



Verizon Communications (VZ)

Updated January 26th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	11.2%	Market Cap:	\$178 B
Fair Value Price:	\$51	5 Year Growth Estimate:	2.5%	Ex-Dividend Date:	01/09/24
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.8%	Dividend Payment Date:	02/01/24
Dividend Yield:	6.3%	5 Year Price Target	\$57	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 January 23rd, 2024, Verizon announced fourth quarter and full year results for the period ending December 31st, 2023. For the quarter, revenue decreased 0.6% to \$35.1 billion, but this was \$550 million more than expected. Adjusted earnings-per-share of \$1.08 compared unfavorably to \$1.19 in the prior year, but this was in-line with estimates. For the year, revenue fell 2.1% to \$134 billion while adjusted earnings-per-share of \$4.71 was down from \$5.18 a year ago.

For the quarter, Verizon had postpaid phone net additions of 449K, an improvement from a loss of 51K in the preceding quarter. Retail postpaid net additions totaled 1.46 million. Wireless revenue grew 3.2% to \$19.4 billion while the Consumer segment increased 0.7% to \$27 billion. Broadband totaled 413K net new customers during the period, the fifth consecutive quarter of at least 400K net adds. This included 375K fixed wireless net additions, resulting in a subscriber base of more than 3 million. Fios additions totaled 55K. Wireless retail postpaid phone churn rate remains low at 0.93%. Business revenue fell 3.6% to \$7.6 billion as gains in wireless service were more than offset by weakness for wireline and wireless equipment. Free cash flow totaled \$18.7 billion for the year, up from \$14.1 billion in 2022.

Verizon provided guidance for 2024 as well. The company expects wireless service revenue to grow 2% to 3.5% and adjusted earnings-per-share in a range of \$4.50 to \$4.70. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.35	\$3.99	\$3.87	\$3.75	\$4.71	\$4.81	\$4.90	\$5.39	\$5.18	\$4.71	\$4.60	\$5.20
DPS	\$2.16	\$2.23	\$2.29	\$2.32	\$2.37	\$2.46	\$2.47	\$2.52	\$2.57	\$2.62	\$2.66	\$2.88
Shares¹	4155	4073	4077	4080	4050	4025	4141	4169	4207	4214	4214	4200

Verizon has seen its earnings-per-share grow at a rate of 3.9% per year for the past 10 years. We have reaffirmed 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 2024 means that shares of Verizon could earn \$5.20 per share by 2029.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.5	11.8	13.3	12.3	13.1	12.8	11.5	9.6	7.7	8.0	9.1	11.0
Avg. Yld.	4.4%	4.7%	4.5%	4.8%	4.1%	4.0%	4.2%	4.8%	6.6%	6.9%	6.3%	5.1%

Shares of Verizon have gained \$8, or 23.5%, since our October 25th, 2023 report. Based off the current share price and earnings guidance for 2024, Verizon has a forward P/E of 9.1. We reaffirm our target P/E of 11.0. This brings the target valuation more in-line with peers as well. If shares were to return to this ratio by 2029, then valuation could add 3.8% to total annual returns over this period. With a dividend yield of 6.3%, Verizon's stock offers investors a yield that is close to four times the average yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	65%	56%	59%	61%	50%	51%	50%	47%	50%	56%	58%	56%

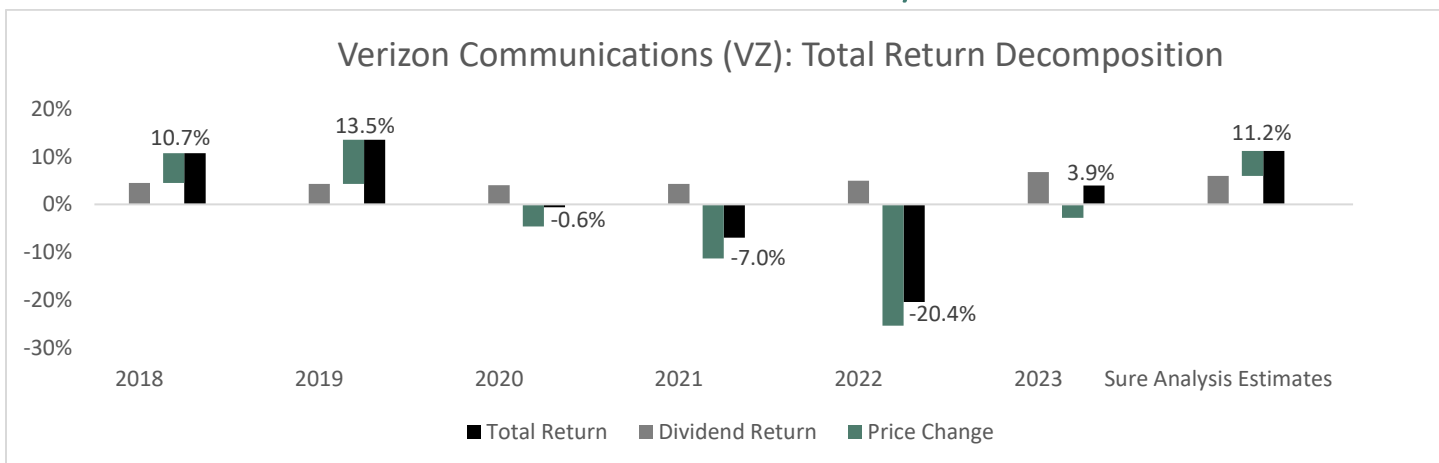
While investors are not likely to see a sizeable pickup in earnings growth, Verizon offers a very high and stable dividend yield. The company has seen its cash flow increase dramatically thanks to a lower tax rate. While the current net debt level is still high, it has been reduced recently.

One of Verizon's key competitive advantages is that 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 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

After fourth quarter earnings results, Verizon Communications is expected to return 11.2% annually through 2029, down from our prior estimate of 16.4%. Our projected return stems from a 2.5% earnings growth rate, a starting yield of 6.3%, and a low single-digit contribution from multiple expansion. Verizon reversed early trends of postpaid phone net losses and the company's broadband business continues to grow. The dividend yield is generous and appears safe. The stock still offers strong total return potential even after the gains since our last report. We have lowered our 2029 price target \$1 to \$57 due to earnings guidance for 2024, but we maintain our buy rating on the stock due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue (\$B)	127.08	131.62	125.98	126.03	130.86	131.87	128.29	133.6	136.8	134.0
Gross Profit	77,148	79,063	73,279	72,971	75,355	77,142	77,091	77,312	77,702	79,087
Gross Margin	60.7%	60.1%	58.2%	57.9%	57.6%	58.5%	60.1%	57.9%	56.8%	59.0%
SG&A Exp.	41,016	29,986	27,095	26,818	31,083	29,896	31,573	28,658	30,136	32,745
D&A Exp.	16,533	16,017	15,928	16,954	17,403	16,682	16,720	16,206	17,099	17,624
Op. Profit	19,599	33,060	30,256	29,199	26,869	30,564	28,798	32,448	30,467	28,718
Op. Margin	15.4%	25.1%	24.0%	23.2%	20.5%	23.2%	22.4%	24.3%	22.3%	21.4%
Net Profit	9,625	17,879	13,127	30,101	15,528	19,265	17,801	22,065	21,256	11,614
Net Margin	7.6%	13.6%	10.4%	23.9%	11.9%	14.6%	13.9%	16.5%	15.5%	8.7%
Free Cash Flow	13,086	11,310	4,096	6,488	16,252	16,909	21,450	-28343	10,401	12,912
Income Tax	3,314	9,865	7,378	(9,956)	3,584	2,945	5,619	6,802	6,523	4,892

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	232.62	244.18	244.18	257.14	264.83	291.73	316.48	366.6	379.7	380.3
Cash & Equiv	10,598	4,470	2,880	2,079	2,745	2,594	22,171	2,921	2,605	2,065
Acc. Receivable	13,993	13,457	17,513	23,493	25,102	25,429	23,917	23,846	24,506	25,085
Inventories	1,153	1,252	1,202	1,034	1,336	1,422	1,796	3,055	2,388	2,057
Goodwill (\$B)	105.71	119.50	122.78	127.84	128.52	128.95	130.28	187.9	189.9	189.6
Total Liab. (\$B)	218.94	226.33	220.15	212.46	210.12	228.89	247.21	283.3	287.2	286.5
Accts Payable	5,598	5,700	7,084	7,063	7,232	7,725	6,667	8,040	8,750	
LT Debt (\$B)	113.27	109.73	108.08	117.10	113.06	111.49	129.06	150.9	150.6	150.7
Total Equity	12,298	16,428	22,524	43,096	53,145	61,395	67,842	81,790	91,144	92,430
LTD/E Ratio	9.21	6.68	4.80	2.72	2.13	1.82	1.90	1.84	1.65	1.63

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.8%	7.5%	5.4%	12.0%	5.9%	6.9%	5.9%	6.5%	5.7%	3.1%
Return on Equity	37.6%	125%	67.4%	91.7%	32.3%	33.6%	27.5%	29.5%	24.6%	12.7%
ROIC	6.1%	14.0%	10.1%	20.5%	9.4%	11.3%	9.6%	10.2%	8.9%	4.8%
Shares Out.	4155	4073	4077	4080	4050	4025	4141	4169	4207	4214
Revenue/Share	31.92	32.16	30.83	30.82	31.67	31.85	30.97	32.20	32.55	31.79
FCF/Share	3.29	2.76	1.00	1.59	3.93	4.08	5.18	(6.83)	2.47	3.06

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

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