



Telephone & Data Systems (TDS)

Updated February 18th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$19	5 Year CAGR Estimate:	10.7%	Market Cap:	\$2.1 B
Fair Value Price:	\$25	5 Year Growth Estimate:	1.5%	Ex-Dividend Date¹:	03/14/2022
% Fair Value:	74%	5 Year Valuation Multiple Estimate:	6.1%	Payment Date²:	03/31/2022
Dividend Yield:	3.7%	5 Year Price Target	\$27	Years of Dividend Growth:	48
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	2.9%

Overview & Current Events

Telephone & Data Systems is a telecommunications company that provides customers with cellular and landline services, wireless products, cable, broadband, and voice services across 24 U.S. states. The company's Cellular Division accounts for more than 75% of total operating revenue. TDS started in 1969 as a collection of 10 rural telephone companies. Today the company has a market cap of \$2.1 billion and more than \$5.3 billion in annual revenues.

On February 17th, TDS reported financial results for the fourth quarter and full year 2021. The company's total operating revenues were \$5.3 billion for the full year, up from \$5.2 billion in 2020. Net income was \$117 million, down significantly from last year's \$226 million. Diluted earnings per share of \$1.00 compares unfavorably to the \$1.93 earned one year ago. Higher postpaid average revenue per user (ARPU) at US Cellular drove service revenue growth since customers chose higher-value plans. Postpaid ARPU of \$48.62 was a 2.3% increase year-over-year.

Total broadband connections increased 7% to 490,300 connections and residential revenue per connection grew 3.9% to \$57.86. In 2022, TDS plans to grow its broadband business and continue expanding its fiber footprint as wide as it can.

TDS also announced a 2.9% increase to the quarterly dividend to \$0.18 per share. This marks the 48th consecutive annual increase.

Management provided 2022 guidance and expect service revenues at U.S. Cellular of around \$3.15 billion, a tad higher than 2021 results. Total expected operating revenues for TDS Telecom is around \$1.02 billion, also just a bit higher than actual 2021 results.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.75	\$1.29	-\$1.26	\$1.98	\$0.39	\$1.37	\$1.17	\$1.03	\$1.93	\$1.00	\$1.28	\$1.48
BPS³	\$37.16	\$37.85	\$36.39	\$37.86	\$37.67	\$38.45	\$40.00	\$40.46	\$42.02	\$41.84	\$42.00	\$45.25
DPS	\$0.48	\$0.51	\$0.52	\$0.56	\$0.59	\$0.60	\$0.64	\$0.66	\$0.68	\$0.70	\$0.72	\$0.83
Shares⁴	108.0	109.0	108.0	109.0	110.0	112.0	115.0	116.0	116.0	116.0	116.0	125.0

TDS has an 82% stake in U.S. Cellular and essentially relies on this stake to achieve growth. In 2021, U.S. Cellular focused on connecting customers in underserved areas with their high-quality network, as well as market share expansion, increasing business with government customers in 5G and IoT, and improving network modernization and 5G programs. TDS Telecom grew broadband revenue with an increase in customer connections and expanded the reach of their fiber and 1Gig services. In 2022, all this continues, with strengthened focus on broadband and fiber.

The company has exhibited a volatile earnings record. During the last nine years, its earnings-per-share have increased approximately 3% compounded per year on average and decreased by 1.4% compounded per year on average for the last five years. Book value per share, on the other hand has grown by 1.3% and 1.8% per year over the last nine and five

¹ Estimate

² Estimate

³ Book value per share

⁴ 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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years on average. The book value trend is much more consistent. As TDS distributes roughly half of its earnings in dividends, we are projecting a book value per share around \$45.25 by 2027 for a 1.5% average annual growth of book value over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/B	0.64	0.67	0.7	0.74	0.73	0.75	0.73	0.73	0.50	0.49	0.45	0.60
Avg. Yld.	2.1%	2.0%	2.1%	2.1%	2.1%	2.2%	2.2%	2.3%	3.4%	3.3%	3.8%	3.1%

Due to the volatility in the company's earnings history, we believe that the best way to assess the valuation of TDS is by looking at its price-to-book ratio. TDS is currently trading at a price-to-book ratio of 0.45, which is lower than its 10-year average of 0.67. If the stock reverts closer to its average valuation level over the next five years, it will enjoy a 6.1% annualized gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

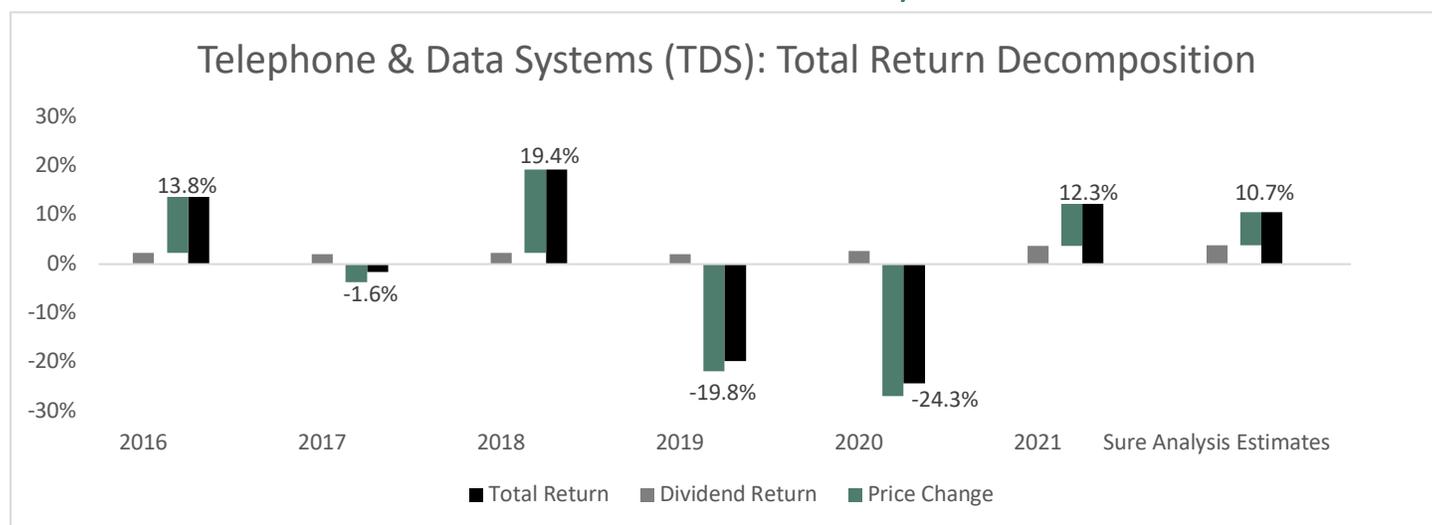
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	64%	40%	-41%	28%	151%	44%	55%	64%	35%	70%	56%	56%

TDS has raised its dividend for 48 consecutive years. It has grown its dividend by 3% per year on average over the past 5 years. Today, its 3.8% dividend yield is above the yield of the S&P. As TDS and U.S. Cellular operate in a highly competitive business, the corporation lacks a meaningful competitive advantage. As U.S. Cellular generates the vast majority of the revenues and earnings of TDS and is currently its most important growth driver, any headwind that may show up in the way of U.S. Cellular will have an impact on TDS. TDS Telecom is fortunate in that its services are heavily in-demand throughout the coronavirus pandemic.

Final Thoughts & Recommendation

TDS relies heavily on the performance of U.S. Cellular, however management is not forecasting exceptional growth currently. We forecast the stock will offer a 10.7% average annual return over the next five years. We have been somewhat conservative in our growth forecast due to the volatile performance record. We expect the bulk of returns to come from a mix of valuation expansion and yield. Given the corporation trades 26% under our estimated fair value and has strong total return prospects, we rate TDS a buy today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	5,345	4,901	5,009	5,210	5,155	5,044	5,109	5,176	5,225	5,329
Gross Profit	3,073	2,676	2,498	2,795	2,726	2,685	2,773	2,839	2,871	2,857
Gross Margin	57.5%	54.6%	49.9%	53.6%	52.9%	53.2%	54.3%	54.8%	54.9%	53.6%
SG&A Exp.	2,034	1,948	1,865	1,781	1,762	1,689	1,694	1,717	1,681	1,677
D&A Exp.	814	1,018	837	844	850	844	883	932	909	895
Operating Profit	225	-290	-204	170	114	152	196	190	281	285
Operating Margin	4.2%	-5.9%	-4.1%	3.3%	2.2%	3.0%	3.8%	3.7%	5.4%	5.3%
Net Profit	82	142	-136	219	43	153	135	121	226	156
Net Margin	1.5%	2.9%	-2.7%	4.2%	0.8%	3.0%	2.6%	2.3%	4.3%	2.9%
Free Cash Flow	110	-389	-404	-11	146	91	239	54	164	-48
Income Tax	74	126	-5	172	40	-279	46	64	19	33

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	8,624	8,904	8,854	9,422	9,446	9,295	9,783	10,781	12,525	13,493
Cash & Equivalents	740	830	472	985	900	619	921	465	1,429	367
Accounts Receivable	410	552	549	705	753	861	992	1,005	1,004	1,058
Inventories	161	245	274	158	151	145	150	169	154	178
Goodwill & Int. Ass.	2,336	2,456	2,534	2,901	2,938	3,020	2,957	3,266	3,398	4,841
Total Liabilities	3,967	4,234	4,398	4,717	4,695	4,402	4,479	5,366	6,922	6,748
Accounts Payable	377	496	387	349	365	368	365	374	508	481
Long-Term Debt	1,723	1,722	1,942	2,454	2,445	2,457	2,439	2,326	3,429	2,934
Shareholder's Equity	4,012	4,118	3,926	4,126	4,144	4,269	4,560	4,653	4,804	4,853
LTD/E Ratio	0.43	0.42	0.49	0.59	0.59	0.58	0.53	0.50	0.71	0.50

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.0%	1.6%	-1.5%	2.4%	0.5%	1.6%	1.4%	1.2%	1.9%	1.2%
Return on Equity	2.1%	3.5%	-3.4%	5.4%	1.0%	3.6%	3.1%	2.6%	4.8%	3.2%
ROIC	1.3%	2.2%	-2.1%	3.2%	0.6%	2.1%	1.8%	1.6%	2.7%	1.7%
Shares Out.	108.0	109.0	108.0	109.0	110.0	112.0	115.0	116.0	116.0	116.0
Revenue/Share	49.07	44.91	46.38	47.36	46.44	45.04	44.82	44.62	45.43	45.94
FCF/Share	1.01	-3.57	-3.74	-0.10	1.32	0.81	2.10	0.47	1.43	-0.41

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

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