



Verizon Communications (VZ)

Updated April 22nd, 2024 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------|
| Current Price: | \$39 | 5 Year CAGR Estimate: | 12.8% | Market Cap: | \$170 B |
| Fair Value Price: | \$51 | 5 Year Growth Estimate: | 2.5% | Ex-Dividend Date: | 04/09/24 |
| % Fair Value: | 77% | 5 Year Valuation Multiple Estimate: | 5.3% | Dividend Payment Date: | 05/01/24 |
| Dividend Yield: | 6.8% | 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 April 22nd, 2024, Verizon reported first quarter results for the period ending March 31st, 2024. For the quarter, revenue improved 0.3% to \$33 billion, but this was \$230 million below estimates. Adjusted earnings-per-share of \$1.15 compared unfavorably to \$1.20 in the prior year, but this was \$0.03 more than expected.

For the quarter, Verizon had postpaid phone net losses of 68K, which were fewer than the net losses of 127K that the company had in the same quarter a year ago. Retail postpaid net additions totaled 253K. Wireless revenue increased 3.3% to \$19.5 billion while the Consumer segment increased 0.8% to \$25.1 billion. Broadband totaled 389K net new customers during the period, the seven consecutive quarter of at least 300K net adds. This included 151K fixed wireless net additions, which was a 10.2% increase from the prior year. This was the best quarterly result to date. Fios additions totaled 53K. Wireless retail postpaid phone churn rate remains low at 0.89%. Business revenue decreased 1.6% to \$7.4 billion as gains in wireless service were once again more than offset by weakness for wireline and wireless equipment. Free cash flow grew 17.4% to \$2.7 billion.

Verizon reaffirmed guidance for 2024 as well. The company still expects wireless service revenue to grow 2% to 3.5% and adjusted earnings-per-share in a range of \$4.50 to \$4.70.

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 | \$2.94 |
| Shares¹ | 4155 | 4073 | 4077 | 4080 | 4050 | 4025 | 4141 | 4169 | 4207 | 4214 | 4204 | 4175 |

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 | 8.5 | 11.0 |
| Avg. Yld. | 4.4% | 4.7% | 4.5% | 4.8% | 4.1% | 4.0% | 4.2% | 4.8% | 6.6% | 6.9% | 6.8% | 5.1% |

Shares of Verizon have declined \$3, or 7.1%, since our January 26th, 2024 report. Based off the current share price and earnings guidance for 2024, Verizon has a forward P/E of 8.5. 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 multiple expansion could add 5.3% to total annual returns over this period. With a dividend yield of 6.8%, 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 | 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% |

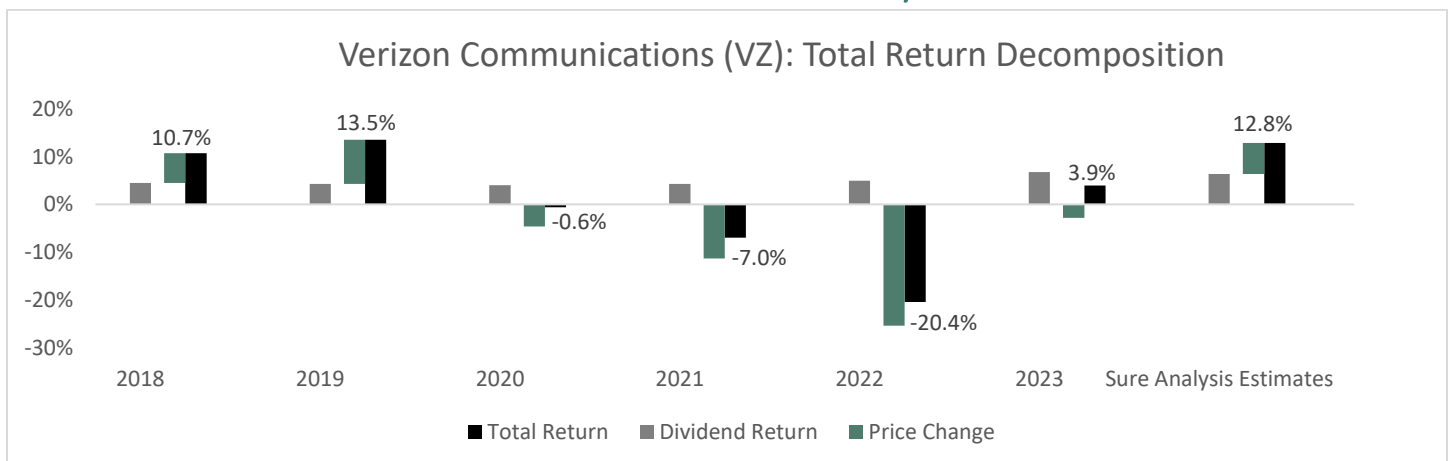
While investors are not likely to see a sizeable pickup in earnings growth, Verizon offers a very high and stable dividend yield. The company has seen its cash flow increase dramatically thanks to a lower tax rate. While the current net debt level is still high, it has been reduced recently.

One of Verizon's key competitive advantages is that 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's 5G service coverage area gives 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 first quarter earnings results, Verizon Communications is expected to return 12.8% annually through 2029, up from our prior estimate of 11.2%. Our projected return stems from a 2.5% earnings growth rate, a starting yield of 6.8%, and a mid-single-digit contribution from multiple expansion. Verizon experienced postpaid phone net losses during the quarter, but this was nearly half of the losses the company had last year. The dividend yield remains generous and appears safe. We have reaffirmed our 2029 price target of \$57 due to earnings guidance for 2024 and 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 | 10,021 |
| 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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