Deutsche Telekom AG (DTEGY)

Updated November 18th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$30	**5 Year CAGR Estimate:**	9.1%	**Market Cap:**	$148 B
Fair Value Price:	$29	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	4/11/2025[1]
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Dividend Payment Date:**	4/21/2025
Dividend Yield:	2.6%	**5 Year Price Target**	$42	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Deutsche Telekom is the largest telecommunications company in Europe and the second-largest telecommunications company in the world. The company operates through the following segments: Germany, United States, Europe, and System Solutions. The German segment provides fixed-network and mobile solutions as well as wholesale telecommunications services. The United States segment includes T-Mobile (Deutsche Telekom owns ~52% of T-Mobile), while Europe encompasses all fixed-network and mobile operations outside Germany. The Systems Solution segment provides information and communication technology systems. Deutsche Telekom has ~259 million mobile customers, 25 million fixed-network lines, and ~22 million broadband lines. U.S. investors can initiate a stake in Deutsche Telekom through American Depository Receipts that trade under the ticker DTEGY with a market cap of $148 billion.

On September 6th, 2021, Deutsche Telekom agreed to acquire 45.4 million shares of T-Mobile from SoftBank and thus grew its stake in T-Mobile from 43.2% to 46.8%. SoftBank received 225 million shares from Deutsche Telekom. Deutsche Telekom and SoftBank also agreed to position the former as a major partner in the business of the latter.

In mid-November, Deutsche Telekom reported (11/14/24) results for the first nine months of fiscal 2024. Total revenue and service revenue grew 2.7% and 3.9%, respectively, over the prior year's period, and adjusted earnings-per-share grew 16%, primarily thanks to strong performance in the U.S and positive results in Europe. The company reiterated its guidance for earnings-per-share in excess of €1.75. Management proposed an annual dividend of €0.90 for 2025.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.79	$0.77	$0.61	$0.89	$1.13	$1.14	$1.06	$1.44	$1.93	$1.73	***$1.90***	***$2.79***
DPS	$0.68	$0.56	$0.63	$0.65	$0.77	$0.78	$0.68	$0.72	$0.69	$0.77	***$0.79***	***$0.96***
Shares[2]	4,476	4,587	4,677	4,762	4,761	4,743	4,743	4,954	4,972	4,976	***4,980***	***5,000***

Deutsche Telekom's earnings growth has been somewhat volatile. The company has grown its earnings-per-share by 9.1% per year over the last decade. Management recently provided a strong guidance for 2024-2027. Assisted by the extensive use of data and artificial intelligence, the company expects to grow revenue and earnings-per-share at an average annual rate of 4% and 11%, respectively, through 2027. We have raised our assumed 5-year annual earnings-per-share growth rate from 5.0% to 8.0% to reflect the recent guidance of management while also maintaining a margin of safety, given the somewhat choppy performance record of the telecommunications giant.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.3	23.1	27.7	20.2	14.6	14.7	15.4	13.7	9.8	12.9	***15.8***	***15.0***
Avg. Yld.	4.2%	3.2%	3.7%	3.6%	4.7%	4.6%	4.2%	3.7%	3.6%	3.4%	***2.6%***	***2.3%***

[1] Estimated date for annual dividend.

[2] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Deutsche Telekom's price-to-earnings ratio has been volatile over the last decade, ranging from as high as 27.7 to as low as 9.8, with an average value of 18.0. We believe this historical valuation multiple is far too rich for a company like Deutsche Telekom. Given comparable valuations in the domestic telecommunications industry, our target for Deutsche Telekom's fair value is a price-to-earnings ratio of 15. The stock is now trading at an earnings multiple of 15.8. If it trades at our fair value estimate in five years, it will incur a -1.0% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

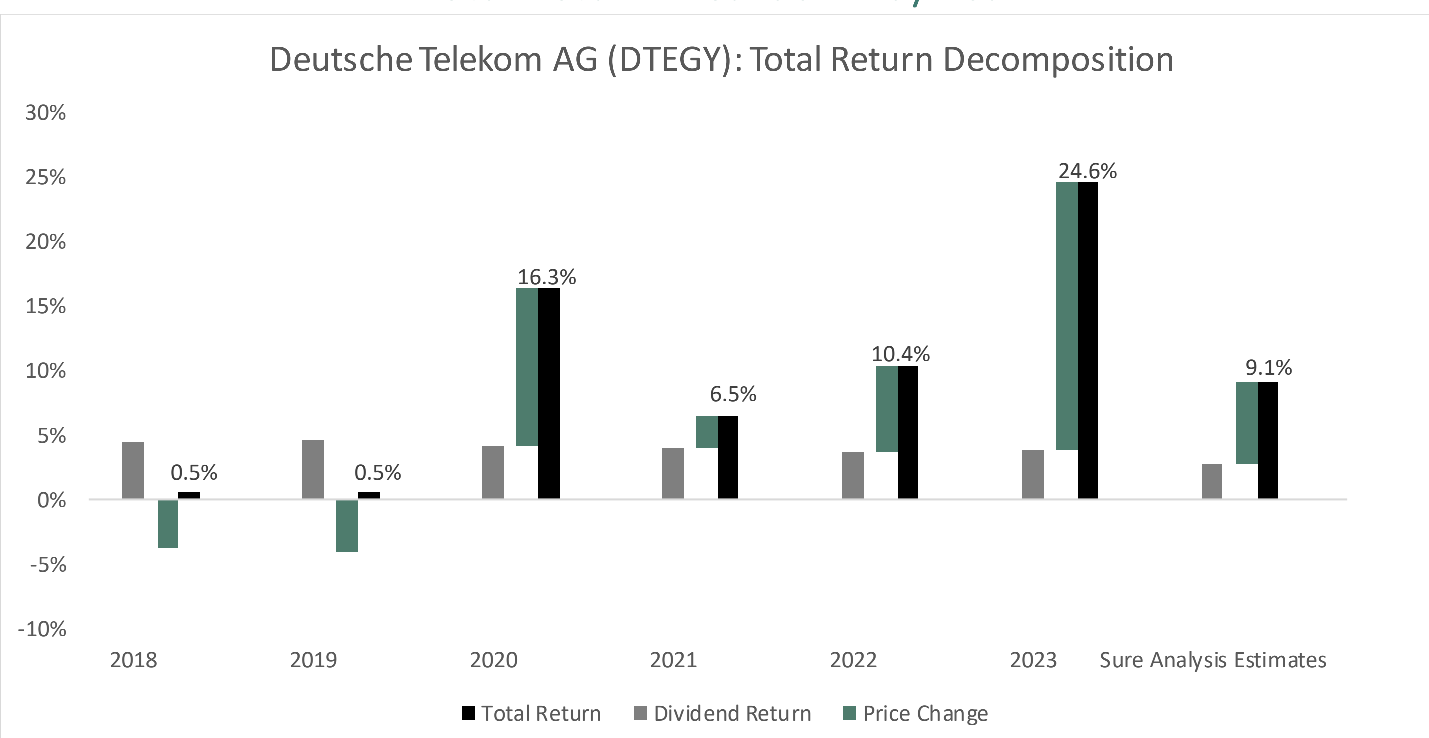
Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2029**
Payout	86.1%	72.7%	103%	73.0%	68.1%	68.2%	64.2%	50.0%	35.8%	44.5%	***41.6%***	***34.4%***

Deutsche Telekom has undisputed leadership within the European telecommunications market and is investing aggressively to maintain this position. Last year, the company invested $13.6 billion to build out its telecommunications network. Deutsche Telekom also has an investment-grade BBB credit rating from Standard & Poor's, which allows it to raise capital at attractive rates to continue investing in its future.

Final Thoughts & Recommendation

Deutsche Telekom provides exactly what most investors in the telecommunications sector are looking for: stability, cash flow, and a high dividend payout. Moreover, the company's global business model combined with its ~ 52% ownership of T-Mobile gives it exposure to telecommunications markets worldwide. In addition, the stock traded in a narrow range, between $14 and $21, most of the time in the last decade, but it has decisively broken above this range this year thanks to improved growth prospects. Moreover, the company has proved resilient to economic downturns. This feature makes it easier to hold the stock for the long term, without emotional pressure to sell during market sell-offs. The stock has rallied 30% in the last 12 months but it can still offer a 9.1% average annual return over the next five years thanks to 8.0% earnings growth and its 2.6% dividend, partly offset by a -1.0% valuation headwind. The stock appears highly attractive and maintains its 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	83325	76822	80899	84878	88975	89,767	115,026	128,396	119,810	120,503
Gross Profit	43290	39452	42180	44280	46772	51,133	67,158	72,999	67,031	72,342
Gross Margin	52.0%	51.4%	52.1%	52.2%	52.6%	57.0%	58.4%	56.9%	55.9%	60.0%
SG&A Exp.	314	353	336	399	509	477	716	892	1,005	693
D&A Exp.	14062	12606	14809	16519	16338	19,774	29,497	32,516	29,346	25,956
Operating Profit	6045	6591	7225	8204	9059	10,925	15,019	16,199	14,832	22,915
Op. Margin	7.3%	8.6%	8.9%	9.7%	10.2%	12.2%	13.1%	12.6%	12.4%	19.0%
Net Profit	3888	3611	2961	3920	2558	4,329	4,749	4,941	8,438	19,257
Net Margin	4.7%	4.7%	3.7%	4.6%	2.9%	4.8%	4.1%	3.8%	7.0%	16.0%
Free Cash Flow	2060	426	2095	-2603	6443	9759	5,766	6,870	12,344	21,037

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	157	157	157	170	166	191	326	319	320	321
Cash & Equivalents	9148	7540	8190	3973	4208	6,041	15,914	6,794	6,017	7,998
Acc. Receivable	12479	9573	9704	11461	11425	12,149	16,633	14,110	17,980	17,860
Inventories	1828	2019	1722	2381	2048	1,756	3,315	3,232	2,829	2,674
Goodwill & Int.	62704	62345	64063	75419	74296	76,400	145,218	150,188	163,966	163,438
Total Liab. ($B)	116	116	116	119	117	139	236	227	227	220
Accounts Payable	11711	12067	10982	13118	12239	10541	11,920	11,771	12,848	11,914
Long-Term Debt	64049	63080	61847	64721	67178	72480	125,896	123,335	116,845	111,444
Total Equity	30932	32143	30980	36872	35355	35517	44,183	48,322	52,074	62,925
LTD/E Ratio	2.07	1.96	2.00	1.76	1.90	2.04	2.85	2.55	2.24	1.77

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.4%	2.3%	1.9%	2.4%	1.5%	2.4%	1.8%	1.5%	2.6%	6.0%
Return on Equity	12.2%	11.4%	9.4%	11.6%	7.1%	12.2%	11.9%	10.7%	16.8%	19.8%
ROIC	3.6%	3.4%	2.9%	3.6%	2.2%	3.6%	2.8%	2.3%	4.0%	9.1%
Shares Out.	4,476	4,587	4,677	4,762	4,761	4,743	4,763	4,954	4,972	4,976
Revenue/Share	18.62	16.87	17.49	18.05	18.76	18.93	24.25	26.68	24.10	24.22
FCF/Share	0.46	0.09	0.45	-0.55	1.36	2.06	1.22	1.43	2.48	4.23

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