Telephone & Data Systems (TDS)

Updated May 14th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$21	**5 Year CAGR Estimate:**	6.7%	**Market Cap:**	$2.4 B
Fair Value Price:	$21	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date[1]:**	06/14/2024
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.3%	**Payment Date[1]:**	06/28/2024
Dividend Yield:	3.6%	**5 Year Price Target**	$25	**Years of Dividend Growth:**	50
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Telephone & Data Systems is a telecommunications company that provides customers with cellular and landline services, wireless products, cable, broadband, and voice services across the United States. The company's Cellular Division accounts for approximately 75% of total operating revenue. TDS started in 1969 as a collection of 10 rural telephone companies and today the company has a market cap of $2.4 billion and $5.2 billion in annual revenues.

TDS declared a 2.7% dividend increase to $0.19 quarterly on February 16th, 2024, marking its 50th annual increase.

TDS and US Cellular announced on August 4, 2023, that they are exploring strategic alternatives for US Cellular. TDS's share price rose 62% in the five days following the announcement. Still, there is no guarantee that any significant event or sale will occur, and there is no timetable for the review. As of May 2024, there was no official update on this endeavor.

On May 3rd, 2024, TDS reported financial results for the first quarter of 2024. The company's total operating revenues were $1.26 billion, beating analysts' estimates by $6 million, but lower by 3% compared to the same period a year ago.

Net income was $12 million, an improvement compared to last year's ($9) million. Diluted earnings per share of $0.10 also compared favorably to the ($0.08) earned one year ago.

Postpaid ARPU of $51.96 was a 2.6% year-over-year increase. Total broadband connections increased 6.3% year-over-year to 547,900 connections and residential revenue per connection grew 7.2% to $64.58.

Management reaffirmed 2024 guidance, expecting service revenues at U.S. Cellular of around $3 billion. Total expected operating revenues for TDS remains around $1.085 billion.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	($1.26)	$1.98	$0.39	$1.37	$1.17	$1.03	$1.93	$1.00	($0.07)	($5.06)	***($0.28)***	***$0.80***
BPS[2]	$36.39	$37.86	$37.67	$38.45	$40.00	$40.46	$42.02	$41.84	$42.63	$41.17	***$46.00***	***$55.97***
DPS	$0.52	$0.56	$0.59	$0.60	$0.64	$0.66	$0.68	$0.70	$0.72	$0.74	***$0.76***	***$0.81***
Shares[3]	108.0	109.0	110.0	112.0	115.0	116.0	116.0	116.0	113.0	113.0	***117.0***	***130.0***

TDS has an 83% stake in U.S. Cellular and essentially relies on this stake to achieve growth. In 2021, U.S. Cellular focused on connecting customers in underserved areas with its high-quality network, as well as market share expansion, increasing business with government customers in 5G and IoT, and improving network modernization and 5G programs. TDS Telecom grew broadband revenue with an increase in customer connections and expanded the reach of its fiber and 1Gig services. TDS made investments in 2022 towards growing its client base, expanding into new territories, as well as improving its network technologies, in an effort to boost the company's competitiveness. It increased its footprint by 9% and delivered 133K new marketable fiber service addresses in 2022. In 2023, it delivered 217K new marketable fiber

[1] Estimate

[2] Book value per share

[3] In millions

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service addresses, which beat its initial 2023 estimate by 24%. The company has so far achieved 827K fiber service addresses and has a goal of achieving 1.2 million by 2026.

The company has exhibited a volatile earnings record. During the last nine years and five years, its earnings-per-share have declined considerably. Book value per share, on the other hand, has grown by 1.4% and 0.6% per year over the last nine and five years on average. The book value trend is much more consistent. We are projecting a book value per share of $55.97 by 2029 for a 4% average annual growth of book value per share over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/B	0.7	0.74	0.73	0.75	0.73	0.73	0.50	0.49	0.38	0.32	***0.46***	***0.45***
Avg. Yld.	2.1%	2.1%	2.1%	2.2%	2.2%	2.3%	3.4%	3.3%	4.3%	6.2%	***3.6%***	***3.2%***

Due to the volatility in the company's earnings history, we believe that the best way to assess the valuation of TDS is by looking at its price-to-book ratio. TDS is currently trading at a price-to-book ratio of 0.46, which is lower than its 5-year average of 0.49, reflecting depressed investor sentiment. If the stock reverts closer to its average valuation level over the next five years, it will incur a -0.3% annualized drag on total returns. However, while the recent $547 million goodwill impairment charge appears to have somewhat cleaned up the balance sheet, there still remains $4.9 billion of licenses, and other intangible assets, which skews its tangible book value to the downside.

Safety, Quality, Competitive Advantage, & Recession Resiliency

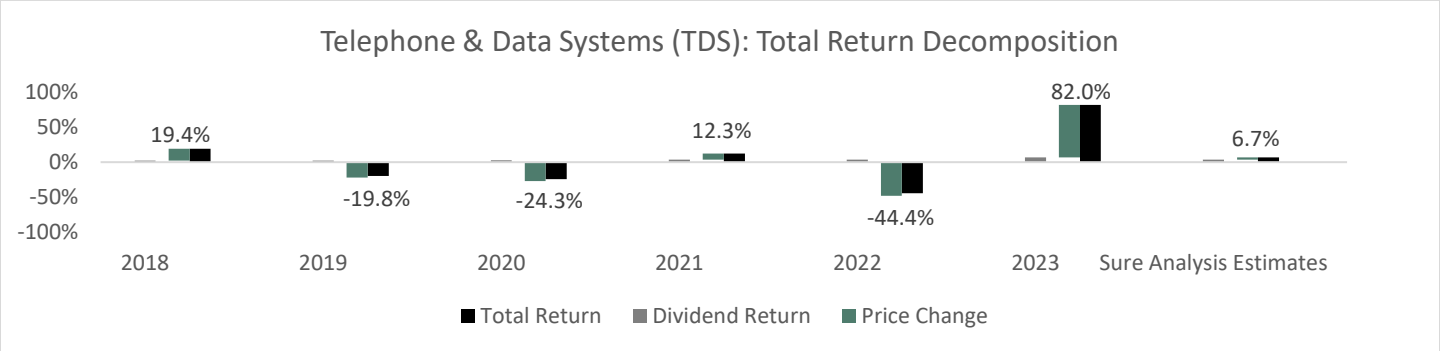
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	-41%	28%	151%	44%	55%	64%	35%	70%	---	---	---	***101%***

TDS has raised its dividend for 50 consecutive years. It has grown its dividend by 2.9% per year on average over the past 5 years. Today, its 3.6% dividend yield is higher than the yield of the S&P. However, the dividend is not backed by earnings, thus it is in grave danger of being cut. As TDS and U.S. Cellular operate in a highly competitive business, the corporation lacks a meaningful competitive advantage. As U.S. Cellular generates the vast majority of the revenues and earnings of TDS and is currently its most important growth driver, any headwind that may show up in the way of U.S. Cellular will have an impact on TDS.

Final Thoughts & Recommendation

TDS relies on the performance of U.S. Cellular, and it is conducting a strategic review to determine the best course of action for unlocking shareholder value, which could include selling the company or its assets. The share price of TDS has nearly tripled since it announced its strategic review, but it could still offer 6.7% average annual return potential over the next five years. Given the riskiness of the dividend and its highly volatile performance, TDS earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,009	5,210	5,155	5,044	5,109	5,176	5,225	5,329	5413	5160
Gross Profit	2,498	2,795	2,726	2,685	2,773	2,839	2,871	2,857	2848	2826
Gross Margin	49.9%	53.6%	52.9%	53.2%	54.3%	54.8%	54.9%	53.6%	52.6%	54.8%
SG&A Exp.	1,865	1,781	1,762	1,689	1,694	1,717	1,681	1,677	1768	1753
D&A Exp.	837	844	850	844	883	932	909	895	929	915
Operating Profit	-204	170	114	152	196	190	281	285	151	158
Operating Margin	-4.1%	3.3%	2.2%	3.0%	3.8%	3.7%	5.4%	5.3%	2.8%	3.1%
Net Profit	-136	219	43	153	135	121	226	156	62	-500
Net Margin	-2.7%	4.2%	0.8%	3.0%	2.6%	2.3%	4.3%	2.9%	1.1%	-9.7%
Free Cash Flow	-404	-11	146	91	239	54	164	-48	-6	-199
Income Tax	-5	172	40	-279	46	64	19	33	53	10

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	8,854	9,422	9,446	9,295	9,783	10,781	12,525	13,493	14550	13920
Cash & Equivalents	472	985	900	619	921	465	1,429	367	360	236
Accounts Receivable	549	705	753	861	992	1,005	1,004	1,058	1069	992
Inventories	274	158	151	145	150	169	154	178	268	208
Goodwill & Int. Ass.	2,534	2,901	2,938	3,020	2,957	3,266	3,398	4,841	5450	4886
Total Liabilities	4,398	4,717	4,695	4,402	4,479	5,366	6,922	6,748	7935	7914
Accounts Payable	387	349	365	368	365	374	508	481	506	360
Long-Term Debt	1,942	2,454	2,445	2,457	2,439	2,326	3,429	2,934	3750	4106
Shareholder's Equity	3,926	4,126	4,144	4,269	4,560	4,653	4,804	4,853	4775	4128
LTD/E Ratio	0.49	0.59	0.59	0.58	0.53	0.50	0.71	0.50	0.64	0.79

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-1.5%	2.4%	0.5%	1.6%	1.4%	1.2%	1.9%	1.2%	0.4%	-3.5%
Return on Equity	-3.4%	5.4%	1.0%	3.6%	3.1%	2.6%	4.8%	3.2%	1.3%	-7.9%
ROIC	-2.1%	3.2%	0.6%	2.1%	1.8%	1.6%	2.7%	1.7%	0.6%	-4.9%
Shares Out.	108.0	109.0	110.0	112.0	115.0	116.0	116.0	116.0	114	113
Revenue/Share	46.38	47.36	46.44	45.04	44.82	44.62	45.43	45.94	47.48	45.66
FCF/Share	-3.74	-0.10	1.32	0.81	2.10	0.47	1.43	-0.41	-0.05	-1.76

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

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