



Verizon Communications (VZ)

Updated October 21st, 2022 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------|
| Current Price: | \$35 | 5 Year CAGR Estimate: | 18.9% | Market Cap: | \$155 B |
| Fair Value Price: | \$57 | 5 Year Growth Estimate: | 4.0% | Ex-Dividend Date: | 10/06/22 |
| % Fair Value: | 61% | 5 Year Valuation Multiple Estimate: | 10.2% | Dividend Payment Date: | 11/01/22 |
| Dividend Yield: | 7.5% | 5 Year Price Target | \$69 | Years Of Dividend Growth: | 18 |
| 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.

On September 6th, 2022, Verizon announced that it was increasing its quarterly dividend 2% to \$0.6525 for the November 1st, 2022 payment, extending the company's dividend growth streak to 18 consecutive years.

On October 21st, 2022, Verizon announced third quarter earnings results for the period ending September 30th, 2022. Revenue grew 4% to \$34.2 billion, which topped estimates by \$410 million. Adjusted earnings-per-share of \$1.32 compared unfavorably to \$1.41 in the prior year, but was \$0.03 better than expected.

Verizon added just 8,000 net new postpaid phone customers during the quarter, far below the 708K additions that peer AT&T Inc. (T) had in its quarter. Much of this was due to recent pricing action. Revenue for the Consumer segment grew 10.8% to \$25.8 billion, again driven higher equipment sales and a 10% increase in wireless revenue growth. Average revenue per account increased 3.8%. Broadband had 377K net additions during the quarter, which included 342K fixed wireless net additions. More than 30 million households are covered by 5G Ultra Wideband. Business revenue increased 1.9% to \$7.8 billion due to growth in wireless service revenue. This segment reported 360K wireless retail postpaid net additions, including 197K postpaid phone net additions. The company stated that it would start a cost savings program to remove \$2 billion to \$3 billion in annual expenses by 2025.

Verizon reaffirmed much of its prior guidance for 2022. The company still expects adjusted earnings-per-share in a range of \$5.10 to \$5.25. Wireless revenue growth is projected to be between 8.5% to 9.5%.

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 | \$2.61 | \$2.88 |
| Shares¹ | 2858 | 4141 | 4155 | 4073 | 4077 | 4080 | 4050 | 4025 | 4141 | 4169 | 4204 | 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% 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 \$6.30 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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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 | 6.8 | 11.0 |
| Avg. Yld. | 4.8% | 4.3% | 4.4% | 4.7% | 4.5% | 4.8% | 4.1% | 4.0% | 4.2% | 4.8% | 7.5% | 4.2% |

Shares of Verizon have declined \$9, or 20.5%, since our July 23rd, 2022. Based off of the current share price and earnings guidance for 2022, Verizon has a forward P/E of 6.8. We have lowered our target P/E to 11 from 13 as we balance recent company weakness with tailwinds from 5G. This also brings the target valuation more in-line with peers. If shares were to return to this ratio by 2027, then valuation could add 10.2% to total annual returns over this period of time. With a dividend yield of 7.5%, Verizon's stock offers investors a yield that is more than four times 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% | 50% | 46% |

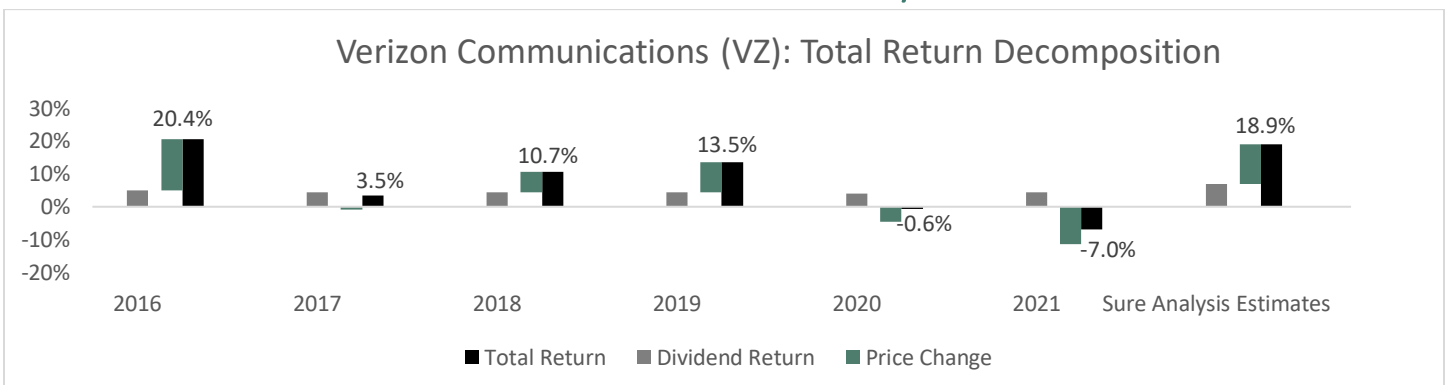
While investors aren't likely to see a sizeable pickup in earnings growth, Verizon offers a very high and stable dividend yield. The company has seen its cash flow increase dramatically thanks to a lower tax rate. While the current net debt level is still high, it has been reduced recently.

One of Verizon's key competitive advantages is that it 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 third quarter earnings results, Verizon Communications is expected to return 18.9% annually through 2027, up from our prior estimate of 16.8%. Our projected return stems from a 4% earnings growth rate, starting yield of 7.5%, and a low double-digit contribution from multiple expansion. Verizon has now had three consecutive quarters of weak net phone adds, which is considerably behind its chief rival. The company is likely to eliminate many jobs with its new cost savings program, rarely a good sign that the business model is working. That said, 5G is adding to results and the dividend yield is generous and appears safe. The stock offers significant total return potential as well. We have lowered our 2027 price target \$13 to \$69 due to a lower target P/E, 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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