizon offers a very high and stable dividend yield. The company has seen its cash flow increase dramatically thanks to a lower tax rate. While the current net debt level is still high, it has been reduced recently.

One of Verizon's key competitive advantages is that 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. This reliable service allows Verizon to maintain its customer base as well as give the company an opportunity to move customers to higher-priced plans. Verizon is also in the early stages of rolling out 5G service, which will give it an advantage over other carriers. Another advantage for Verizon is the stock's ability to withstand a downturn in the market. For example, the stock weathered the selloff in late 2018 very well, gaining almost 7% for the year while the S&P 500 dropped 6%.

Final Thoughts & Recommendation

Verizon Communication is expected to offer a total annual return of 9.6% through 2024, down from our previous estimate of 12.3%. Verizon had a solid quarter. The company saw a high level of gross phone adds in the quarter and continues to see strength in service revenue. While wireline revenue was down overall, Fios revenue increased sequentially. Verizon also continues to rollout 5G service to major cities across the country. As first to market with 5G service, the company stands to benefit from consumers looking to access this network. Shares are up double-digits since our last report, but we continue to find that Verizon offers a good combination of earnings growth, dividend yield and potential multiple expansion. Verizon continues to receive a buy recommendation from Sure Dividend and we reaffirm our 2024 target price of $82.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue ($B)	107.8	106.6	110.9	115.8	120.6	127.1	131.6	126.0	126.0	130.9
Gross Profit	63229	62416	65000	69571	75663	77148	79063	73279	72971	75355
Gross Margin	58.6%	58.6%	58.6%	60.1%	62.8%	60.7%	60.1%	58.2%	57.9%	57.6%
SG&A Exp.	30717	31366	35624	39951	27089	41016	29986	27095	26818	31083
D&A Exp.	16534	16405	16496	16460	16606	16533	16017	15928	16954	17403
Operating Profit	15978	14645	12880	13160	31968	19599	33060	30256	29199	26869
Op. Margin	14.8%	13.7%	11.6%	11.4%	26.5%	15.4%	25.1%	24.0%	23.2%	20.5%
Net Profit	4894	2549	2404	875	11497	9625	17879	13127	30101	15528
Net Margin	4.5%	2.4%	2.2%	0.8%	9.5%	7.6%	13.6%	10.4%	23.9%	11.9%
Free Cash Flow	14518	16119	13315	11013	21634	13086	11310	4096	6488	16252
Income Tax	1919	2467	285	-660	5730	3314	9865	7378	-9956	3584

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	226.9	220.0	230.5	225.2	274.1	232.6	244.2	244.2	257.1	264.8
Cash & Equivalents	2009	6668	13362	3093	53528	10598	4470	2880	2079	2745
Acc. Receivable	12573	11781	11776	12576	12439	13993	13457	17513	23493	25102
Inventories	1426	1131	940	1075	1020	1153	1252	1202	1034	1336
Goodwill/Int. ($B)	101.3	100.8	102.5	107.8	106.2	105.7	119.5	122.8	127.8	128.5
Total Liab. ($B)	142.8	133.1	144.6	139.7	178.7	218.9	226.3	220.1	212.5	210.1
Accounts Payable	4337	3936	4194	4454	4954	5598	5700	7084	7063	7232
LT Debt ($B)	62.3	52.8	55.2	52.0	93.6	113.3	109.7	108.1	117.1	113.1
Total Equity	41382	38569	35970	33157	38836	12298	16428	22524	43096	53145
D/E Ratio	1.50	1.37	1.53	1.57	2.41	9.21	6.68	4.80	2.72	2.13

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.3%	1.1%	1.1%	0.4%	4.6%	3.8%	7.5%	5.4%	12.0%	5.9%
Return on Equity	11.8%	6.4%	6.5%	2.5%	31.9%	37.6%	125%	67.4%	91.7%	32.3%
ROIC	3.5%	1.8%	1.7%	0.6%	7.0%	6.1%	14.0%	10.1%	20.5%	9.4%
Shares Out.	2841	2833	2839	2862	2874	3981	4093	4086	4089	4132
Revenue/Share	37.95	37.62	39.05	40.48	41.95	31.92	32.16	30.83	30.82	31.67
FCF/Share	5.11	5.69	4.69	3.85	7.53	3.29	2.76	1.00	1.59	3.93

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

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