



# Verizon Communications (VZ)

Updated July 24<sup>th</sup>, 2020 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$57	<b>5 Year CAGR Estimate:</b>	9.4%	<b>Market Cap:</b>	\$233 billion
<b>Fair Value Price:</b>	\$63	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	7/9/2020
<b>% Fair Value:</b>	91%	<b>5 Year Valuation Multiple Estimate:</b>	1.9%	<b>Dividend Payment Date:</b>	8/3/2020
<b>Dividend Yield:</b>	4.3%	<b>5 Year Price Target</b>	\$76	<b>Years Of Dividend Growth:</b>	15
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	2.1%

## 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 ~300 million people and 98% of the U.S. Verizon has now launched 5G Ultra-Wideband in several cities as it continues its rollout of 5G service. At the end of July 2019, 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.

Verizon reported earnings results for the second quarter on 7/24/2020. Revenue decreased 5.3% to \$30.4 billion, but topped estimates by \$420 million. Adjusted earnings-per-share declined \$0.05, or 4.1%, to \$1.18, but was \$0.03 ahead of estimates. Wireless revenue was down 1.7% to \$15.9 billion. Total retail postpaid net additions were 352K, including 287K postpaid smart phone net additions. At just 0.78%, retail postpaid churn remains very low. Consumer sales were down 4%, but this segment had net additions of 72K. Fios, which has struggled recently, had 10K net additions during the quarter. Media sales, however, were down 24% to \$1.4 billion. Business revenues were down 3.7%, but added a net 280K postpaid net additions. Verizon reiterates its belief that the company will have adjusted earnings-per-share growth in a range of -2% to 2% for 2020.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$2.21	\$2.15	\$2.32	\$4.00	\$3.35	\$3.99	\$3.87	\$3.75	\$4.71	\$4.81	<b>\$4.81</b>	<b>\$5.85</b>
<b>DPS</b>	\$1.93	\$1.96	\$2.02	\$2.08	\$2.16	\$2.23	\$2.29	\$2.32	\$2.37	\$2.46	<b>\$2.46</b>	<b>\$2.72</b>
<b>Shares<sup>1</sup></b>	2828	2836	2858	4141	4155	4073	4077	4080	4050	4025	<b>4141</b>	<b>3950</b>

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. Free cash flow generation remains sizable, with Verizon generating around \$10 billion annually. The company's effective tax rate should be ~24% in 2020. Applying our expected earnings growth rate to the company's guidance for 2020 means that shares of Verizon could earn \$5.85 per share by 2025.

Verizon increased its dividend 2.1% for the 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.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
<b>Avg. P/E</b>	13.8	17.1	18.1	12.2	14.5	11.8	13.3	12.3	13.1	12.8	<b>11.9</b>	<b>13.0</b>
<b>Avg. Yld.</b>	6.3%	5.3%	4.8%	4.3%	4.4%	4.7%	4.5%	4.8%	4.1%	4.0%	<b>4.3%</b>	<b>3.6%</b>

<sup>1</sup> Share count in millions

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



# Verizon Communications (VZ)

Updated July 24<sup>th</sup>, 2020 by Nathan Parsh

Shares of Verizon are flat since our 4/24/2020 update. Based off of the current share price and expectations for 2020 adjusted earnings-per-share, Verizon has a forward P/E of 11.9. We have reaffirmed our target P/E ratio of 13 due to low growth projections. If shares were to return to this ratio by 2025, the valuation could add 1.9% to total annual returns over this period of 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	87%	91%	87%	52%	65%	56%	59%	61%	50%	51%	<b>51%</b>	<b>46%</b>

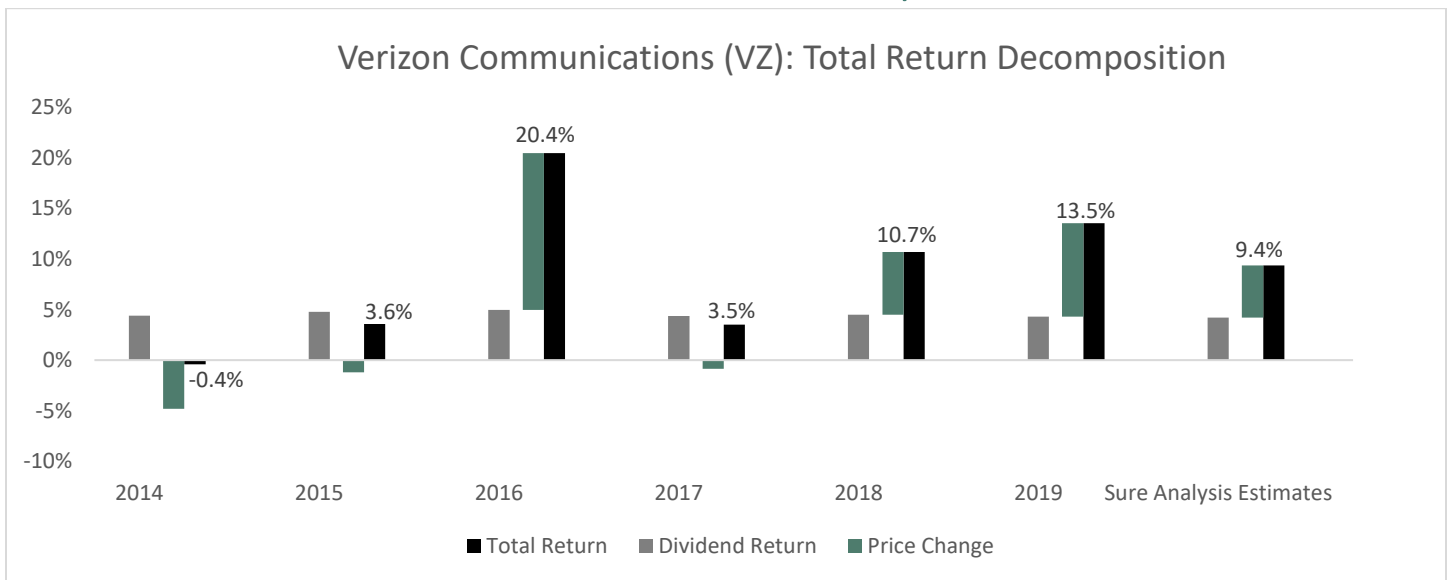
While investors aren't likely to see a sizeable pickup in earnings growth, Verizon offers a very high and stable dividend yield. The company has seen its cash flow increase dramatically thanks to a lower tax rate. While the current net debt level is still high, it has been reduced recently.

One of Verizon's key competitive advantages is that it is often considered the best wireless carrier in the U.S. This is evidenced 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

Following second quarter earnings results, Verizon Communications is projected to return 9.4% annually through 2025, matching our previous estimate. The ongoing COVID-19 pandemic did result in store closures during the second quarter, but the company's financials held up decently well. This should serve as a reminder that Verizon is very much a defensive company. Verizon did see positive net additions despite store closures and the company's churn rate remains very low. We maintain our 2025 price target of \$76 as well as our buy rating on the stock. Verizon is an excellent addition to any conservative portfolio.

## Total Return Breakdown by Year



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

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



# Verizon Communications (VZ)

Updated July 24<sup>th</sup>, 2020 by Nathan Parsh

## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue (\$B)</b>	106,565	110,875	115,846	120,550	127,079	131,620	125,980	126,034	130,863	131,868
<b>Gross Profit</b>	62,416	65,000	69,571	75,663	77,148	79,063	73,279	72,971	75,355	77,142
<b>Gross Margin</b>	58.6%	58.6%	60.1%	62.8%	60.7%	60.1%	58.2%	57.9%	57.6%	58.5%
<b>SG&amp;A Exp.</b>	31,366	35,624	39,951	27,089	41,016	29,986	27,095	26,818	31,083	29,896
<b>D&amp;A Exp.</b>	16,405	16,496	16,460	16,606	16,533	16,017	15,928	16,954	17,403	16,682
<b>Op. Profit</b>	14,645	12,880	13,160	31,968	19,599	33,060	30,256	29,199	26,869	30,564
<b>Op. Margin</b>	13.7%	11.6%	11.4%	26.5%	15.4%	25.1%	24.0%	23.2%	20.5%	23.2%
<b>Net Profit</b>	2,549	2,404	875	11,497	9,625	17,879	13,127	30,101	15,528	19,265
<b>Net Margin</b>	2.4%	2.2%	0.8%	9.5%	7.6%	13.6%	10.4%	23.9%	11.9%	14.6%
<b>Free Cash Flow</b>	16,119	13,315	11,013	21,634	13,086	11,310	4,096	6,488	16,252	16,909
<b>Income Tax</b>	2,467	285	(660)	5,730	3,314	9,865	7,378	(9,956)	3,584	2,945

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets (\$B)</b>	220,005	230,461	225,222	274,098	232,616	244,175	244,180	257,143	264,829	291,727
<b>Cash &amp; Equiv</b>	6,668	13,362	3,093	53,528	10,598	4,470	2,880	2,079	2,745	2,594
<b>Acc. Receivable</b>	11,781	11,776	12,576	12,439	13,993	13,457	17,513	23,493	25,102	25,429
<b>Inventories</b>	1,131	940	1,075	1,020	1,153	1,252	1,202	1,034	1,336	1,422
<b>Goodwill (\$B)</b>	100,814	102,485	107,816	106,181	105,708	119,498	122,775	127,836	128,519	128,946
<b>Total Liab. (\$B)</b>	133,093	144,553	139,689	178,682	218,940	226,333	220,148	212,456	210,119	228,892
<b>Accts Payable</b>	3,936	4,194	4,454	4,954	5,598	5,700	7,084	7,063	7,232	
<b>LT Debt (\$B)</b>	52,794	55,152	51,987	93,591	113,271	109,729	108,078	117,095	113,063	111,489
<b>Total Equity</b>	38,569	35,970	33,157	38,836	12,298	16,428	22,524	43,096	53,145	61,395
<b>D/E Ratio</b>	1.37	1.53	1.57	2.41	9.21	6.68	4.80	2.72	2.13	1.82

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	1.1%	1.1%	0.4%	4.6%	3.8%	7.5%	5.4%	12.0%	5.9%	6.9%
<b>Return on Equity</b>	6.4%	6.5%	2.5%	31.9%	37.6%	124.5%	67.4%	91.7%	32.3%	33.6%
<b>ROIC</b>	1.8%	1.7%	0.6%	7.0%	6.1%	14.0%	10.1%	20.5%	9.4%	11.3%
<b>Shares Out.</b>	2828	2836	2858	4141	4155	4073	4077	4080	4050	4025
<b>Revenue/Share</b>	37.62	39.05	40.48	41.95	31.92	32.16	30.83	30.82	31.67	31.85
<b>FCF/Share</b>	5.69	4.69	3.85	7.53	3.29	2.76	1.00	1.59	3.93	4.08

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.