



Verizon Communications (VZ)

Updated October 21st, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$57	5 Year CAGR Estimate:	9.6%	Market Cap:	\$236.7 billion
Fair Value Price:	\$63	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	10/8/2020
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date:	11/2/2020
Dividend Yield:	4.4%	5 Year Price Target	\$77	Years Of Dividend Growth:	16
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	2.0%

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 released earnings results for the third quarter on 10/21/2020. Revenue fell 4.1% to \$31.5 billion, missing estimates by \$100 million. Adjusted earnings-per-share of \$1.25 matched last year's result, but was \$0.03 higher than expected.

Verizon had a total of 553K retail postpaid net additions, including 428K postpaid smartphone net additions, compared to estimates of 311K postpaid net additions. Churn remains very low. Wireless retail postpaid churn was 0.89% while retail postpaid phone churn was 0.69%. Consumer revenue decreased 4.3% to \$21.7 billion due to a severe decline in wireless equipment revenue as a result of lower customer activity. Wireless service revenue increased 0.7% to \$13.4 billion. This segment benefited from a low churn rate as well as 139K Fios Internet net additions, the company's best since the fourth quarter of 2014. Business revenue declined 1.7% to \$7.7 billion as demand from education providers and state and local government agencies was robust. Business wireless service revenues increased almost 5% to \$3 billion. Revenues for the Media segment decreased 7.4% to \$1.7 billion. Compared to the second quarter of the year, revenues actually increased more than 21%. COVID-19 has impacted search and advertising revenue, but Verizon noted that this segment continues to see increased customer engagement on its digital properties. Cash flow from operations through the end of the third quarter was \$32.5 billion, an improvement of \$5.7 billion compared to the previous year. Verizon now expects adjusted EPS growth of 0 to 2% compared to its previous forecast of down 2% to up 2%. We have raised our adjusted EPS estimate to \$4.86 from \$4.81 to reflect the new midpoint of guidance.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.21	\$2.15	\$2.32	\$4.00	\$3.35	\$3.99	\$3.87	\$3.75	\$4.71	\$4.81	\$4.86	\$5.91
DPS	\$1.93	\$1.96	\$2.02	\$2.08	\$2.16	\$2.23	\$2.29	\$2.32	\$2.37	\$2.46	\$2.51	\$2.77
Shares¹	2828	2836	2858	4141	4155	4073	4077	4080	4050	4025	4141	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. Free cash flow generation remains sizable, with Verizon generating around \$10 billion annually. The company's effective tax rate should be ~24% in 2020.

¹ Share count in millions

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



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Applying our expected earnings growth rate to the company's guidance for 2020 means that shares of Verizon could earn \$5.91 per share by 2025.

Verizon increased its dividend 2% for the 11/2/2020 payment.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	13.8	17.1	18.1	12.2	14.5	11.8	13.3	12.3	13.1	12.8	11.7	13.0
Avg. Yld.	6.3%	5.3%	4.8%	4.3%	4.4%	4.7%	4.5%	4.8%	4.1%	4.0%	4.4%	3.6%

Shares of Verizon are once again flat since our 7/24/2020 update. Based off of the current share price and revised expectations for 2020 adjusted earnings-per-share, Verizon has a forward P/E of 11.7. 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 2.1% 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%	52%	47%

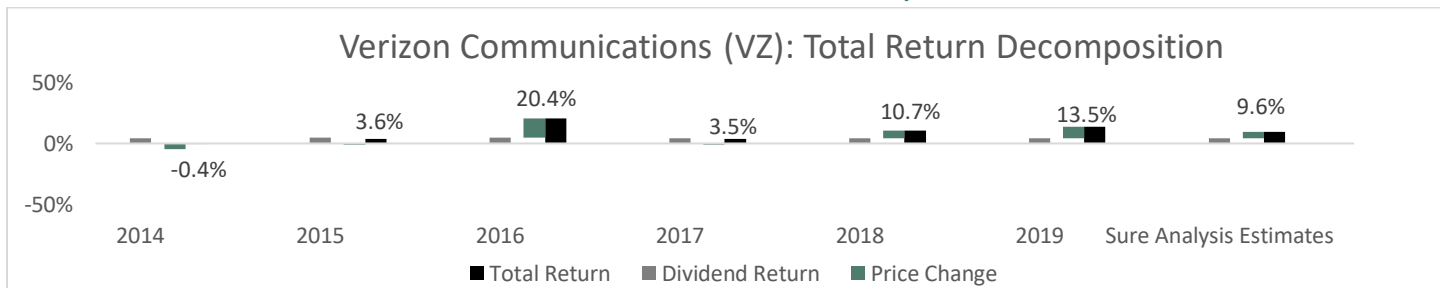
While investors aren't likely to see a sizeable pickup in earnings growth, Verizon offers a very high and stable dividend yield. The company has seen its cash flow increase dramatically thanks to a lower tax rate. While the current net debt level is still high, it has been reduced recently.

One of Verizon's key competitive advantages is that 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

After reviewing third quarter earnings results, Verizon Communications is projected to return 9.6% annually through 2025, up from our prior estimate of 9.4%. COVID-19 played a role in the company's results, especially when it came to wireless equipment. The company did see areas of strength, including churn rate, retail postpaid net additions and Fios additions. The company now expects EPS to grow slightly compared to the previous year. We have raised our 2025 price target \$1 to \$77 due to revised expectations for this year and reaffirm our buy rating on the stock. We continue to believe that conservative investors should consider adding the name to their portfolio; Verizon is a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue (\$B)	106,565	110,875	115,846	120,550	127,079	131,620	125,980	126,034	130,863	131,868
Gross Profit	62,416	65,000	69,571	75,663	77,148	79,063	73,279	72,971	75,355	77,142
Gross Margin	58.6%	58.6%	60.1%	62.8%	60.7%	60.1%	58.2%	57.9%	57.6%	58.5%
SG&A Exp.	31,366	35,624	39,951	27,089	41,016	29,986	27,095	26,818	31,083	29,896
D&A Exp.	16,405	16,496	16,460	16,606	16,533	16,017	15,928	16,954	17,403	16,682
Op. Profit	14,645	12,880	13,160	31,968	19,599	33,060	30,256	29,199	26,869	30,564
Op. Margin	13.7%	11.6%	11.4%	26.5%	15.4%	25.1%	24.0%	23.2%	20.5%	23.2%
Net Profit	2,549	2,404	875	11,497	9,625	17,879	13,127	30,101	15,528	19,265
Net Margin	2.4%	2.2%	0.8%	9.5%	7.6%	13.6%	10.4%	23.9%	11.9%	14.6%
Free Cash Flow	16,119	13,315	11,013	21,634	13,086	11,310	4,096	6,488	16,252	16,909
Income Tax	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
Total Assets (\$B)	220,005	230,461	225,222	274,098	232,616	244,175	244,180	257,143	264,829	291,727
Cash & Equiv	6,668	13,362	3,093	53,528	10,598	4,470	2,880	2,079	2,745	2,594
Acc. Receivable	11,781	11,776	12,576	12,439	13,993	13,457	17,513	23,493	25,102	25,429
Inventories	1,131	940	1,075	1,020	1,153	1,252	1,202	1,034	1,336	1,422
Goodwill (\$B)	100,814	102,485	107,816	106,181	105,708	119,498	122,775	127,836	128,519	128,946
Total Liab. (\$B)	133,093	144,553	139,689	178,682	218,940	226,333	220,148	212,456	210,119	228,892
Accts Payable	3,936	4,194	4,454	4,954	5,598	5,700	7,084	7,063	7,232	
LT Debt (\$B)	52,794	55,152	51,987	93,591	113,271	109,729	108,078	117,095	113,063	111,489
Total Equity	38,569	35,970	33,157	38,836	12,298	16,428	22,524	43,096	53,145	61,395
D/E Ratio	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
Return on Assets	1.1%	1.1%	0.4%	4.6%	3.8%	7.5%	5.4%	12.0%	5.9%	6.9%
Return on Equity	6.4%	6.5%	2.5%	31.9%	37.6%	124.5%	67.4%	91.7%	32.3%	33.6%
ROIC	1.8%	1.7%	0.6%	7.0%	6.1%	14.0%	10.1%	20.5%	9.4%	11.3%
Shares Out.	2828	2836	2858	4141	4155	4073	4077	4080	4050	4025
Revenue/Share	37.62	39.05	40.48	41.95	31.92	32.16	30.83	30.82	31.67	31.85
FCF/Share	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.

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