Deutsche Telekom AG (DTEGY)

Updated May 30th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$21	**5 Year CAGR Estimate:**	8.4%	**Market Cap:**	$101.8 B
Fair Value Price:	$22	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	4/8/2022[1]
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	0.7%	**Dividend Payment Date:**	4/19/2022
Dividend Yield:	3.3%	**5 Year Price Target**	$28	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Deutsche Telekom is the largest telecommunications company in Europe and the second-largest telecommunications company in the world. The company operates through the following segments: Germany, United States, Europe, and System Solutions. The German segment provides fixed-network and mobile solutions as well as wholesale telecommunications services. The United States segment includes T-Mobile (Deutsche Telekom owns ~48% of T-Mobile), while Europe encompasses all fixed-network and mobile operations outside Germany. The Systems Solution segment provides information and communication technology systems. Deutsche Telekom has ~250 million mobile customers, 26 million fixed-network lines, and ~22 million broadband lines. U.S. investors can initiate a stake in Deutsche Telekom through American Depository Receipts that trade under the ticker DTEGY with a market cap of $101.8 billion.

On September 6th, 2021, Deutsche Telekom agreed to acquire 45.4 million shares of T-Mobile from SoftBank and thus grew its stake in T-Mobile from 43.2% to 46.8%. SoftBank received 225 million shares from Deutsche Telekom. Deutsche Telekom and SoftBank also agreed to position the former as a major partner in the business of the latter. In April-2022, Deutsche Telekom used part of the funds from the sale of T-Mobile Netherlands to grow its stake in T-Mobile to 48.4%.

In mid-May, Deutsche Telekom reported (5/13/22) results for the first quarter of fiscal 2022. Organic revenue grew 1.7% and earnings-per-share grew from €0.25 to €0.45 thanks to strong customer growth in Germany and the U.S. The company has kept a flat dividend this year but it reaffirmed its guidance for earnings-per-share of at least €1.75 by 2024. Thanks to exceptionally strong earnings, we have raised our forecast for annual earnings-per-share from $1.20 to $1.45.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.66	$0.63	$0.79	$0.77	$0.61	$0.89	$1.13	$1.14	$1.06	$1.44	***$1.45***	***$1.85***
DPS	$0.88	$0.93	$0.68	$0.56	$0.63	$0.65	$0.77	$0.78	$0.68	$0.72	***$0.69***	***$0.76***
Shares[2]	4,321	4,452	4,476	4,587	4,677	4,762	4,761	4,743	4,743	4,954	***5,000***	***5,000***

Deutsche Telekom's earnings growth has been somewhat volatile, partly due to the spinoff of T-Mobile in 2012. Even including the impact of this spinoff, the company has grown its earnings-per-share by 9.1% per year over the last decade. We believe that the company will continue growing for the foreseeable future, mostly thanks to continuous growth of T-Mobile. The company has also grown its EBITDA in Germany for 21 consecutive quarters and its EBITDA in the European Union for 16 consecutive quarters. We expect a 5% annual earnings-per-share growth rate until 2027.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.2	20.4	20.3	23.1	27.7	20.2	14.6	14.7	15.4	13.7	***14.5***	***15.0***
Avg. Yld.	7.7%	7.2%	4.2%	3.2%	3.7%	3.6%	4.7%	4.6%	4.2%	3.7%	***3.3%***	***2.7%***

[1] Annual dividend already paid.

[2] 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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Deutsche Telekom's price-to-earnings ratio has been volatile over the last decade, ranging from as high as 27.7 to as low as 13.7, with an average value of 18.7. We believe this historical valuation multiple is far too rich for a company like Deutsche Telekom. Given comparable valuations in the domestic telecommunications industry, our target for Deutsche Telekom's fair value is a price-to-earnings ratio of 15. The stock is now trading at an earnings multiple of 14.5. If it reaches our fair value estimate over the next five years, it will enjoy a 0.7% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

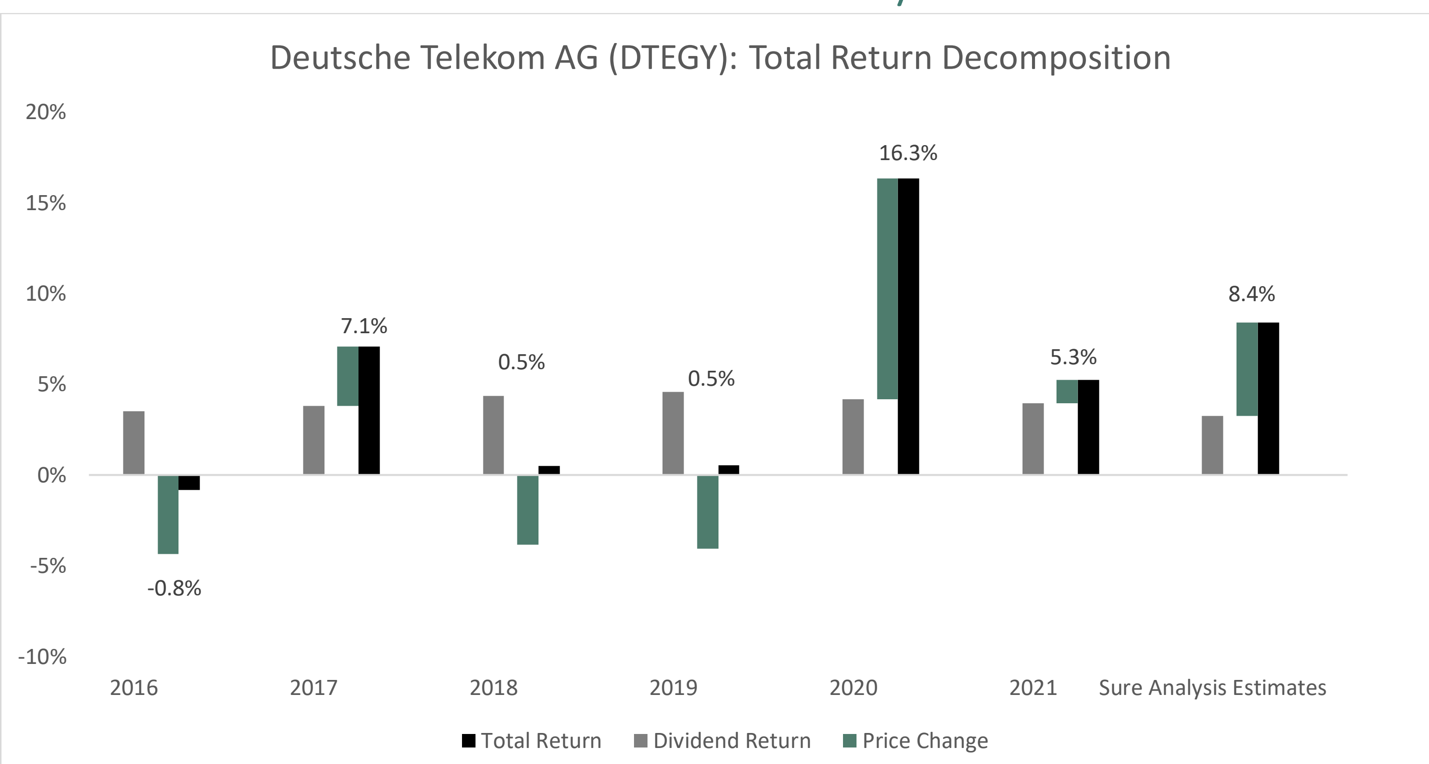
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	133%	148%	86.1%	72.7%	103%	73.0%	68.1%	68.2%	64.2%	50.0%	***47.6%***	***41.2%***

Deutsche Telekom has undisputed leadership within the European telecommunications market and is investing aggressively to maintain this position. Last year, the company invested €18.0 billion (US$21.3 billion) to build out its telecommunications network. Deutsche Telekom also has an investment-grade BBB+ credit rating from Standard & Poor's, which allows it to raise capital at attractive rates to continue investing in its future.

Final Thoughts & Recommendation

Deutsche Telekom provides exactly what most investors in the telecommunications sector are looking for: stability, cash flow, and a high dividend payout. Moreover, the company's global business model combined with its ~48% ownership of T-Mobile gives it exposure to telecommunications markets worldwide. In addition, the stock has been trading in a narrow range, between $14 and $21, most of the time in the last eight years. Most returns thus usually come from its dividend. This feature also makes it easier to hold the stock for the long term, without emotional pressure to sell during market sell-offs. The stock is currently trading at the high end of its historical range. We expect the stock to offer an 8.4% average annual return over the next five years and rate it as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	74784	79861	83325	76822	80899	84878	88975	89,767	115,026	128,396
Gross Profit	30743	31711	43290	39452	42180	44280	46772	51,133	67,158	72,999
Gross Margin	41.1%	39.7%	52.0%	51.4%	52.1%	52.2%	52.6%	57.0%	58.4%	56.9%
SG&A Exp.	24337	24324	314	353	336	399	509	477	716	892
D&A Exp.	28229	14481	14062	12606	14809	16519	16338	19,774	29,497	32,516
Operating Profit	7129	7538	6045	6591	7225	8204	9059	10,925	15,019	16,199
Op. Margin	9.5%	9.4%	7.3%	8.6%	8.9%	9.7%	10.2%	12.2%	13.1%	12.6%
Net Profit	-6882	1235	3888	3611	2961	3920	2558	4,329	4,749	4,941
Net Margin	-9.2%	1.5%	4.7%	4.7%	3.7%	4.6%	2.9%	4.8%	4.1%	3.8%
Free Cash Flow	6615	2588	2060	426	2095	-2603	6443	9759	5,766	6,870

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($B)	143	163	157	157	157	170	166	191	326	319
Cash & Equivalents	5324	11006	9148	7540	8190	3973	4208	6,041	15,914	6,794
Acc. Receivable	8353	10467	12479	9573	9704	11461	11425	12,149	16,633	14,110
Inventories	1463	1466	1828	2019	1722	2381	2048	1,756	3,315	3,232
Goodwill & Int.	55343	63474	62704	62345	64063	75419	74296	76,400	145,218	150,188
Total Liab. ($B)	102	119	116	116	116	119	117	139	2367	226,623
Accounts Payable	8484	9985	11711	12067	10982	13118	12239	10541	11,920	11,771
Long-Term Debt	55433	67069	64049	63080	61847	64721	67178	72480	125,896	123,335
Total Equity	34290	32974	30932	32143	30980	36872	35355	35517	44,183	48,322
LTD/E Ratio	1.62	2.03	2.07	1.96	2.00	1.76	1.90	2.04	2.85	2.55

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-4.6%	0.8%	2.4%	2.3%	1.9%	2.4%	1.5%	2.4%	1.8%	1.5%
Return on Equity	-17.2%	3.7%	12.2%	11.4%	9.4%	11.6%	7.1%	12.2%	11.9%	10.7%
ROIC	-6.5%	1.2%	3.6%	3.4%	2.9%	3.6%	2.2%	3.6%	2.8%	2.3%
Shares Out.	4,321	4,452	4,476	4,587	4,677	4,762	4,761	4,743	4,763	4,954
Revenue/Share	17.39	18.27	18.62	16.87	17.49	18.05	18.76	18.93	24.25	26.68
FCF/Share	1.54	0.59	0.46	0.09	0.45	-0.55	1.36	2.06	1.22	1.43

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