



Verizon Communications (VZ)

Updated January 25th, 2022 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|---------------|
| Current Price: | \$53 | 5 Year CAGR Estimate: | 13.6% | Market Cap: | \$222 billion |
| Fair Value Price: | \$71 | 5 Year Growth Estimate: | 4.0% | Ex-Dividend Date: | 1/7/2022 |
| % Fair Value: | 74% | 5 Year Valuation Multiple Estimate: | 6.1% | Dividend Payment Date: | 2/1/2022 |
| Dividend Yield: | 4.8% | 5 Year Price Target | \$87 | 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 fourth quarter and full year earnings results on 1/25/2022. For the quarter, revenue grew 4.8% to \$34.1 billion, topping estimates by \$120 million. Adjusted earnings-per-share of \$1.31 compared favorably to \$1.21 in the prior year and was \$0.03 better than expected. For the year, revenue grew 4.1% to \$133.6 billion while adjusted earnings-per-share was higher by 10% to \$5.39.

Wireless retail postpaid net adds was 1.058 million, ahead of consensus estimates of 978K. Of these, 558K were postpaid phone net adds. Total retail connections stood at nearly 143 million. On a sequential basis, retail postpaid phone churn was higher by 7 basis points to 0.81%. Revenue for the consumer segment grew 7.4% for the quarter, driven by higher rates of 5G-phone adoption and 55K Fios net additions. Average revenue per account also increased companywide. Business revenue was down 3% to \$7.8 billion as gains in business wireless services were offset by weakness in the public sector. This segment had 391K wireless retail postpaid net additions, including 222K phone net additions.

Verizon provided guidance for 2022. The company expects adjusted earnings-per-share of \$5.40 to \$5.55 for the year. Wireless revenue is projected to grow 9% to 10%, with organic service revenue of close to 3%. We have initiated our forecast for the year accordingly.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$2.32 | \$4.00 | \$3.35 | \$3.99 | \$3.87 | \$3.75 | \$4.71 | \$4.81 | \$4.90 | \$5.39 | \$5.48 | \$6.67 |
| DPS | \$2.02 | \$2.08 | \$2.16 | \$2.23 | \$2.29 | \$2.32 | \$2.37 | \$2.46 | \$2.47 | \$2.52 | \$2.56 | \$2.83 |
| Shares¹ | 2858 | 4141 | 4155 | 4073 | 4077 | 4080 | 4050 | 4025 | 4141 | 4169 | 4169 | 4150 |

Verizon has seen its earnings-per-share grow at a rate of almost 10% per year for the past 10 years. We reaffirm our forward growth rate of 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 2022 means that shares of Verizon could earn \$6.67 per share by 2027.

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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 18.1 | 12.2 | 14.5 | 11.8 | 13.3 | 12.3 | 13.1 | 12.8 | 11.5 | 9.6 | 9.7 | 13.0 |
| Avg. Yld. | 4.8% | 4.3% | 4.4% | 4.7% | 4.5% | 4.8% | 4.1% | 4.0% | 4.2% | 4.8% | 4.8% | 3.3% |

Shares of Verizon have declined \$1, or 1.9%, since our 10/20/2021 update. Based off of the current share price and guidance for 2022 adjusted earnings-per-share, Verizon has a forward P/E of 9.7. We reaffirm our target P/E ratio of 13. If shares were to return to this ratio by 2027, the valuation could add 6.1% 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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 87% | 52% | 65% | 56% | 59% | 61% | 50% | 51% | 50% | 47% | 47% | 42% |

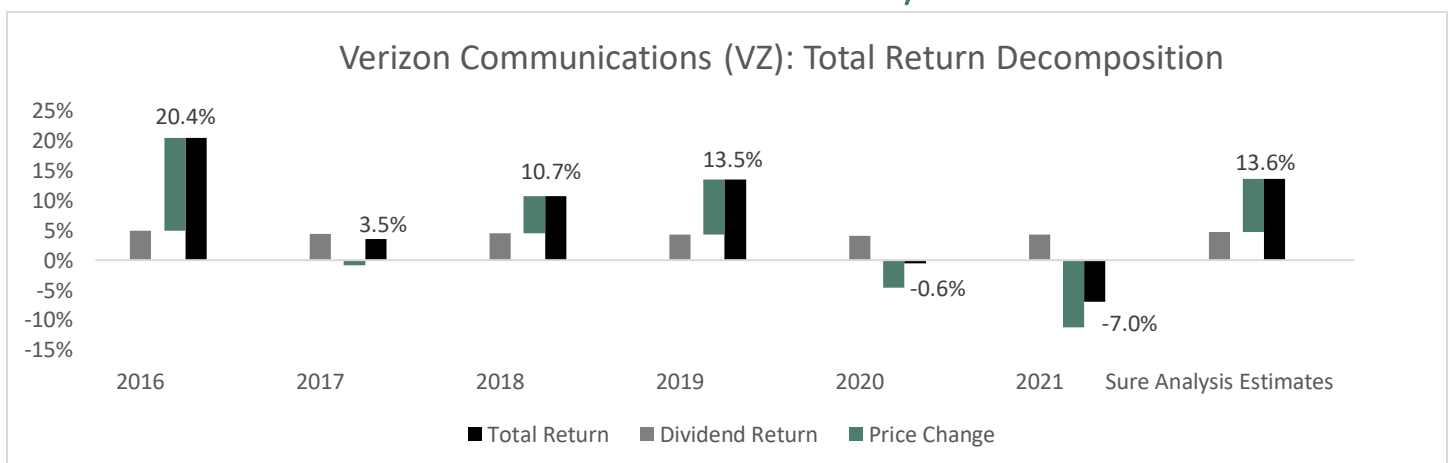
While investors aren't likely to see a sizeable pickup in earnings growth, Verizon offers a very high and stable dividend yield. The company has seen its cash flow increase dramatically thanks to a lower tax rate. While the current net debt level is still high, it has been reduced recently.

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 fourth quarter earnings results, Verizon Communications is expected to return 13.6% annually through 2027, up from our prior estimate of 12.8%. Our projected return stems from a 4% earnings growth rate, starting yield of 4.8%, and a mid-single-digit contribution from multiple expansion. Verizon demonstrated strong net additions during the quarter, with 5G service clearly in demand for customers. And yet, just a third of customers have a 5G capable device, which should provide the company further runways for growth. We have raised our 2027 price target \$2 to \$87 due to initial earnings estimates for 2022 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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