



AT&T Inc. (T)

Updated April 22nd, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$31	5 Year CAGR Estimate:	10.5%	Market Cap:	\$224 B
Fair Value Price:	\$35	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	04/08/21
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Dividend Payment Date:	05/03/21
Dividend Yield:	6.6%	5 Year Price Target	\$41	Years Of Dividend Growth:	36
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	2.0%

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 three business units: AT&T Communications (providing mobile, broadband and video to more than 100 million U.S. consumers and nearly 3 million businesses), WarnerMedia (including Turner, HBO, Warner Bros. and Xandr) and AT&T Latin America (offering pay-TV and wireless service to 10 countries). The \$224 billion company generated \$172 billion in revenue in 2020.

On April 22nd, 2021 AT&T reported Q1 2021 results for the period ending March 31st, 2021. For the quarter the company generated \$43.9 billion in revenue, up 2.7% from \$42.8 billion in Q1 2020, as higher mobility and WarnerMedia revenue more than offset declines in domestic video, business wireline and Latin America. Reported net income equaled \$7.5 billion or \$1.04 per share. On an adjusted basis, earnings-per-share equaled \$0.86 compared to \$0.84 in the year ago quarter. AT&T ended the quarter with a net debt-to-EBITDA ratio of 3.1x.

AT&T also updated its full year 2021 outlook, continuing to expect 1% revenue growth, adjusted earnings-per-share to be stable with 2020 and a dividend payout ratio in the high-50% range.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.20	\$2.33	\$2.50	\$2.50	\$2.69	\$2.84	\$3.05	\$3.52	\$3.58	\$3.18	\$3.20	\$3.71
DPS	\$1.72	\$1.76	\$1.80	\$1.84	\$1.88	\$1.92	\$1.96	\$2.00	\$2.04	\$2.08	\$2.08	\$2.28
Shares¹	5,927	5,581	5,226	5,187	6,145	6,139	6,139	7,282	7,255	7,126	7,125	7,125

AT&T is a colossal business, easily generating profits of \$20+ billion annually, but it is not a fast grower. From 2007 through 2019 AT&T grew earnings-per-share by 2.2% per annum, with 2020 being a down year. While the company has some growth opportunities due to recent acquisitions, we are cognizant of both the premiums paid and the fact that the company's legacy businesses are steady or declining. AT&T is optimistic about generating reasonable growth and the payout ratio had been falling, resulting in excess funds to divert toward paying down debt. Moreover, after the debt is under control, management has indicated the potential for share repurchases down the line. However, share buybacks were suspended in 2020 and we are cautious on this front.

While Q1 2021 results were strong, we are still using \$3.20 in expected earnings for 2021 – in line with management's guidance – to go along with a 3% annual anticipated growth rate. We are encouraged by the company's resilience, but we are not expecting terrific growth from this point.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	13.4	14.5	14.2	13.8	12.6	13.8	12.7	9.5	9.5	9.8	9.8	11.0
Avg. Yld.	5.8%	5.2%	5.1%	5.3%	5.6%	4.9%	5.1%	6.0%	6.0%	6.7%	6.6%	5.6%

¹ In millions.

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



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During the past decade shares of AT&T have traded with an average P/E ratio of about 12 times earnings. We believe 11 times earnings is a fair baseline, given that new growth prospects are not yet proven, the dividend is robust, and the payout ratio is getting better. At the current valuation, there is the potential for a moderate uptick in valuation.

AT&T has a record of not only paying but also increasing its dividend for 36 consecutive years. Granted this payment has only been increasing by 4 cents annually since 2009, 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	78%	76%	72%	74%	70%	68%	64%	57%	57%	65%	65%	61%

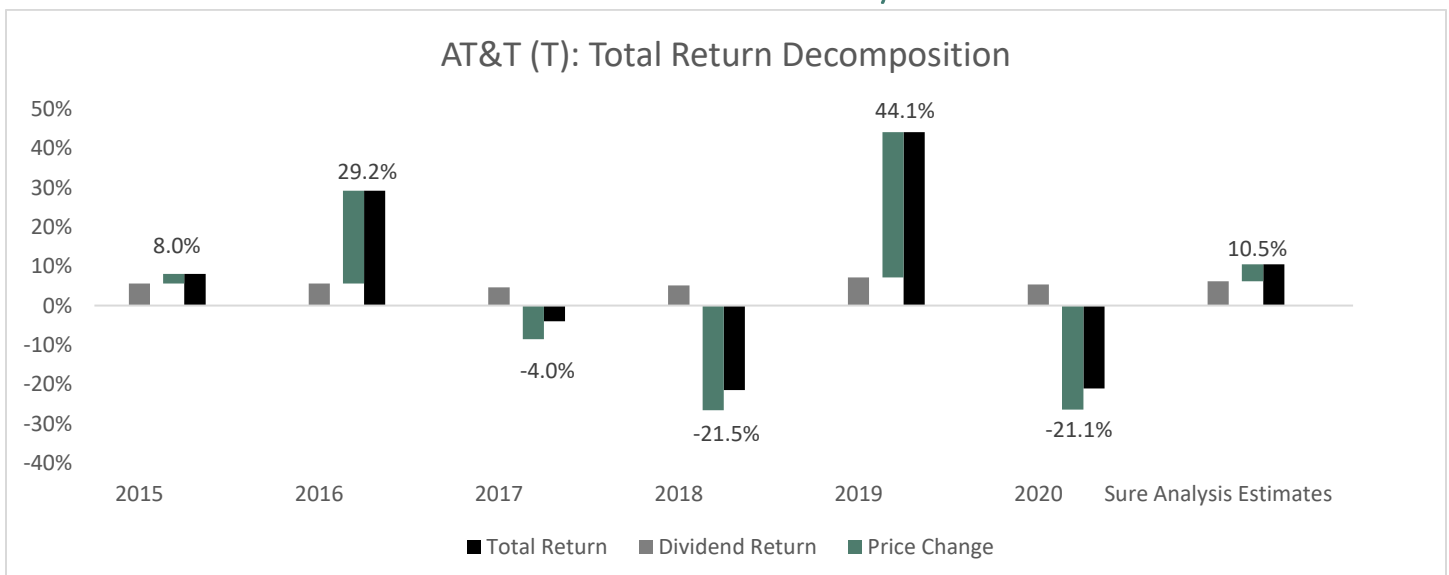
AT&T has a competitive advantage with its entrenched position in various important industries. Although this position could be eroding due to technological change, it remains that customers and businesses have more than 225 million subscriptions to AT&T's services. The debt is an ongoing sticking point. 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. At the end of 2018, 2019 and 2020 this figure was 2.8x, 2.5x and 2.7x respectively.

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. Some bemoan the slow rate of dividend growth - AT&T has now declared the same dividend for six quarters - but we believe this approach is prudent given the company's current financial position.

Final Thoughts & Recommendation

After being up 7% in our last report, shares are up another 5% in the last three months. 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 appealing, with a 6.6% starting yield, a 3% expected growth rate and the potential for a moderate improvement in valuation, adding up to a 10.5% prospective annual gain. 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 makes up for a lot of this. We continue rate shares as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	126.7	127.4	128.8	132.4	146.8	163.8	160.5	170.8	181.2	171.8
Gross Profit	71819	72206	77561	72302	79755	86596	82736	91337	97052	91840
Gross Margin	56.7%	56.7%	60.2%	54.6%	54.3%	52.9%	51.5%	53.5%	53.6%	53.5%
SG&A Exp.	41314	41066	28414	39697	32919	36845	35465	36765	39422	38040
D&A Exp.	18377	18143	18395	18273	22016	25847	24387	28430	28217	28520
Operating Profit	12128	12997	30752	14332	24820	23904	22884	26142	29413	25280
Op. Margin	9.6%	10.2%	23.9%	10.8%	16.9%	14.6%	14.3%	15.3%	16.2%	14.7%
Net Profit	3944	7264	18418	6442	13345	12976	29450	19370	13903	-5176
Net Margin	3.1%	5.7%	14.3%	4.9%	9.1%	7.9%	18.3%	11.3%	7.7%	-3.0%
Free Cash Flow	14633	19711	13852	10139	16662	16926	17363	22844	29233	27460
Income Tax	2532	2900	9328	3619	7005	6479	-14.7B	4920	3493	965

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	270.4	272.3	277.8	296.8	402.7	403.8	444.1	531.9	551.7	525.8
Cash & Equivalents	3045	4868	3339	8603	5121	5788	50498	5204	12130	9740
Acc. Receivable	13231	12657	12918	14527	16532	16794	16522	26472	22636	20220
Goodwill/Int. (\$B)	130.2	128.5	131.5	136.7	225.3	222.1	219.7	310.2	303.9	281.6
Total Liab. (\$B)	164.6	179.6	186.3	206.6	279.0	279.7	302.1	338.0	349.7	346.5
Accounts Payable	10485	12076	11561	14984	21047	22027	24439	27018	29640	31840
LT Debt (\$B)	64.8	69.8	74.8	81.8	126.2	123.5	164.3	176.5	161.1	155.2
Total Equity (\$B)	105.5	92.4	91.0	89.7	122.7	123.1	140.9	184.1	184.2	161.7
D/E Ratio	0.61	0.76	0.82	0.91	1.03	1.00	1.17	0.96	0.87	0.96

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.5%	2.7%	6.7%	2.2%	3.8%	3.2%	6.9%	4.0%	2.6%	-1.0%
Return on Equity	3.6%	7.3%	20.1%	7.1%	12.6%	10.6%	22.3%	11.9%	7.5%	-3.0%
ROIC	2.3%	4.4%	11.2%	3.8%	6.3%	5.2%	10.6%	5.7%	3.8%	-1.5%
Shares Out.	5,927	5,581	5,226	5,187	6,145	6,139	6,139	7,282	7,348	7,183
Revenue/Share	21.30	21.89	23.91	25.37	26.00	26.46	25.97	25.09	24.65	23.91
FCF/Share	2.46	3.39	2.57	1.94	2.95	2.73	2.81	3.36	3.98	3.82

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

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