



Verizon Communications (VZ)

Updated April 24th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$52	5 Year CAGR Estimate:	13.9%	Market Cap:	\$218 B
Fair Value Price:	\$71	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	04/07/22
% Fair Value:	74%	5 Year Valuation Multiple Estimate:	6.3%	Dividend Payment Date:	05/02/22
Dividend Yield:	4.9%	5 Year Price Target	\$86	Years Of Dividend Growth:	17
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

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.

On April 22nd, 2022, Verizon announced first quarter earnings for the period ending March 31st, 2022. Revenue grew 2.1% to \$33.6 billion, in-line with expectations. Adjusted earnings-per-share of \$1.35 compared favorably to \$1.31 in the prior year and was also in-line with estimates.

The company had a net loss of 36,000 wireless postpaid phone during the quarter, but wireless revenue grew 9.5% to \$18.3 billion. This is the ninth consecutive year that the company has lost postpaid phone subscribers, but this was the smallest loss in that time. Total retail connections of 143 million was the best figure for the first quarter since 2018. Wireless activations improved 11%. On a sequential basis, retail postpaid phone churn was higher by 2 basis points to 0.83%. Revenue for the consumer segment grew 10.9% for the quarter, driven by the addition of TracFone, higher equipment sales, and wireless revenue growth. Average revenue per account also increased 2.6%. Broadband had 229K net additions during the quarter, which included 194K fixed wireless net additions. Business revenue was lower by 0.9% to \$7.7. billion as gains in business wireless services were offset by weakness in the legacy wireline business. This segment had 395K wireless retail postpaid net additions, including 256K phone net additions.

Verizon provided updated guidance for 2022. The company now expects that adjusted earnings-per-share will be at the low end of its previous guidance of \$5.40 to \$5.55 for the year. Wireless revenue is projected to grow near the low end of the company's previous guidance of 9% to 10%. 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	\$2.32	\$4.00	\$3.35	\$3.99	\$3.87	\$3.75	\$4.71	\$4.81	\$4.90	\$5.39	\$5.44	\$6.62
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	4202	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 \$6.62 per share by 2027.

¹ Share count in millions

Disclosure: This analyst has a long position in the security discussed in this research report.



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Verizon increased its dividend 2% for the November 1st, 2021 payment and the company has increased its dividend for 17 consecutive years.

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	9.6	13.0
Avg. Yld.	4.8%	4.3%	4.4%	4.7%	4.5%	4.8%	4.1%	4.0%	4.2%	4.8%	4.9%	3.3%

Shares of Verizon have decreased \$1, or 1.9%, since our January 25th, 2022. Based off of the current share price and guidance for 2022 adjusted earnings-per-share, Verizon has a forward P/E of 9.6. We reaffirm our target P/E ratio of 13. If shares were to return to this ratio by 2027, then valuation could add 6.3% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	87%	52%	65%	56%	59%	61%	50%	51%	50%	47%	47%	43%

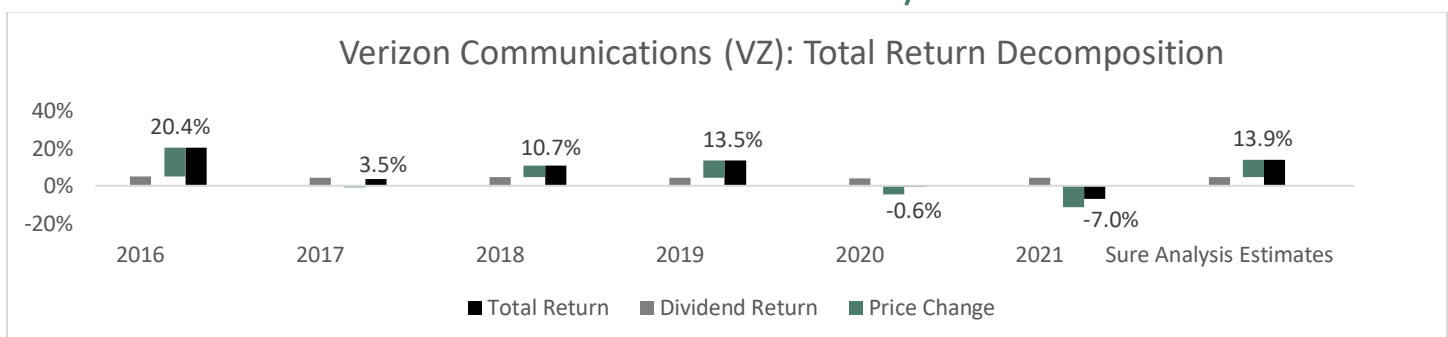
While investors aren't likely to see a sizeable pickup in earnings growth, Verizon offers a very high and stable dividend yield. The company has seen its cash flow increase dramatically thanks to a lower tax rate. While the current net debt level is still high, it has been reduced recently.

One of Verizon's key competitive advantages is that 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

After first quarter earnings results, Verizon Communications is expected to return 13.9% annually through 2027, up from our prior estimate of 13.6%. Our projected return stems from a 4% earnings growth rate, starting yield of 4.9%, and a mid-single-digit contribution from multiple expansion. Verizon saw some weakness in its business during the quarter and leadership's earnings estimates pointed towards the lower end of guidance given at the end of 2021. Still, Verizon has considerable tailwinds, including 5G and low churn rates, that should prove to be long-term strengths for the company. We have lowered our 2027 price target \$1 due to revised guidance for 2022, but maintain our buy rating on Verizon due to projected returns.

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)	115.85	120.55	127.08	131.62	125.98	126.03	130.86	131.87	128.29	133.6
Gross Profit	69,571	75,663	77,148	79,063	73,279	72,971	75,355	77,142	77,091	77,312
Gross Margin	60.1%	62.8%	60.7%	60.1%	58.2%	57.9%	57.6%	58.5%	60.1%	57.9%
SG&A Exp.	39,951	27,089	41,016	29,986	27,095	26,818	31,083	29,896	31,573	28,658
D&A Exp.	16,460	16,606	16,533	16,017	15,928	16,954	17,403	16,682	16,720	16,206
Op. Profit	13,160	31,968	19,599	33,060	30,256	29,199	26,869	30,564	28,798	32,448
Op. Margin	11.4%	26.5%	15.4%	25.1%	24.0%	23.2%	20.5%	23.2%	22.4%	24.3%
Net Profit	875	11,497	9,625	17,879	13,127	30,101	15,528	19,265	17,801	22,065
Net Margin	0.8%	9.5%	7.6%	13.6%	10.4%	23.9%	11.9%	14.6%	13.9%	16.5%
Free Cash Flow	11,013	21,634	13,086	11,310	4,096	6,488	16,252	16,909	21,450	-28,343
Income Tax	(660)	5,730	3,314	9,865	7,378	(9,956)	3,584	2,945	5,619	6,802

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	225.22	274.10	232.62	244.18	244.18	257.14	264.83	291.73	316.48	366.6
Cash & Equiv	3,093	53,528	10,598	4,470	2,880	2,079	2,745	2,594	22,171	2,921
Acc. Receivable	12,576	12,439	13,993	13,457	17,513	23,493	25,102	25,429	23,917	23,846
Inventories	1,075	1,020	1,153	1,252	1,202	1,034	1,336	1,422	1,796	3,055
Goodwill (\$B)	107.82	106.18	105.71	119.50	122.78	127.84	128.52	128.95	130.28	187.9
Total Liab. (\$B)	139.69	178.68	218.94	226.33	220.15	212.46	210.12	228.89	247.21	283.3
Accts Payable	4,454	4,954	5,598	5,700	7,084	7,063	7,232	7,725	6,667	8,040
LT Debt (\$B)	51.99	93.59	113.27	109.73	108.08	117.10	113.06	111.49	129.06	150.9
Total Equity	33,157	38,836	12,298	16,428	22,524	43,096	53,145	61,395	67,842	81,790
LTD/E Ratio	1.57	2.41	9.21	6.68	4.80	2.72	2.13	1.82	1.90	1.84

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.4%	4.6%	3.8%	7.5%	5.4%	12.0%	5.9%	6.9%	5.9%	6.5%
Return on Equity	2.5%	31.9%	37.6%	124.5%	67.4%	91.7%	32.3%	33.6%	27.5%	29.5%
ROIC	0.6%	7.0%	6.1%	14.0%	10.1%	20.5%	9.4%	11.3%	9.6%	10.2%
Shares Out.	2858	4141	4155	4073	4077	4080	4050	4025	4141	4169
Revenue/Share	40.48	41.95	31.92	32.16	30.83	30.82	31.67	31.85	30.97	32.20
FCF/Share	3.85	7.53	3.29	2.76	1.00	1.59	3.93	4.08	5.18	(6.83)

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

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