



Verizon Communications (VZ)

Updated October 25th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	16.4%	Market Cap:	\$143 B
Fair Value Price:	\$52	5 Year Growth Estimate:	2.5%	Ex-Dividend Date:	10/06/23
% Fair Value:	66%	5 Year Valuation Multiple Estimate:	8.7%	Dividend Payment Date:	11/01/23
Dividend Yield:	7.8%	5 Year Price Target	\$58	Years Of Dividend Growth:	19
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 7th, 2023, Verizon announced that it was increasing its quarterly dividend 1.9% to \$0.665 for the November 1st, 2023 payment, extending the company's dividend growth streak to 19 consecutive years.

On October 24th, 2023, Verizon reported earnings results for the third quarter for the period ending June 30th, 2023. For the quarter, revenue declined 2.7% to \$33.3 billion, but this was in-line with expectations. Adjusted earnings-per-share of \$1.22 compared unfavorably to \$1.32 in the prior year, but this was \$0.04 more than anticipated.

Verizon had postpaid phone net losses of 51K, but this was an improvement both on year-over-year and sequential basis. Revenue for the Consumer segment declined 2.3% to \$25.3 billion, though wireless service revenue improved 2.9% due to higher average revenue per account. Broadband totaled 434K net new customers during the period, the fourth consecutive quarter of at least 400K net adds. This included 384K fixed wireless net additions, up from 342K additions in the prior year. Fios additions totaled 72K. Wireless retail postpaid phone churn rate remains low at 0.85%. Business revenue declined 4% to \$7.5 billion. Free cash flow for the first nine months of the year totaled \$12.4 billion, compared to \$14.6 billion last year. Free cash flow for 2023 is projected to be \$18 billion, \$1 billion higher than previously expected.

Verizon reaffirmed guidance for 2023 as well with the company still expecting adjusted earnings-per-share of \$4.55 to \$4.85 for the year. Wireless service revenue is still projected to grow 2.5% to 4.5%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.00	\$3.35	\$3.99	\$3.87	\$3.75	\$4.71	\$4.81	\$4.90	\$5.39	\$5.06	\$4.70	\$5.32
DPS	\$2.08	\$2.16	\$2.23	\$2.29	\$2.32	\$2.37	\$2.46	\$2.47	\$2.52	\$2.57	\$2.66	\$2.88
Shares¹	4141	4155	4073	4077	4080	4050	4025	4141	4169	4207	4216	4200

Verizon has seen its earnings-per-share grow at a rate of 2.6% per year for the past 10 years. We have lowered our forward growth rate to 2.5% to better reflect the long-term trend combined with guidance for the year. Applying our expected earnings growth rate to the company's guidance for 2023 means that shares of Verizon could earn \$5.32 per share by 2028.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.2	14.5	11.8	13.3	12.3	13.1	12.8	11.5	9.6	7.7	7.2	11.0
Avg. Yld.	4.3%	4.4%	4.7%	4.5%	4.8%	4.1%	4.0%	4.2%	4.8%	6.6%	7.8%	5.0%

Shares of Verizon are unchanged since our July 27th, 2023 report. Based off the current share price and earnings guidance for 2023, Verizon has a forward P/E of 7.2. We reaffirm our target P/E of 11 to balance recent company weakness with tailwinds from 5G. This brings the target valuation more in-line with peers as well. If shares were to return to this ratio by 2028, then valuation could add 8.7% to total annual returns over this period. With a dividend yield of 7.8%, Verizon's stock offers investors a yield that is nearly five times the average yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	52%	65%	56%	59%	61%	50%	51%	50%	47%	51%	57%	55%

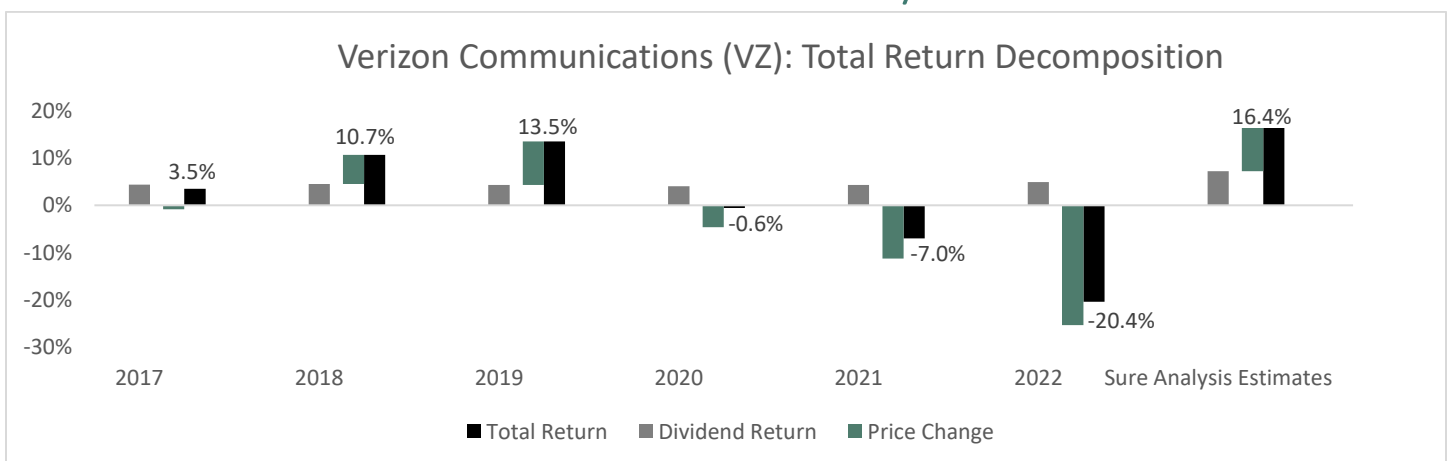
While investors are not likely to see a sizeable pickup in earnings growth, Verizon offers a very high and stable dividend yield. The company has seen its cash flow increase dramatically thanks to a lower tax rate. While the current net debt level is still high, it has been reduced recently.

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 continues rolling out its 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

Following third quarter earnings results, Verizon Communications is expected to return 16.4% annually through 2028, up slightly from our prior estimate of 16.3%. Our projected return stems from a 2.5% earnings growth rate, a starting yield of 7.8%, and a high single-digit contribution from multiple expansion. Verizon's postpaid phone net losses continue to be an issue, but broadband remains strong and average revenue per account is growing. Also, the dividend yield is generous and appears safe. The stock still offers strong total return potential as well. We reaffirm our 2028 price target of \$58 due to earnings guidance and maintain our buy rating on Verizon due to projected returns.

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)	120.55	127.08	131.62	125.98	126.03	130.86	131.87	128.29	133.6	136.8
Gross Profit	75,663	77,148	79,063	73,279	72,971	75,355	77,142	77,091	77,312	77,702
Gross Margin	62.8%	60.7%	60.1%	58.2%	57.9%	57.6%	58.5%	60.1%	57.9%	56.8%
SG&A Exp.	27,089	41,016	29,986	27,095	26,818	31,083	29,896	31,573	28,658	30,136
D&A Exp.	16,606	16,533	16,017	15,928	16,954	17,403	16,682	16,720	16,206	17,099
Op. Profit	31,968	19,599	33,060	30,256	29,199	26,869	30,564	28,798	32,448	30,467
Op. Margin	26.5%	15.4%	25.1%	24.0%	23.2%	20.5%	23.2%	22.4%	24.3%	22.3%
Net Profit	11,497	9,625	17,879	13,127	30,101	15,528	19,265	17,801	22,065	21,256
Net Margin	9.5%	7.6%	13.6%	10.4%	23.9%	11.9%	14.6%	13.9%	16.5%	15.5%
Free Cash Flow	21,634	13,086	11,310	4,096	6,488	16,252	16,909	21,450	-28,343	10,401
Income Tax	5,730	3,314	9,865	7,378	(9,956)	3,584	2,945	5,619	6,802	6,523

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	274.10	232.62	244.18	244.18	257.14	264.83	291.73	316.48	366.6	379.7
Cash & Equiv	53,528	10,598	4,470	2,880	2,079	2,745	2,594	22,171	2,921	2,605
Acc. Receivable	12,439	13,993	13,457	17,513	23,493	25,102	25,429	23,917	23,846	24,506
Inventories	1,020	1,153	1,252	1,202	1,034	1,336	1,422	1,796	3,055	2,388
Goodwill (\$B)	106.18	105.71	119.50	122.78	127.84	128.52	128.95	130.28	187.9	189.9
Total Liab. (\$B)	178.68	218.94	226.33	220.15	212.46	210.12	228.89	247.21	283.3	287.2
Accts Payable	4,954	5,598	5,700	7,084	7,063	7,232	7,725	6,667	8,040	
LT Debt (\$B)	93.59	113.27	109.73	108.08	117.10	113.06	111.49	129.06	150.9	150.6
Total Equity	38,836	12,298	16,428	22,524	43,096	53,145	61,395	67,842	81,790	91,144
LTD/E Ratio	2.41	9.21	6.68	4.80	2.72	2.13	1.82	1.90	1.84	1.65

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.6%	3.8%	7.5%	5.4%	12.0%	5.9%	6.9%	5.9%	6.5%	5.7%
Return on Equity	31.9%	37.6%	125%	67.4%	91.7%	32.3%	33.6%	27.5%	29.5%	24.6%
ROIC	7.0%	6.1%	14.0%	10.1%	20.5%	9.4%	11.3%	9.6%	10.2%	8.9%
Shares Out.	4141	4155	4073	4077	4080	4050	4025	4141	4169	4207
Revenue/Share	41.95	31.92	32.16	30.83	30.82	31.67	31.85	30.97	32.20	32.55
FCF/Share	7.53	3.29	2.76	1.00	1.59	3.93	4.08	5.18	(6.83)	2.47

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

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