Deutsche Telekom AG (DTEGY)

Updated August 31st, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$22	**5 Year CAGR Estimate:**	3.2%	**Market Cap:**	$103.0 B
Fair Value Price:	$17	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	4/6/2021[1]
% Fair Value:	133%	**5 Year Valuation Multiple Estimate:**	-5.6%	**Dividend Payment Date:**	4/8/2021
Dividend Yield:	3.3%	**5 Year Price Target**	$22	**Years Of Dividend Growth:**	1
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	5.9%

Overview & Current Events

Deutsche Telekom is the largest telecommunications company in Europe and the second-largest telecommunications company in the world. The company operates through the following segments: Germany, United States, Europe, and System Solutions. The German segment provides fixed-network and mobile solutions as well as wholesale telecommunications services. The United States segment includes T-Mobile (Deutsche Telekom owns ~44% of T-Mobile), while Europe encompasses all fixed-network and mobile operations outside Germany. The Systems Solution segment provides information and communication technology systems. Deutsche Telekom has about 238 million mobile customers, 27 million fixed-network lines, and more than 21 million broadband lines. United States investors can initiate an ownership stake in Deutsche Telekom through American Depository Receipts that trade under the ticker DTEGY with a market capitalization of US$103 billion.

On May 19th, 2021, Deutsche Telekom was reported to be in talks to acquire Softbank's remaining 8% stake in T-Mobile to become the majority shareholder in T-Mobile. If this deal materializes, it will cost Deutsche Telekom about $12 billion.

In mid-August, Deutsche Telekom reported (8/12/21) results for the second quarter of fiscal 2021. Net revenue grew 13%, partly thanks to the acquisition of Sprint. Excluding the acquisition, revenue rose 7% and adjusted EBITDA grew 5% thanks to the strong results of T-Mobile, which grew its organic revenue 10% thanks to high service and terminal equipment revenues. As a result, adjusted earnings-per-share grew from €0.27 to €0.45.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$0.92	$0.66	$0.63	$0.79	$0.77	$0.61	$0.89	$1.13	$1.14	$1.06	***$1.10***	***$1.47***
DPS	$0.99	$0.88	$0.93	$0.68	$0.56	$0.63	$0.65	$0.77	$0.78	$0.68	***$0.72***	***$0.76***
Shares[2]	4,321	4,321	4,452	4,476	4,587	4,677	4,762	4,761	4,743	4,743	***4,744***	***4,700***

Deutsche Telekom's earnings growth has been somewhat volatile, partly due to the spinoff of T-Mobile in 2012. Even including the impact of this spinoff, the company grew its earnings-per-share by 5.9% per year during 2010-2019. We believe that this level of growth could continue for the foreseeable future, mostly thanks to continuous growth of T-Mobile. The company has also grown its EBITDA in Germany for 18 consecutive quarters and its EBITDA in the European Union for 13 consecutive quarters. We continue to expect a 6% annual earnings-per-share growth rate beyond this year for this resilient telecommunications giant.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.9	17.2	20.4	20.3	23.1	27.7	20.2	14.6	14.7	15.4	***20.0***	***15.0***
Avg. Yld.	7.2%	7.7%	7.2%	4.2%	3.2%	3.7%	3.6%	4.7%	4.6%	4.2%	***3.3%***	***3.4%***

[1] Annual dividend already paid.

[2] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Deutsche Telekom's price-to-earnings ratio has been volatile over the last decade, ranging from as high as 27.7 to as low as 14.6, with an average value of 18.9. We believe this historical valuation multiple is far too rich for a company like Deutsche Telekom. Given comparable valuations in the domestic telecommunications industry, our target for Deutsche Telekom's fair value is a price-to-earnings ratio of 15. The stock is now trading at an earnings multiple of 20.0. If it reaches our fair value estimate over the next five years, it will incur a -5.6% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

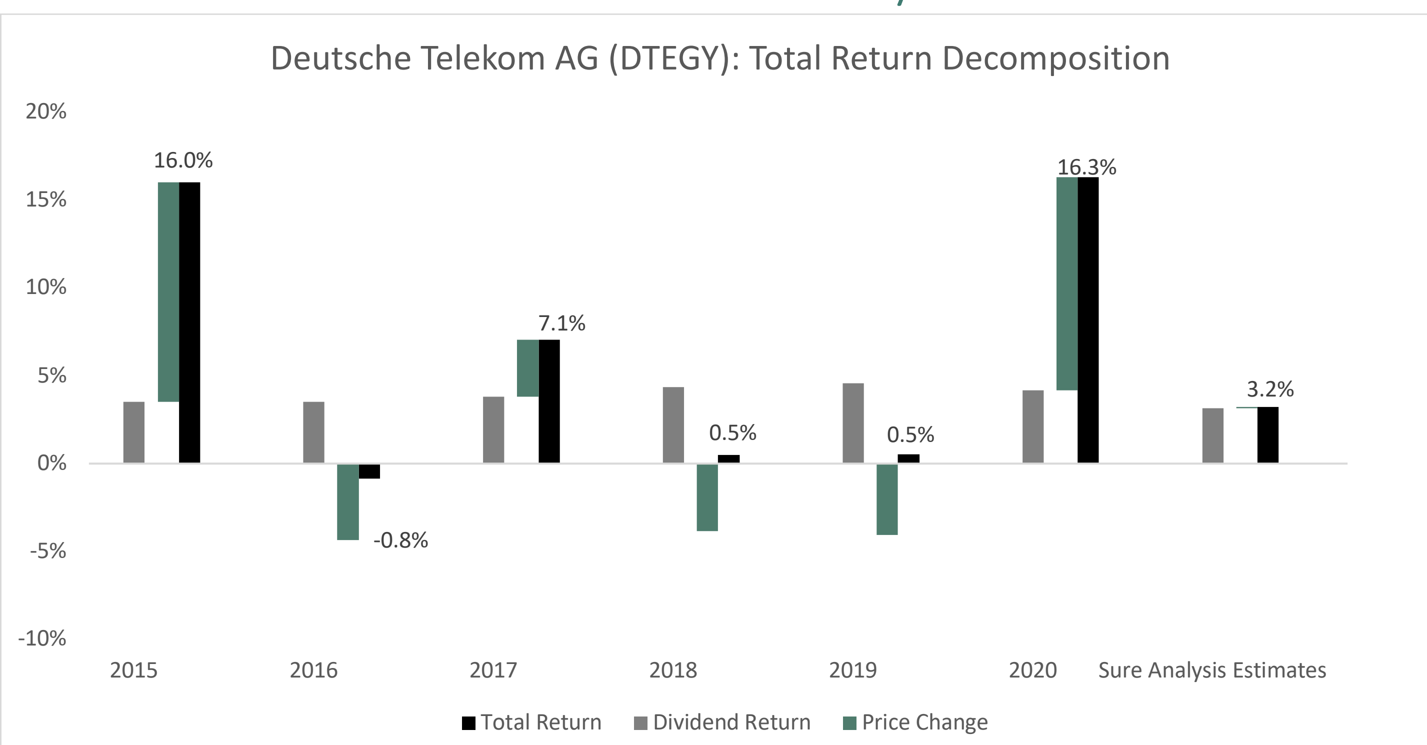
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	108%	133%	148%	86.1%	72.7%	103%	73.0%	68.1%	68.2%	64.2%	***65.5%***	***51.4%***

Deutsche Telekom has undisputed leadership within the European telecommunications market and is investing aggressively to maintain this position. Last year, the company invested €18.7 billion (US$22.4 billion) to build out its telecommunications network. Deutsche Telekom also has an investment-grade BBB+ credit rating from Standard & Poor's, which allows it to raise capital at attractive rates to continue investing in its future.

Final Thoughts & Recommendation

Deutsche Telekom provides exactly what most investors in the telecommunications sector are looking for: stability, cash flow, and a high dividend payout. Moreover, the company's global business model combined with its ~44% ownership of T-Mobile gives it exposure to telecommunications markets worldwide. In addition, the stock has been trading in a narrow range, between $14 and $20, most of the time in the last seven years. Most returns thus usually come from its generous dividend. This feature also makes it easier to hold the stock for the long term, without emotional pressure to sell during market sell-offs. However, the stock has rallied above its historical range this year, to a new all-time high, thanks to its potential takeover of additional stake in T-Mobile. We thus expect the stock to offer a 3.2% average annual return over the next five years and rate it as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	81781	74784	79861	83325	76822	80899	84878	88975	89,767	115,026
Gross Profit	34447	30743	31711	43290	39452	42180	44280	46772	51,133	67,158
Gross Margin	42.1%	41.1%	39.7%	52.0%	51.4%	52.1%	52.2%	52.6%	57.0%	58.4%
SG&A Exp.	26883	24337	24324	314	353	336	399	509	477	716
D&A Exp.	20128	28229	14481	14062	12606	14809	16519	16338	19,774	29,497
Operating Profit	12493	7129	7538	6045	6591	7225	8204	9059	10,925	15,019
Op. Margin	15.3%	9.5%	9.4%	7.3%	8.6%	8.9%	9.7%	10.2%	12.2%	13.1%
Net Profit	750	-6882	1235	3888	3611	2961	3920	2558	4,329	4,749
Net Margin	0.9%	-9.2%	1.5%	4.7%	4.7%	3.7%	4.6%	2.9%	4.8%	4.1%
Free Cash Flow	10887	6615	2588	2060	426	2095	-2603	6443	9759	5,766

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	159	143	163	157	157	157	170	166	191	3256
Cash & Equivalents	4856	5324	11006	9148	7540	8190	3973	4208	6,041	15,914
Acc. Receivable	8493	8353	10467	12479	9573	9704	11461	11425	12,149	16,633
Inventories	1404	1463	1466	1828	2019	1722	2381	2048	1,756	3,315
Goodwill & Int.	65059	55343	63474	62704	62345	64063	75419	74296	76,400	145,218
Total Liab. ($B)	107	102	119	116	116	116	119	117	139	2367
Accounts Payable	8337	8484	9985	11711	12067	10982	13118	12239	10541	11,920
Long-Term Debt	62586	55433	67069	64049	63080	61847	64721	67178	72480	125,896
Total Equity	45856	34290	32974	30932	32143	30980	36872	35355	35517	44,183
D/E Ratio	1.36	1.62	2.03	2.07	1.96	2.00	1.76	1.90	2.04	2.85

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.5%	-4.6%	0.8%	2.4%	2.3%	1.9%	2.4%	1.5%	2.4%	1.8%
Return on Equity	1.6%	-17.2%	3.7%	12.2%	11.4%	9.4%	11.6%	7.1%	12.2%	11.9%
ROIC	0.6%	-6.5%	1.2%	3.6%	3.4%	2.9%	3.6%	2.2%	3.6%	2.8%
Shares Out.	4,321	4,321	4,452	4,476	4,587	4,677	4,762	4,761	4,743	4,763
Revenue/Share	19.02	17.39	18.27	18.62	16.87	17.49	18.05	18.76	18.93	24.25
FCF/Share	2.53	1.54	0.59	0.46	0.09	0.45	-0.55	1.36	2.06	1.22

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