



AT&T Inc. (T)

Updated April 21st, 2022, by Eli Inkrot

Key Metrics

Current Price:	\$20	5 Year CAGR Estimate:	10.1%	Market Cap:	\$145 B
Fair Value Price:	\$24	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	04/13/22
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.8%	Dividend Payment Date:	05/02/22
Dividend Yield:	5.5%	5 Year Price Target	\$27	Years Of Dividend Growth:	0
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

While the history of AT&T dates to Alexander Graham Bell and the original telephone in the late-1800's, the current iteration of the firm is rooted in a spun off "baby bell," SBC, that acquired AT&T Corp. in 2005 and changed its name to AT&T Inc. Today AT&T is a large telecommunications company serving over 100 million customers. The \$145 billion company generated \$169 billion in revenue in 2021.

On August 2nd, 2021, AT&T closed on its previously announced DIRECTV transaction.

On November 15th, 2021, AT&T completed the sale of Vrio.

On December 16th, 2021, AT&T declared a \$0.52 quarterly dividend, the 9th payment at this rate. This ended the company's 36-year dividend growth streak and AT&T was later removed from the Dividend Aristocrat index.

On December 21st, 2021, AT&T agreed to sell advertising marketplace Xandr to Microsoft.

On March 25th, 2022, AT&T declared a \$0.2775 quarterly dividend, reflecting the much smaller business.

On April 8th, 2022, AT&T completed to the spin-off of WarnerMedia to form the new company Warner Bros. Discover (WBD). AT&T shareholders received 0.241917 shares of WBD for every 1 share of AT&T they held.

On April 21st, 2022, AT&T reported Q1 2022 results for the period ending March 31st, 2022. For the quarter the company generated \$38.1 billion in revenue, down -13.3% from \$43.9 billion in Q1 2021, reflecting divested businesses (mainly U.S. Video in Q3 2021 and Vrio in Q4 2021), along with lower Business Wireline revenues. On an adjusted basis earnings-per-share equaled \$0.77 compared to \$0.85 in the year ago quarter.

AT&T's net debt-to-EBITDA ratio was 3.42x, up from 3.22x at the end of the year. When excluding the impacts of WarnerMedia, Vrio and Xandr, standalone AT&T cash from operating activities was \$7.7 billion.

Previously AT&T provided new 2022 and 2023 guidance, anticipating \$2.42 to \$2.46 in adjusted EPS for this year and adjusted EPS of \$2.50 to \$2.60 for next year. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.33	\$2.50	\$2.50	\$2.69	\$2.84	\$3.05	\$3.52	\$3.58	\$3.18	\$3.40	\$2.44	\$2.69
DPS	\$1.76	\$1.80	\$1.84	\$1.88	\$1.92	\$1.96	\$2.00	\$2.04	\$2.08	\$2.08	\$1.11	\$1.23
Shares¹	5,581	5,226	5,187	6,145	6,139	6,139	7,282	7,255	7,126	7,199	7,150	7,150

AT&T has been a colossal business, easily generating profits of \$20+ billion annually, but it was not a fast grower. From 2007 through 2019 AT&T grew earnings-per-share by 2.2% per annum, with 2020 being a down year. The company had been optimistic about generating growth, but that has not yet come to fruition.

After purchasing DIRECT-TV in 2015 and Time Warner in 2018, AT&T reversed course in 2021, deciding to spin off both businesses, along with other assets. The company's strategy of integration clearly did not work and now AT&T is in the unfavorable position of unwinding assets shortly after those transactions were completed.

¹ In millions.

Disclosure: This analyst is long the security discussed in this research report.



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Now the company is focusing on its roots and has growth opportunities in the way of building out its 5G network. We are forecasting \$2.44 in EPS for this year, the midpoint of management's guidance, to go along with a 2% annual growth rate. This could be too conservative, but given the company's history, we are cautious for now.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.5	14.2	13.8	12.6	13.8	12.7	9.5	9.5	9.8	9.2	8.3	10.0
Avg. Yld.	5.2%	5.1%	5.3%	5.6%	4.9%	5.1%	6.0%	6.0%	6.7%	7.4%	5.5%	4.5%

During the past decade shares of AT&T have traded with an average P/E ratio of about 12 times earnings. We are using 10 times earnings as a fair baseline, given that growth prospects are unknown, especially considering the recent WarnerMedia spin off. At the current valuation, there is the potential for an uptick in valuation.

AT&T had a record of increasing its dividend for 36 consecutive years, but this streak was halted at the end of 2021. The payout has since been reduced to \$1.11 (from \$2.08) due to the aforementioned spin off.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	76%	72%	74%	70%	68%	64%	57%	57%	65%	61%	45%	45%

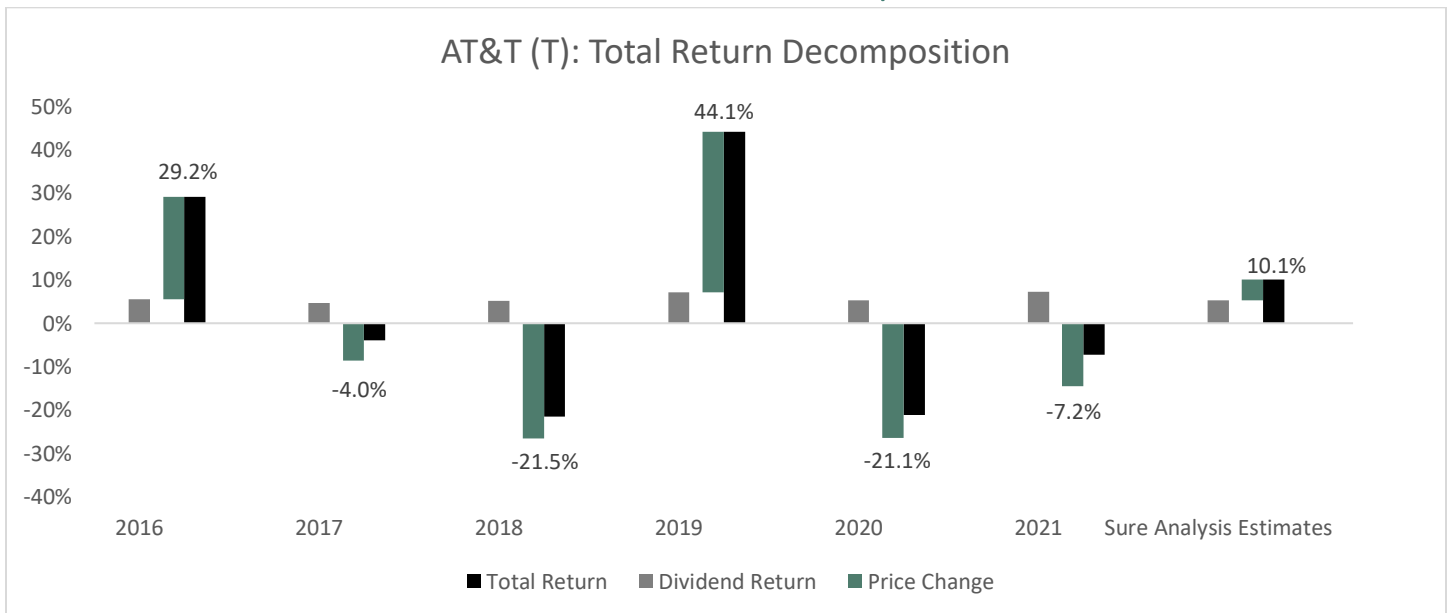
AT&T has a competitive advantage with its entrenched position. However, debt has always been a sticking point for the business, so this will be important to watch now that AT&T is slimming down.

During the Great Recession AT&T posted results of \$2.76, \$2.16, \$2.12, and \$2.29 in earnings-per-share for the 2007 through 2010 period. The company did not eclipse \$2.76 in EPS until 2016.

Final Thoughts & Recommendation

With the WarnerMedia spin off complete (now Warner Bros. Discovery) AT&T is focusing on its core of communications. The dividend and expected earnings have been rebased to reflect the smaller business. It is not yet clear if the legacy business will see reignited growth as a result, but we are cautious for now. Still, total return potential of 10.1%, stemming from 2% growth, a 5.5% dividend yield, and a valuation tailwind, is appealing. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue (\$B)	127.4	128.8	132.4	146.8	163.8	160.5	170.8	181.2	171.8	168.9
Gross Profit	72206	77561	72302	79755	86596	82736	91337	97052	91840	89060
Gross Margin	56.7%	60.2%	54.6%	54.3%	52.9%	51.5%	53.5%	53.6%	53.5%	52.7%
SG&A Exp.	41066	28414	39697	32919	36845	35465	36765	39422	38040	37940
D&A Exp.	18143	18395	18273	22016	25847	24387	28430	28217	28520	22860
Operating Profit	12997	30752	14332	24820	23904	22884	26142	29413	25280	28250
Op. Margin	10.2%	23.9%	10.8%	16.9%	14.6%	14.3%	15.3%	16.2%	14.7%	16.7%
Net Profit	7264	18418	6442	13345	12976	29450	19370	13903	-5176	20080
Net Margin	5.7%	14.3%	4.9%	9.1%	7.9%	18.3%	11.3%	7.7%	-3.0%	11.9%
Free Cash Flow	19711	13852	10139	16662	16926	17363	22844	29233	27460	25430
Income Tax	2900	9328	3619	7005	6479	-14.7B	4920	3493	965	5468

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	272.3	277.8	296.8	402.7	403.8	444.1	531.9	551.7	525.8	551.6
Cash & Equivalents	4868	3339	8603	5121	5788	50498	5204	12130	9740	21170
Acc. Receivable	12657	12918	14527	16532	16794	16522	26472	22636	20220	17570
Goodwill/Int. (\$B)	128.5	131.5	136.7	225.3	222.1	219.7	310.2	303.9	281.6	292.7
Total Liab. (\$B)	179.6	186.3	206.6	279.0	279.7	302.1	338.0	349.7	346.5	367.8
Accounts Payable	12076	11561	14984	21047	22027	24439	27018	29640	31840	30760
LT Debt (\$B)	69.8	74.8	81.8	126.2	123.5	164.3	176.5	161.1	155.2	178.7
Total Equity (\$B)	92.4	91.0	89.7	122.7	123.1	140.9	184.1	184.2	161.7	166.3
LTD/E Ratio	0.76	0.82	0.91	1.03	1.00	1.17	0.96	0.87	0.96	1.07

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.7%	6.7%	2.2%	3.8%	3.2%	6.9%	4.0%	2.6%	-1.0%	3.7%
Return on Equity	7.3%	20.1%	7.1%	12.6%	10.6%	22.3%	11.9%	7.5%	-3.0%	12.2%
ROIC	4.4%	11.2%	3.8%	6.3%	5.2%	10.6%	5.7%	3.8%	-1.5%	5.8%
Shares Out.	5,581	5,226	5,187	6,145	6,139	6,139	7,282	7,348	7,183	7,199
Revenue/Share	21.89	23.91	25.37	26.00	26.46	25.97	25.09	24.65	23.91	23.46
FCF/Share	3.39	2.57	1.94	2.95	2.73	2.81	3.36	3.98	3.82	3.53

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

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