



AT&T Inc. (T)

Updated October 20th, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	\$15	5 Year CAGR Estimate:	16.8%	Market Cap:	\$102 B
Fair Value Price:	\$24	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	10/6/23
% Fair Value:	62%	5 Year Valuation Multiple Estimate:	10.0%	Dividend Payment Date:	11/1/23
Dividend Yield:	7.4%	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 \$102 billion company generated \$121 billion in revenue in 2022.

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

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

In mid-October, AT&T reported (10/19/23) financial results for the third quarter of fiscal 2023. The company grew its revenue 1% over the prior year's quarter thanks to strong customer additions across its growing 5G wireless and fiber networks. AT&T is investing in the expansion of its 5G and fiber networks at a record pace. It posted 296,000 fiber net additions and thus it has posted more than 200,000 additions per quarter for 15 consecutive quarters. It also posted 468,000 postpaid phone net additions. Adjusted earnings-per-share dipped -6%, from \$0.68 to \$0.64, but free cash flow grew from \$3.9 billion to \$5.2 billion and thus AT&T raised its guidance for annual free cash flow from at least \$16 billion to about \$16.5 billion. AT&T needs excessive free cash flow to maintain its generous dividend and reduce its debt. Management also stated that it expects adjusted earnings-per-share towards the upper limit of its previous guidance of \$2.35-\$2.45 in 2023. Management has repeatedly proved conservative and AT&T has beaten the analysts' estimates for 12 consecutive quarters. We have raised our forecast for annual earnings-per-share from \$2.40 to \$2.42.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.50	\$2.50	\$2.69	\$2.84	\$3.05	\$3.52	\$3.58	\$3.18	\$3.40	\$2.57	\$2.42	\$2.67
DPS	\$1.80	\$1.84	\$1.88	\$1.92	\$1.96	\$2.00	\$2.04	\$2.08	\$2.08	\$1.35	\$1.11	\$1.23
Shares¹	5,226	5,187	6,145	6,139	6,139	7,282	7,255	7,126	7,199	7,533	7,500	7,500

AT&T has been a colossal business, easily generating profits of nearly \$20 billion per year, but it is not a fast grower. From 2007 through 2019 AT&T grew its 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 hence AT&T came in the unfavorable position of unwinding assets shortly after those transactions were completed.

Now the company is focusing on its roots and has growth opportunities in the way of building out its 5G and fiber networks. We expect AT&T to grow its earnings-per-share at a 2% average annual rate over the next five years. This could prove too conservative but we prefer to be cautious, given the company's history.

¹ In millions.

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



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.2	13.8	12.6	13.8	12.7	9.5	9.5	9.8	9.2	7.2	6.2	10.0
Avg. Yld.	5.1%	5.3%	5.6%	4.9%	5.1%	6.0%	6.0%	6.7%	7.4%	7.2%	7.4%	4.6%

AT&T has traded at an average price-to-earnings ratio of 11.2 over the last decade. We assume a fair earnings multiple of 10.0, given that growth prospects are unknown, especially considering the recent WarnerMedia spin off. The stock is currently trading at a nearly 10-year low price-to-earnings ratio of 6.2. If it trades at our assumed fair valuation level in five years, it will enjoy a 10.0% annualized valuation tailwind. We view the current valuation of AT&T as too cheap.

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

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	72%	74%	70%	68%	64%	57%	57%	65%	61%	53%	46%	46%

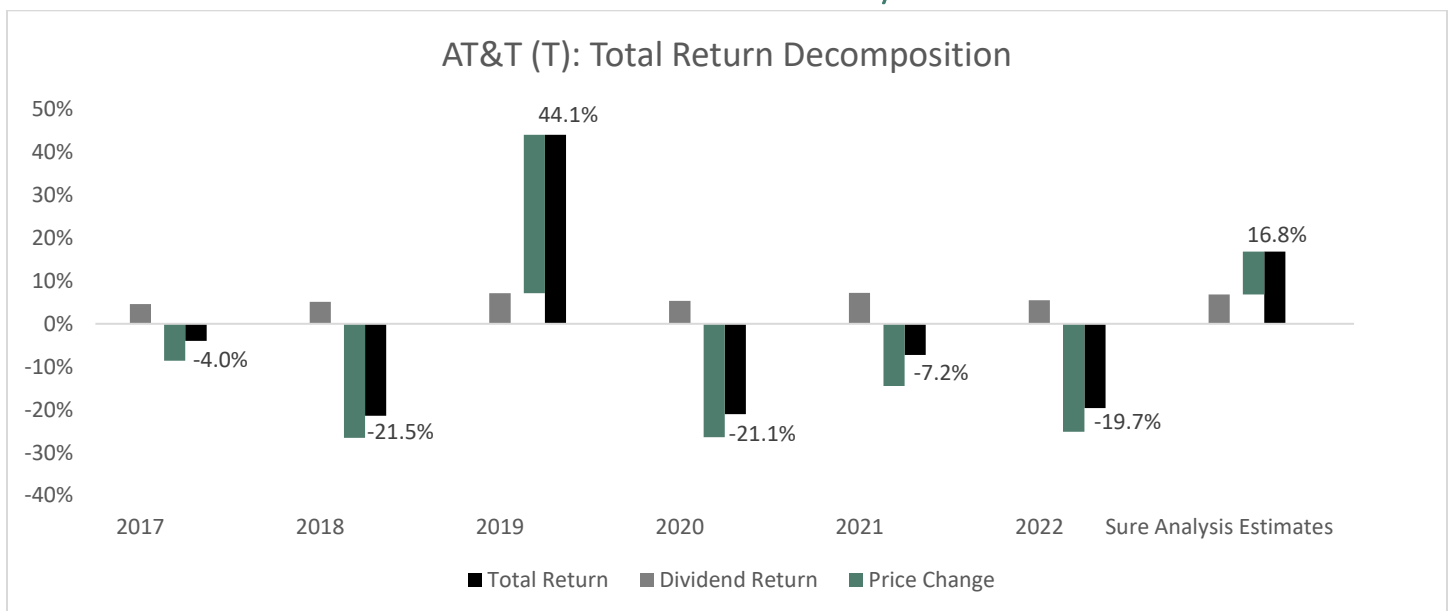
AT&T has a competitive advantage with its entrenched position. However, debt has always been a sticking point for the business, so this will be important to watch now that AT&T is slimming down.

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

Final Thoughts & Recommendation

With the WarnerMedia spin off complete (now Warner Bros. Discovery), AT&T is focusing on its core business 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. Nevertheless, AT&T can offer a 16.8% average annual return over the next five years thanks to 2.0% growth, a 7.4% dividend and a 10.0% valuation tailwind. It thus maintains its buy rating. Thanks to its nearly 10-year low valuation level and its generous dividend, AT&T is likely to highly reward investors who can maintain a long-term perspective but patience is required.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue (\$B)	128.8	132.4	146.8	163.8	160.5	170.8	181.2	171.8	168.9	120.7
Gross Profit	77561	72302	79755	86596	82736	91337	97052	91840	89060	69893
Gross Margin	60.2%	54.6%	54.3%	52.9%	51.5%	53.5%	53.6%	53.5%	52.7%	57.9%
SG&A Exp.	28414	39697	32919	36845	35465	36765	39422	38040	37940	28961
D&A Exp.	18395	18273	22016	25847	24387	28430	28217	28520	22860	18021
Operating Profit	30752	14332	24820	23904	22884	26142	29413	25280	28250	22911
Op. Margin	23.9%	10.8%	16.9%	14.6%	14.3%	15.3%	16.2%	14.7%	16.7%	19.0%
Net Profit	18418	6442	13345	12976	29450	19370	13903	-5176	20080	-8524
Net Margin	14.3%	4.9%	9.1%	7.9%	18.3%	11.3%	7.7%	-3.0%	11.9%	-7.1%
Free Cash Flow	13852	10139	16662	16926	17363	22844	29233	27460	25430	12397
Income Tax	9328	3619	7005	6479	-14.7B	4920	3493	965	5468	3780

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	277.8	296.8	402.7	403.8	444.1	531.9	551.7	525.8	551.6	402.9
Cash & Equivalents	3339	8603	5121	5788	50498	5204	12130	9740	21170	3701
Acc. Receivable	12918	14527	16532	16794	16522	26472	22636	20220	17570	11466
Goodwill/Int. (\$B)	131.5	136.7	225.3	222.1	219.7	310.2	303.9	281.6	292.7	197.3
Total Liab. (\$B)	186.3	206.6	279.0	279.7	302.1	338.0	349.7	346.5	367.8	296.4
Accounts Payable	11561	14984	21047	22027	24439	27018	29640	31840	30760	42644
LT Debt (\$B)	74.8	81.8	126.2	123.5	164.3	176.5	161.1	155.2	178.7	136.0
Total Equity (\$B)	91.0	89.7	122.7	123.1	140.9	184.1	184.2	161.7	166.3	97.5
LTD/E Ratio	0.82	0.91	1.03	1.00	1.17	0.96	0.87	0.96	1.07	1.40

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.7%	2.2%	3.8%	3.2%	6.9%	4.0%	2.6%	-1.0%	3.7%	-1.8%
Return on Equity	20.1%	7.1%	12.6%	10.6%	22.3%	11.9%	7.5%	-3.0%	12.2%	-6.5%
ROIC	11.2%	3.8%	6.3%	5.2%	10.6%	5.7%	3.8%	-1.5%	5.8%	-2.8%
Shares Out.	5,226	5,187	6,145	6,139	6,139	7,282	7,348	7,183	7,199	7,587
Revenue/Share	23.91	25.37	26.00	26.46	25.97	25.09	24.65	23.91	23.46	15.91
FCF/Share	2.57	1.94	2.95	2.73	2.81	3.36	3.98	3.82	3.53	1.63

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

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