



# AT&T Inc. (T)

Updated January 25<sup>th</sup>, 2024, by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$17	<b>5 Year CAGR Estimate:</b>	13.1%	<b>Market Cap:</b>	\$119 B
<b>Fair Value Price:</b>	\$22	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	1/9/24
<b>% Fair Value:</b>	77%	<b>5 Year Valuation Multiple Estimate:</b>	5.3%	<b>Dividend Payment Date:</b>	2/1/24
<b>Dividend Yield:</b>	6.5%	<b>5 Year Price Target</b>	\$26	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 \$119 billion company generated \$122 billion in revenue in 2023.

On December 16<sup>th</sup>, 2021, AT&T declared a \$0.52 quarterly dividend, the 9<sup>th</sup> 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 25<sup>th</sup>, 2022, AT&T declared a \$0.2775 quarterly dividend, reflecting the much smaller business.

On April 8<sup>th</sup>, 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 late January, AT&T reported (1/24/24) financial results for the fourth quarter of fiscal 2023. The company grew its revenue 2% 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 273,000 fiber net additions and thus it has posted more than 200,000 additions per quarter for 16 consecutive quarters. It also posted 526,000 postpaid phone net additions. Adjusted earnings-per-share dipped -11%, from \$0.61 to \$0.54, but free cash flow grew from \$2.6 billion to \$6.4 billion and thus annual free cash flow was \$16.8 billion, exceeding the guidance of \$16-\$16.5 billion. AT&T needs excessive free cash flow to maintain its generous dividend and reduce its debt. Earnings-per-share missed the analysts' estimates by \$0.02, for the first time after 12 consecutive quarters of earnings beats. Management provided disappoint guidance for earnings-per-share of \$2.15-\$2.25 in 2024 due to high depreciation of radio access network and retirement benefits. While AT&T has proved conservative in its guidance most of the time, we have assumed earnings-per-share of \$2.20 for 2024, in line with the guidance, in order to be on the safe side.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.50	\$2.69	\$2.84	\$3.05	\$3.52	\$3.58	\$3.18	\$3.40	\$2.57	\$2.41	<b>\$2.20</b>	<b>\$2.55</b>
<b>DPS</b>	\$1.84	\$1.88	\$1.92	\$1.96	\$2.00	\$2.04	\$2.08	\$2.08	\$1.35	\$1.11	<b>\$1.11</b>	<b>\$1.23</b>
<b>Shares<sup>1</sup></b>	5,187	6,145	6,139	6,139	7,282	7,255	7,126	7,199	7,533	7,191	<b>7,000</b>	<b>6,500</b>

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 3% average annual rate over the next five years. This could prove too conservative but we prefer to be cautious, given the company's history.

<sup>1</sup> In millions.

Disclosure: This analyst has no position in the security discussed in this research report.



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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.8	12.6	13.8	12.7	9.5	9.5	9.8	9.2	7.2	6.9	7.7	10.0
Avg. Yld.	5.3%	5.6%	4.9%	5.1%	6.0%	6.0%	6.7%	7.4%	7.2%	6.7%	6.5%	4.8%

AT&T has traded at an average price-to-earnings ratio of 10.5 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 7.7. If it trades at our assumed fair valuation level in five years, it will enjoy a 5.3% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	74%	70%	68%	64%	57%	57%	65%	61%	53%	46%	50%	48%

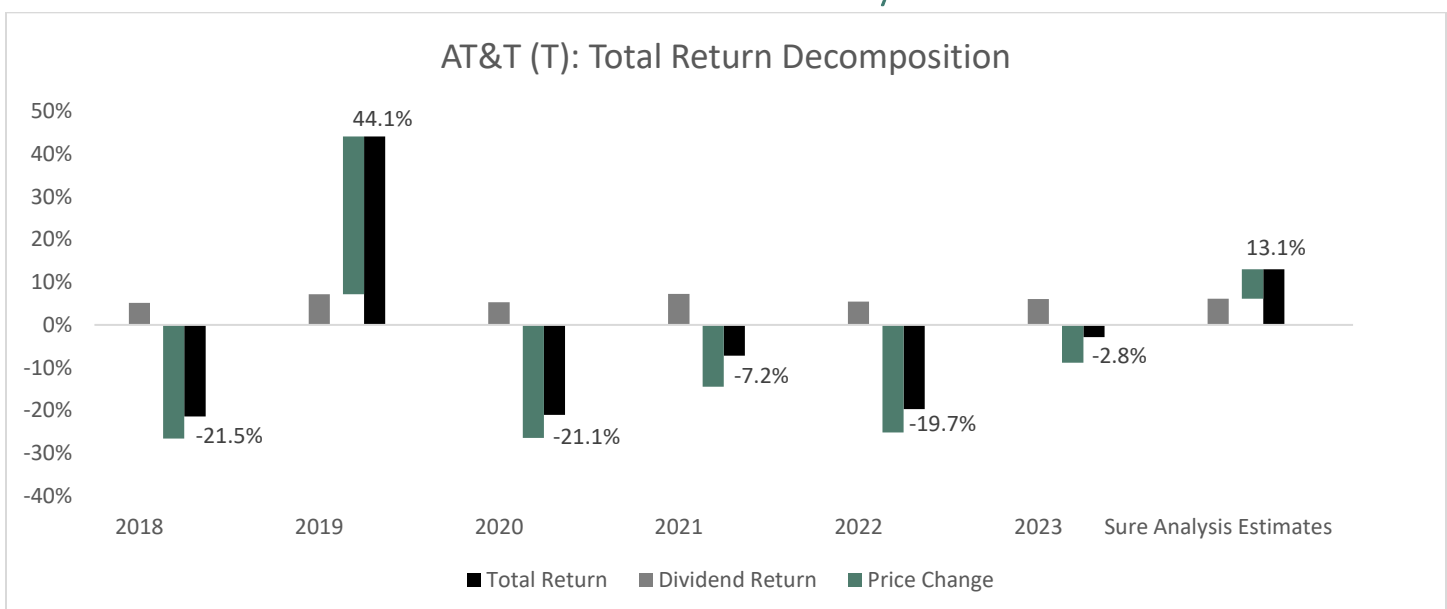
AT&T has a competitive advantage with its entrenched position. However, debt has always been a sticking point for the business, so this will be important to watch now that AT&T is slimming down.

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 13.1% average annual return over the next five years thanks to 3.0% growth, a 6.5% dividend and a 5.3% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue (\$B)</b>	132.4	146.8	163.8	160.5	170.8	181.2	171.8	168.9	120.7	122.4
<b>Gross Profit</b>	72,302	79,755	86,596	82,736	91,337	97,052	91,840	89,060	69,893	72,305
<b>Gross Margin</b>	54.6%	54.3%	52.9%	51.5%	53.5%	53.6%	53.5%	52.7%	57.9%	59.1%
<b>SG&amp;A Exp.</b>	39,697	32,919	36,845	35,465	36,765	39,422	38,040	37,940	28,961	28874
<b>D&amp;A Exp.</b>	18,273	22,016	25,847	24,387	28,430	28,217	28,520	22,860	18,021	18777
<b>Operating Profit</b>	14,332	24,820	23,904	22,884	26,142	29,413	25,280	28,250	22,911	24654
<b>Op. Margin</b>	10.8%	16.9%	14.6%	14.3%	15.3%	16.2%	14.7%	16.7%	19.0%	20.1%
<b>Net Profit</b>	6,442	13,345	12,976	29,450	19,370	13,903	(5,176)	20,080	(8,524)	14,400
<b>Net Margin</b>	4.9%	9.1%	7.9%	18.3%	11.3%	7.7%	-3.0%	11.9%	-7.1%	11.8%
<b>Free Cash Flow</b>	10,139	16,662	16,926	17,363	22,844	29,233	27,460	25,430	12,397	20461
<b>Income Tax</b>	3,619	7,005	6,479	-14.7B	4,920	3,493	965	5,468	3,780	4225

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets (\$B)</b>	296.8	402.7	403.8	444.1	531.9	551.7	525.8	551.6	402.9	407.0
<b>Cash &amp; Equivalents</b>	8,603	5,121	5,788	50,498	5,204	12,130	9,740	21,170	3,701	6,722
<b>Acc. Receivable</b>	14,527	16,532	16,794	16,522	26,472	22,636	20,220	17,570	11,466	10,289
<b>Goodwill/Int. (\$B)</b>	136.7	225.3	222.1	219.7	310.2	303.9	281.6	292.7	197.3	200.4
<b>Total Liab. (\$B)</b>	206.6	279.0	279.7	302.1	338.0	349.7	346.5	367.8	296.4	287.6
<b>Accounts Payable</b>	14,984	21,047	22,027	24,439	27,018	29,640	31,840	30,760	42,644	35,852
<b>LT Debt (\$B)</b>	81.8	126.2	123.5	164.3	176.5	161.1	155.2	178.7	136.0	137.3
<b>Total Equity (\$B)</b>	89.7	122.7	123.1	140.9	184.1	184.2	161.7	166.3	97.5	103.3
<b>LTD/E Ratio</b>	0.91	1.03	1.00	1.17	0.96	0.87	0.96	1.07	1.40	1.33

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	2.2%	3.8%	3.2%	6.9%	4.0%	2.6%	-1.0%	3.7%	-1.8%	3.6%
<b>Return on Equity</b>	7.1%	12.6%	10.6%	22.3%	11.9%	7.5%	-3.0%	12.2%	-6.5%	14.3%
<b>ROIC</b>	3.8%	6.3%	5.2%	10.6%	5.7%	3.8%	-1.5%	5.8%	-2.8%	5.8%
<b>Shares Out.</b>	5,187	6,145	6,139	6,139	7,282	7,348	7,183	7,199	7,587	7,258
<b>Revenue/Share</b>	25.37	26.00	26.46	25.97	25.09	24.65	23.91	23.46	15.91	16.87
<b>FCF/Share</b>	1.94	2.95	2.73	2.81	3.36	3.98	3.82	3.53	1.63	2.82

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

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