



Verizon Communications (VZ)

Updated July 23rd, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$44	5 Year CAGR Estimate:	16.8%	Market Cap:	\$187 B
Fair Value Price:	\$67	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	07/07/22
% Fair Value:	65%	5 Year Valuation Multiple Estimate:	8.9%	Dividend Payment Date:	08/01/22
Dividend Yield:	5.8%	5 Year Price Target	\$82	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 was the first of the major carriers to turn on 5G service.

On July 22nd, 2022, Verizon announced second quarter earnings results for the period ending June 30th, 2022. Revenue of \$33.8 billion was flat compared to the prior year and in-line with estimates. Adjusted earnings-per-share of \$1.31 compared unfavorably to \$1.37 in the prior year and was \$0.01 below estimates.

Verizon had 12,000 net new postpaid phone customers during the quarter, far below estimates of 167K net adds. Revenue for the Consumer segment grew 9.1% to \$25.6 billion, again driven by the addition of TracFone, higher equipment sales, and wireless revenue growth. Average revenue per account also increased 2.4%. Wireless revenue also grew 9.1%. Retail connections totaled 142.8 million and retail postpaid phone churn remains low at 0.81%. Nearly half of all Consumer customers have a 5G capable device. Broadband had 268K net additions during the quarter, which included 256K fixed wireless net additions. Business revenue was down by 1.8% to \$7.6 billion as gains in business wireless services were offset by weakness in the legacy wireline business. This segment had 430K wireless retail postpaid net additions, including 227K phone net additions.

Verizon provided updated guidance for 2022. The company now expects that adjusted earnings-per-share will be in a range of \$5.10 to \$5.25, down from its previous guidance of \$5.40 to \$5.55 for the year. Wireless revenue is projected to be between 8.5% to 9.5%, down from 9% to 10% previously. 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	\$5.18	\$6.30
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	4201	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.

Verizon increased its dividend 2% for the November 1st, 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	8.5	13.0
Avg. Yld.	4.8%	4.3%	4.4%	4.7%	4.5%	4.8%	4.1%	4.0%	4.2%	4.8%	5.8%	3.4%

Shares of Verizon have declined \$8, or 15.4%, since our April 24th, 2022. Based off of the current share price and earnings guidance for 2022, Verizon has a forward P/E of 8.5. We reaffirm our target P/E ratio of 13. If shares were to return to this ratio by 2027, then valuation could add 8.9% to total annual returns over this period of time. With a dividend yield approaching 6%, 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%	49%	45%

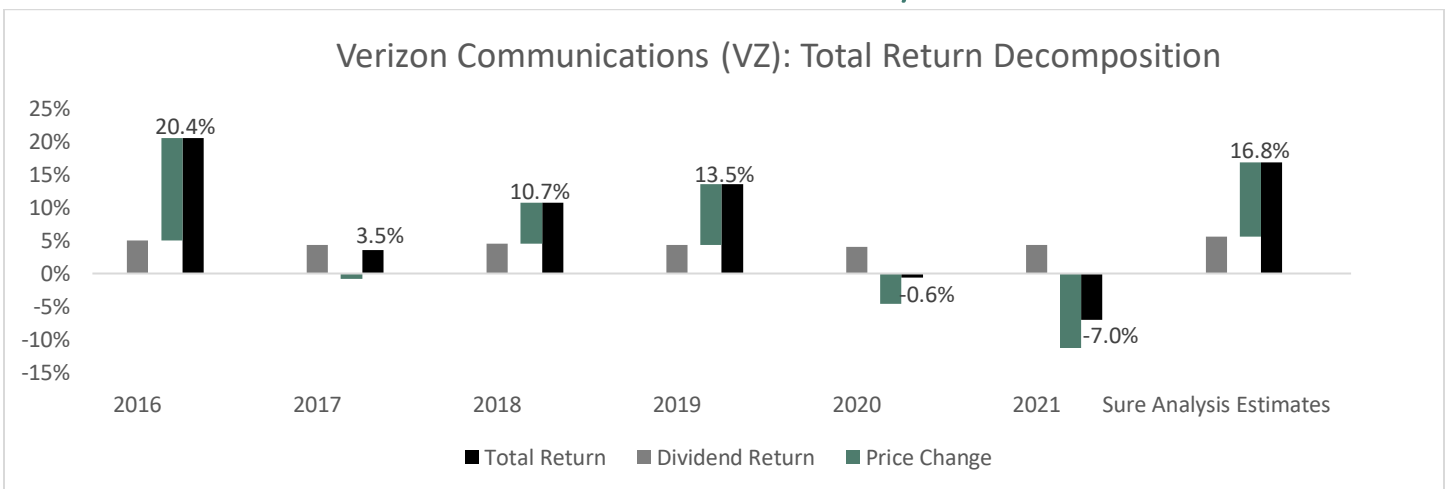
While investors aren't likely to see a sizeable pickup in earnings growth, Verizon offers a very high and stable dividend yield. The company has seen its cash flow increase dramatically thanks to a lower tax rate. While the current net debt level is still high, it has been reduced recently.

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 second quarter earnings results, Verizon Communications is expected to return 16.8% annually through 2027, up from our prior estimate of 13.9%. Our projected return stems from a 4% earnings growth rate, starting yield of 5.8%, and a high single-digit contribution from multiple expansion. Verizon has had two consecutive quarters of weak net phone adds, which has led to another reduction in adjusted earnings-per-share guidance for 2022. That said, Verizon is seeing a material benefit from 5G and average revenue per account continues to increase. We have lowered our 2027 price target \$4 to \$82 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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