



Verizon Communications (VZ)

Updated October 20th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$54	5 Year CAGR Estimate:	12.8%	Market Cap:	\$215 billion
Fair Value Price:	\$70	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	10/7/2021
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.3%	Dividend Payment Date:	11/1/2021
Dividend Yield:	4.7%	5 Year Price Target	\$85	Years Of Dividend Growth:	17
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. Customers in parts of Atlanta, Dallas, Detroit, Indianapolis, Omaha and Washington, D.C. were able to access the company's 5G network. Verizon is the first of the major carriers to turn on 5G service.

Verizon announced third quarter earnings results on 10/20/2021. Revenue grew 4.4% to \$32.9 billion, but this was \$340 million lower than expected. Adjusted earnings-per-share of \$1.41 was a 13% increase from the prior year and \$0.05 ahead of estimates.

Wireless retail postpaid net adds of 699K topped consensus estimates of 566K. Net phone additions totaled 429K. On a sequential basis, retail postpaid phone churn was higher by 2 basis points to 0.74%. Total retail postpaid phone churn was 0.94%. Revenue for the consumer segment was higher by 7.3% to \$23.53 billion, primarily due to higher rates of 5G-phone adoption and 98K Fios net additions. Business revenue fell 0.8% to \$7.7 billion, but this segment had 276K wireless retail postpaid net additions, including 162K net phone additions.

Verizon again offered revised guidance for the year. The company expects adjusted earnings-per-share of \$5.35 to \$5.40 for 2021, up from \$5.25 to \$5.35 and \$5.00 to \$5.15 previously. Wireless revenue is projected to reach the top end of prior guidance of up 3.5% to 4%.

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	\$5.38	\$6.55
DPS	\$1.96	\$2.02	\$2.08	\$2.16	\$2.23	\$2.29	\$2.32	\$2.37	\$2.46	\$2.47	\$2.56	\$2.83
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 \$6.55 per share by 2026.

Verizon increased its dividend 2% for the 11/1/2021 payment and the company has increased its dividend for 17 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	10.0	13.0
Avg. Yld.	5.3%	4.8%	4.3%	4.4%	4.7%	4.5%	4.8%	4.1%	4.0%	4.2%	4.7%	3.3%

Shares of Verizon have declined \$2, or 3.6%, since our 7/21/2021 update. Based off of the current share price and guidance for 2021 adjusted earnings-per-share, Verizon has a forward P/E of 10. We reaffirm our target P/E ratio of 13. If shares were to return to this ratio by 2026, the valuation could add 5.3% to total annual returns over this period of time. With a dividend yield approaching 5%, Verizon's stock offers investors a yield that is more than triple 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%	48%	43%

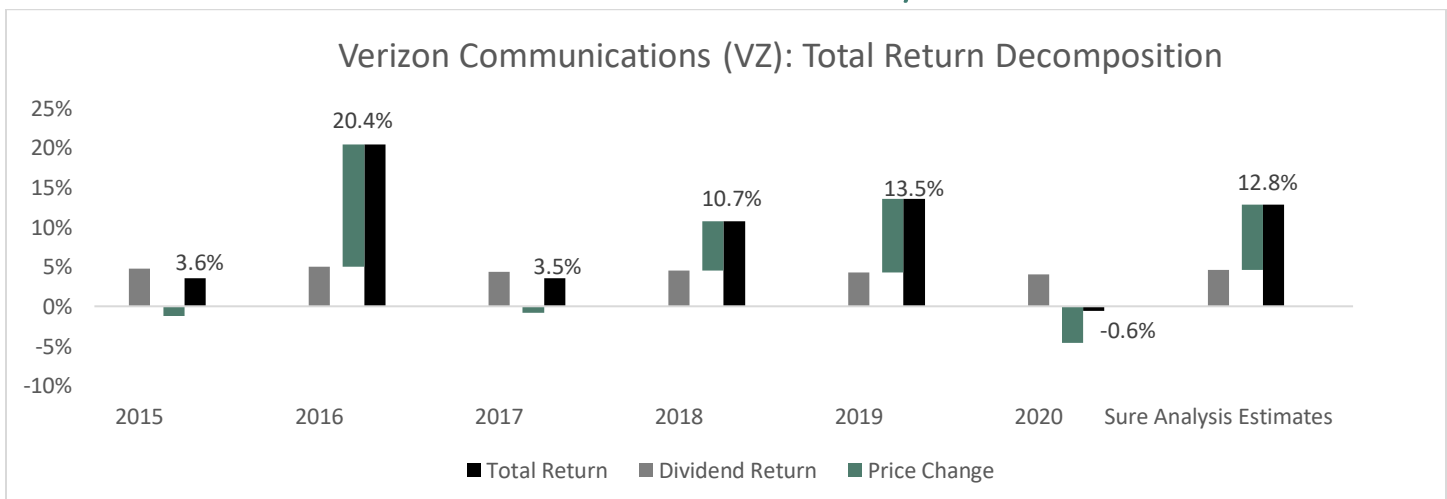
While investors aren't likely to see a sizeable pickup in earnings growth, Verizon offers a very high and stable dividend yield. The company has seen its cash flow increase dramatically thanks to a lower tax rate. While the current net debt level is still high, it has been reduced recently.

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 third quarter earnings results, Verizon Communications is expected to return 12.8% annually through 2026, up from our prior estimate of 11.6%. Our projected return stems from a 4% earnings growth rate, starting yield of 4.7% and a mid-single-digit contribution from multiple expansion. Net additions continue to top expectations due in large part to 5G. We believe this is a trend that will continue as we are in the early innings of this process. We have raised our 2026 price target \$1 to \$85 due to revised earnings and reiterate our buy rating on shares of Verizon.

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)	110.88	115.85	120.55	127.08	131.62	125.98	126.03	130.86	131.87	128.29
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 (\$B)	230.46	225.22	274.10	232.62	244.18	244.18	257.14	264.83	291.73	316.48
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 (\$B)	102.49	107.82	106.18	105.71	119.50	122.78	127.84	128.52	128.95	130.28
Total Liab. (\$B)	144.55	139.69	178.68	218.94	226.33	220.15	212.46	210.12	228.89	247.21
Accts Payable	4,194	4,454	4,954	5,598	5,700	7,084	7,063	7,232	7,725	6,667
LT Debt (\$B)	55.15	51.99	93.59	113.27	109.73	108.08	117.10	113.06	111.49	129.06
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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