



Verizon Communications (VZ)

Updated April 21st, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	10.1%	Market Cap:	\$242 billion
Fair Value Price:	\$66	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	4/8/2021
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Dividend Payment Date:	5/3/2021
Dividend Yield:	4.3%	5 Year Price Target	\$80	Years Of Dividend Growth:	16
Dividend Risk Score:	B	Retirement Suitability Score:	A	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 reported first quarter earnings results on 4/21/2021. Revenue grew 4.1% to \$32.9 billion, beating expectations by \$440 million. Adjusted earnings-per-share of \$1.31 was a 4% increase from the prior year and \$0.02 ahead of estimates.

The company had postpaid phone net adds of -178K, versus estimates of -41.8K, and wireless postpaid net adds of -170K, versus estimates of 82.1K. Retail postpaid phone churn was flat at 0.77%. Wireless postpaid phone churn was essentially flat at 1.01%. Revenue for the consumer segment grew 4.7% to \$22.8 billion, primarily due to Fios net additions of 98K. This marks Fios' best first quarter for net additions since 2015. Business revenue returned to growth, growing 1.3% to \$7.8 billion due to strong postpaid net additions. Free cash flow improved 44% to \$5.2 billion due to a combination of lower capital expenditures and higher cash flow from operations.

Verizon reaffirmed its guidance for adjusted earnings-per-share of \$5.00 to \$5.15 for the year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.15	\$2.32	\$4.00	\$3.35	\$3.99	\$3.87	\$3.75	\$4.71	\$4.81	\$4.90	\$5.08	\$6.18
DPS	\$1.96	\$2.02	\$2.08	\$2.16	\$2.23	\$2.29	\$2.32	\$2.37	\$2.46	\$2.47	\$2.51	\$2.77
Shares¹	2836	2858	4141	4155	4073	4077	4080	4050	4025	4141	4141	3950

Verizon has seen its earnings-per-share grow at a rate of almost 8.6% 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. Applying our expected earnings growth rate to the company's guidance for 2021 means that shares of Verizon could earn \$6.18 per share by 2026.

Verizon increased its dividend 2% for the 11/2/2020 payment and the company has increased its dividend for 16 consecutive years.

¹ Share count in millions

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



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	17.1	18.1	12.2	14.5	11.8	13.3	12.3	13.1	12.8	11.5	11.4	13.0
Avg. Yld.	5.3%	4.8%	4.3%	4.4%	4.7%	4.5%	4.8%	4.1%	4.0%	4.2%	4.3%	3.4%

Shares of Verizon are higher by \$1, or 1.8%, since our 1/26/2021 update. Based off of the current share price and guidance for 2021 adjusted earnings-per-share, Verizon has a forward P/E of 11.4. We have reaffirmed our target P/E ratio of 13 due to low growth projections. If shares were to return to this ratio by 2026, the valuation could add 2.6% 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	91%	87%	52%	65%	56%	59%	61%	50%	51%	50%	49%	45%

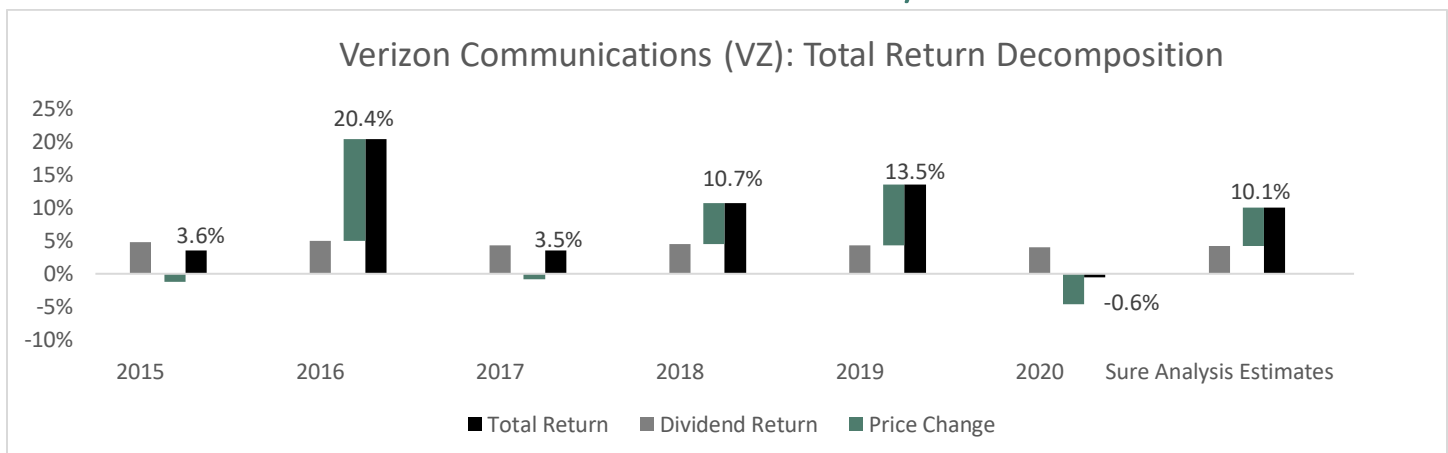
While investors aren't likely to see a sizeable pickup in earnings growth, Verizon offers a very high and stable dividend yield. The company has seen its cash flow increase dramatically thanks to a lower tax rate. While the current net debt level is still high, it has been reduced recently.

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 midst 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.

Final Thoughts & Recommendation

Following first quarter earnings results, Verizon Communications is projected to return 10.1% annually through 2026, down slightly from our prior estimate of 10.4%. Our projected return stems from a 4% earnings growth rate, starting yield of 4.3% and a low single-digit contribution from multiple expansion. Net additions missed estimates, but phone churn remains very low. Verizon also saw its best first quarter for Fios adds in quite some time and all major businesses showed year-over-year growth. Verizon remains one of our favorite income names and we continue to rate shares of the company as a buy due to expected returns.

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)	110,875	115,846	120,550	127,079	131,620	125,980	126,034	130,863	131,868	128,292
Gross Profit	65,000	69,571	75,663	77,148	79,063	73,279	72,971	75,355	77,142	77,091
Gross Margin	58.6%	60.1%	62.8%	60.7%	60.1%	58.2%	57.9%	57.6%	58.5%	60.1%
SG&A Exp.	35,624	39,951	27,089	41,016	29,986	27,095	26,818	31,083	29,896	31,573
D&A Exp.	16,496	16,460	16,606	16,533	16,017	15,928	16,954	17,403	16,682	16,720
Op. Profit	12,880	13,160	31,968	19,599	33,060	30,256	29,199	26,869	30,564	28,798
Op. Margin	11.6%	11.4%	26.5%	15.4%	25.1%	24.0%	23.2%	20.5%	23.2%	22.4%
Net Profit	2,404	875	11,497	9,625	17,879	13,127	30,101	15,528	19,265	17,801
Net Margin	2.2%	0.8%	9.5%	7.6%	13.6%	10.4%	23.9%	11.9%	14.6%	13.9%
Free Cash Flow	13,315	11,013	21,634	13,086	11,310	4,096	6,488	16,252	16,909	21,450
Income Tax	285	(660)	5,730	3,314	9,865	7,378	(9,956)	3,584	2,945	5,619

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	230,461	225,222	274,098	232,616	244,175	244,180	257,143	264,829	291,727	316,481
Cash & Equiv	13,362	3,093	53,528	10,598	4,470	2,880	2,079	2,745	2,594	22,171
Acc. Receivable	11,776	12,576	12,439	13,993	13,457	17,513	23,493	25,102	25,429	23,917
Inventories	940	1,075	1,020	1,153	1,252	1,202	1,034	1,336	1,422	1,796
Goodwill	102,485	107,816	106,181	105,708	119,498	122,775	127,836	128,519	128,946	130,283
Total Liab.	144,553	139,689	178,682	218,940	226,333	220,148	212,456	210,119	228,892	247,209
Accts Payable	4,194	4,454	4,954	5,598	5,700	7,084	7,063	7,232	7,725	6,667
LT Debt	55,152	51,987	93,591	113,271	109,729	108,078	117,095	113,063	111,489	129,062
Total Equity	35,970	33,157	38,836	12,298	16,428	22,524	43,096	53,145	61,395	67,842
D/E Ratio	1.53	1.57	2.41	9.21	6.68	4.80	2.72	2.13	1.82	1.90

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.1%	0.4%	4.6%	3.8%	7.5%	5.4%	12.0%	5.9%	6.9%	5.9%
Return on Equity	6.5%	2.5%	31.9%	37.6%	124.5%	67.4%	91.7%	32.3%	33.6%	27.5%
ROIC	1.7%	0.6%	7.0%	6.1%	14.0%	10.1%	20.5%	9.4%	11.3%	9.6%
Shares Out.	2836	2858	4141	4155	4073	4077	4080	4050	4025	4141
Revenue/Share	39.05	40.48	41.95	31.92	32.16	30.83	30.82	31.67	31.85	30.97
FCF/Share	4.69	3.85	7.53	3.29	2.76	1.00	1.59	3.93	4.08	5.18

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

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