

## CenturyLink, Inc. (CTL)

**\$10.65** (As of 04/10/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/16/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: C

### Summary

CenturyLink continues to focus on four key areas — investing in growth through product and network expansions, delivering an enhanced customer experience across business, transforming operations to improve efficiency and employee experience, and deleveraging to strengthen its balance sheet. The company is well positioned to support customers as they shift to hybrid platforms. The company also intends to return significant value to shareholders, while investing in revenue and EBITDA growth drivers. However, its phone business has slowed down due to the substitution of wireline telephone services. Also, CenturyLink's huge debt burden is a concern. The dynamics of the communications industry is primarily governed by technological innovations, which involve massive investments. This can dilute the company's cash flow going forward.

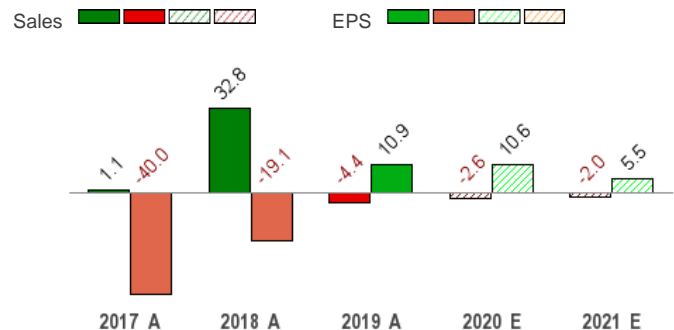
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$15.30 - \$8.16</b>
20 Day Average Volume (sh)	<b>16,083,346</b>
Market Cap	<b>\$11.6 B</b>
YTD Price Change	<b>-19.4%</b>
Beta	<b>0.99</b>
Dividend / Div Yld	<b>\$1.00 / 9.4%</b>
Industry	<a href="#">Wireless National</a>
Zacks Industry Rank	<b>Top 12% (30 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>0.0%</b>
Last Sales Surprise	<b>0.5%</b>
EPS F1 Est- 4 week change	<b>-1.2%</b>
Expected Report Date	<b>05/06/2020</b>
Earnings ESP	<b>1.4%</b>
P/E TTM	<b>8.1</b>
P/E F1	<b>7.3</b>
PEG F1	<b>1.1</b>
P/S TTM	<b>0.5</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,360 E	5,311 E	5,294 E	5,274 E	21,366 E
2020	5,486 E	5,468 E	5,454 E	5,425 E	21,810 E
2019	5,647 A	5,578 A	5,606 A	5,570 A	22,401 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.37 E	\$0.37 E	\$0.40 E	\$0.39 E	\$1.54 E
2020	\$0.36 E	\$0.36 E	\$0.36 E	\$0.38 E	\$1.46 E
2019	\$0.34 A	\$0.34 A	\$0.31 A	\$0.33 A	\$1.32 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/10/2020. The reports text is as of 04/13/2020.

## Overview

Based in Monroe, LA, CenturyLink, Inc. is a leading rural local exchange carrier providing a range of telecom services, including local and long distance voice, wholesale network access, high-speed Internet access, managed hosting and colocation services, and video services.

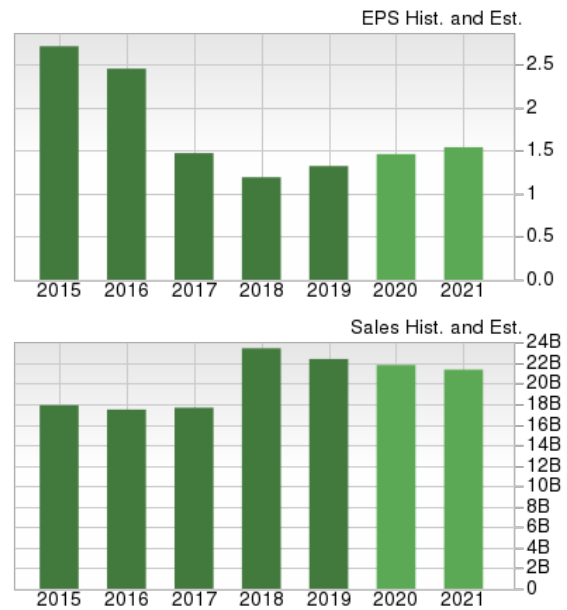
CenturyLink is an international facilities-based communications company engaged mainly in providing a wide range of integrated services to its business and residential customers. The company's terrestrial and subsea fiber optic long-haul network throughout North America, Europe, Latin America and Asia Pacific connects to metropolitan fiber networks that it operates.

It provides services in more than 60 countries, with a major portion of its revenues being derived in the United States. On Nov 1, 2017, CenturyLink acquired Level 3 through successive merger transactions. Upon closing, CenturyLink shareholders owned about 51% and Level 3 shareholders owned 49% of the combined firm.

The U.S. communications service provider reports under two operating segments – Consumer and Business.

**Consumer** (24.9% of aggregate operating revenues in fourth-quarter 2019): The segment provides products and services to residential consumers across 37 states.

**Business** (75.1%): The segment advances products and services to small to medium-sized businesses, enterprise, wholesale and governmental customers within the United States as well as in certain international markets.



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## Reasons To Buy:

- ▲ CenturyLink continues to focus on four key areas — investing in growth through product and network expansions, delivering an enhanced customer experience across business, transforming operations to improve efficiency and employee experience, and deleveraging to strengthen its balance sheet. The company is well-positioned to support customers as they shift to next-generation hybrid platforms to meet their networking needs. It is likely to capitalize opportunity for revenue growth from market dynamics such as growth in security, IoT, Big Data, 5G, AI and the demand for edge computing.
- ▲ The communications company intends to transform its business operations through product evolution and digitizing of customer interactions, which augurs well for healthy revenue growth. CenturyLink also introduced Dynamic Connections as part of its Cloud Connect portfolio and is working on the global expansion of its SD-WAN solutions, while expanding its platform to cloud service and software-as-a-service providers. It is focused on generating revenue growth in its business markets and believes the scale of its global assets alongside innovative product portfolio to be accretive to earnings. The company is working with customers to enable their 5G roadmaps while extending its fiber footprint.
- ▲ The company continues to invest in growth and operational efficiency. It is committed to delivering an excellent customer experience while enhancing its product capabilities including fiber network. The company remains focused on execution, particularly on improving revenue trajectory, maximizing profitability and staying disciplined on cost transformation and deleveraging. CenturyLink remains confident in its ability to meet its deleveraging objectives and reaching the target leverage range of 2.75-3.25x (net debt to adjusted EBITDA) within the next three years backed by healthy business fundamentals. The company intends to return significant value to shareholders while investing in revenue and EBITDA growth drivers.
- ▲ Furthermore, the acquisition of Level 3 Communications, Inc. has increased the company's network by 200,000 route miles of fiber including 64,000 route miles in 350 metropolitan areas and 33,000 subsea route miles connecting multiple continents. CenturyLink's Prism TV services are doing considerably well. We appreciate the company's commitment toward expanding its Prism TV services by foraying into additional households and markets. The growing momentum of CenturyLink's Prism IPTV service has prompted the company to plan the OTT launch. The company is investing in fiber-to-the-tower (FTTT) expansion and has expanded its fiber-based backhaul services. CenturyLink also expects its Managed Office and Managed Enterprise solutions to continue to gain traction and drive revenue growth on the back of increasing demands from small and large business customers. The company's broadband expansion goal will help it benefit from the increasing demand. CenturyLink has managed to enhance broadband speed with continuous investments in network development. Its IPTV rollout will likely bring further high-speed Gigabit broadband to new markets through the FTTH network infrastructure.
- ▲ CenturyLink is focused on bringing improved operational efficiencies through a number of methods including network simplification and rationalization. This should help the company improve its end-to-end provisioning time and drive standardization. CenturyLink has been trying all means to establish itself as a global leader in cloud infrastructure and hosted IT solutions arena designed for enterprise customers. Moreover, the company's strong network capabilities, integrated hosting and network solutions are likely to promote growth in the cloud business. Notably, the company views its managed and cloud services as a key differentiator from other players in the market which should boost its top line.

CenturyLink has been transforming its business operations through product evolution and digitizing of customer interactions, which augurs well for healthy revenue growth.

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## Reasons To Sell:

- ▼ CenturyLink's core local phone business has slowed down significantly due to the substitution of traditional wireline telephone services by wireless and other competitive offerings and lower long distance minutes of use. In addition to large telecommunications providers, the company faces intense competition from cable TV operators and other wireless companies which aggressively offer traditional voice service over their networks. Improvement in the quality of Voice over Internet Protocol services has enabled cable TV, Internet and telephone companies to offer services at attractive price points.
- ▼ Moreover, CenturyLink's cash and liquidity position appears to be a major concern. As of Dec 31, 2019, the communications company had \$1,690 million in cash and equivalents with \$32,394 million of long-term debt. Such accumulating high-debt level may pose threat to the company's margins, resulting in liquidity crisis, going forward.
- ▼ The dynamics of the communications industry is largely governed by technological advancements, which require massive investments and can dilute cash flows. This could substantially impact the company's ability to meet debt and other financial obligations. Alternatively, if CenturyLink fails to adopt new technology or network upgrades, it might result in greater subscriber loss to bigger competitors in the coming days.

CenturyLink continues to suffer from declining access lines along with broadband subscriber losses. High debt level remains another concern.

## Last Earnings Report

### CenturyLink Q4 Earnings Match Estimates, Revenues Beat

CenturyLink reported decent fourth-quarter 2019 results wherein the top line surpassed the Zacks Consensus Estimate. The Monroe, LA-based communications company made notable progress in 2019 with its fiber-based investments and transformation initiatives.

#### Net Income

Net income for the December quarter was \$223 million or 21 cents per share against net loss of \$2,412 million or loss of \$2.26 per share in the year-ago quarter. The improvement was driven by operating income and lower interest expense. For 2019, net loss was \$5,269 million or loss of \$4.92 per share compared with net loss of \$1,733 million or loss of \$1.63 per share in 2018.

Fourth-quarter net income (excluding integration and transformation costs, and special items) came in at \$352 million or 33 cents per share compared with \$394 million or 37 cents per share in the prior-year quarter. The bottom line matched the Zacks Consensus Estimate.

#### Revenues

Quarterly aggregate operating revenues declined 3.6% year over year to \$5,570 million, primarily due to lower sales at Wholesale and Consumer segment. This compares to declines of 3.6% in the third quarter, 5.5% in the second quarter and 5% in the first quarter of 2019. The result reflects tough year-over-year comparison as the company implemented guardrails to drive revenues during the course of 2018. The top line surpassed the consensus estimate of \$5,544 million. For 2019, revenues decreased 4.4% year over year to \$22,401 million.

By business segment, Small and Medium business revenues decreased 3.3% year over year to \$731 million, as revenue pressures from legacy services more than offset growth from new services and expansion in addressable market. Revenues from Wholesale fell 7.4% year over year to \$994 million due to ongoing industry consolidation and technology evolution.

Consumer revenues decreased to \$1,386 million from \$1,467 million in the year-ago quarter. Within this business, 2019 was somewhat of a transitional year that underscored two areas — to focus on fiber as the premier last-mile access solution outside of CenturyLink's CAF II market and the ramp down in its linear TV product.

Revenues from International and Global Accounts decreased 2.1% year over year to \$904 million. Enterprise revenues remained stable year over year at \$1,555 million, backed by installs from sales earlier in the year as well as strength in the federal government channel.

#### Other Quarterly Details

Total operating expenses reduced by 38% year over year to \$4,723 million, primarily due to absence of goodwill impairment which amounted to \$2,726 million in fourth-quarter 2018, and lower cost of services and products. Operating income was \$847 million against operating loss of \$1,841 million in the prior-year quarter, supported by lower operating expenses. Adjusted EBITDA slipped to \$2,105 million from \$2,189 million in the year-ago quarter. Adjusted EBITDA margin was 37.8% compared with 37.9% a year ago. Capital expenditures were \$940 million compared with \$915 million in the prior-year quarter.

#### Cash Flow & Liquidity

In 2019, CenturyLink generated \$6,680 million of net cash from operating activities compared with \$7,032 million in 2018. For the same period, free cash flow (excluding cash integration and transformation costs, and special items) was \$3,276 million compared with \$4,215 million in 2018. As of Dec 31, 2019, the company had \$1,690 million in cash and equivalents with \$32,394 million of long-term debt compared with the respective tallies of \$488 million and \$35,409 million a year ago.

#### 2020 Guidance

CenturyLink has provided its financial targets for 2020. It expects adjusted EBITDA of \$9.0-\$9.2 billion. While free cash flow is expected in the range of \$3.1-\$3.4 billion, net cash interest is estimated between \$1.75 billion and \$1.80 billion. Capital expenditures are anticipated between \$3.6 billion and \$3.9 billion, and depreciation and amortization are expected in the range of \$4.7-\$4.9 billion. Effective income tax rate is likely to be around 28%.

#### Going Forward

CenturyLink continues to execute strategy around four key areas — investing in growth through product and network expansions, delivering an enhanced customer experience across business, transforming operations to improve efficiency and employee experience, and deleveraging to strengthen its balance sheet.

The company is well-positioned to support customers as they shift to next-generation hybrid platforms to meet their networking needs. It is likely to capitalize opportunity for revenue growth from market dynamics such as growth in security, IoT, Big Data, 5G, AI and the demand for edge computing.

### Quarter Ending 12/2019

Report Date	Feb 12, 2020
Sales Surprise	0.48%
EPS Surprise	0.00%
Quarterly EPS	0.33
Annual EPS (TTM)	1.32

## Recent News

On Apr 1, 2020, CenturyLink announced that it is providing high-speed Internet connections to makeshift hospital facilities created to help alleviate the burden on the country's healthcare system. Notably, the company is responding to requests for services and installing connections within 48 hours.

On Mar 23, CenturyLink announced that it has adopted some concrete steps to offer immediate relief and protection to its employees as the world strives against the coronavirus menace. The company is voluntarily providing 80 hours of emergency paid time off (PTO) to its entire U.S. workforce in addition to all the existing allotments of paid time off, sick leave as well as other company-provided paid and unpaid leaves. The largesse is further extended to its Canada-based employees to the extent of 75 hours of PTO.

On Mar 10, CenturyLink announced that it has extended its long-standing partnership with IBM to reinforce seamless cloud connectivity across enterprises. The company added IBM's much-acclaimed Cloud Direct Link services to its accretive portfolio of Cloud Connect Dynamic Connections.

On Feb 24, CenturyLink announced that it has teamed up with Microsoft's cloud computing service, Azure, to be part of the Networking Managed Service Provider Program. The alliance is likely to reinvigorate CenturyLink's commitment to edge computing services, fueled by increasing migration of enterprise workloads to multi-cloud networking environments.

On Jan 6, CenturyLink announced that it has augmented its portfolio of voice and real-time communication services by including CenturyLink Engage. The company's solution enables customers to bring their own Internet and offers the option to improve performance by using the service on its network. This service, available to the members of CenturyLink's Channel Partner Program, is part of the voice and unified communications portfolio.

## Valuation

CenturyLink shares are down 11% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are down 1.6% and 0.9% over the past year, respectively.

The S&P 500 Index is down 4.6% in the past year.

The stock is currently trading at 5.28X trailing 12-month EV/EBITDA, which compares to 5.83X for the Zacks sub-industry, 10.55X for the Zacks sector and 10.23X for the S&P 500 Index.

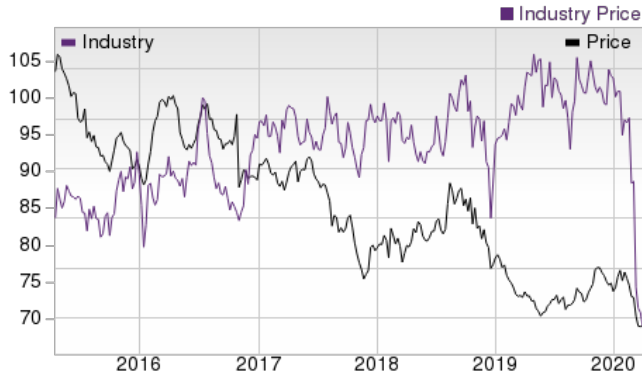
Over the past five years, the stock has traded as high as 10.5X and as low as 4.4X, with a 5-year median of 5.4X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$12 price target reflects 1.67X forward 12-month earnings.

The table below shows summary valuation data for CTL

Valuation Multiples - CTL					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	5.28	5.83	10.55	10.23
	5-Year High	10.5	11.55	12.82	12.87
	5-Year Low	4.37	5.41	7.55	8.27
	5-Year Median	5.42	6.75	10.58	10.78
P/E F12M	Current	7.18	10.81	20.33	18.16
	5-Year High	21.95	15	21.91	19.34
	5-Year Low	6.22	10.02	16.71	15.19
	5-Year Median	11.36	12.49	19.21	17.45
P/S F12M	Current	0.54	1.46	3.19	3.08
	5-Year High	1.35	1.67	3.58	3.44
	5-Year Low	0.47	1.17	2.32	2.54
	5-Year Median	0.8	1.44	3.09	3.01

As of 04/09/2020

## Industry Analysis Zacks Industry Rank: Top 12% (30 out of 253)



## Top Peers

Cogent Communications Holdings, Inc. (CCOI)	Outperform
ATN International, Inc. (ATNI)	Neutral
Altice USA, Inc. (ATUS)	Neutral
GCI Liberty, Inc. (GLIBA)	Neutral
Gogo Inc. (GOGO)	Neutral
Liberty Global PLC (LILA)	Neutral
AT&T Inc. (T)	Neutral
United States Cellular Corporation (USM)	Neutral

Industry Comparison Industry: Wireless National				Industry Peers		
	CTL Neutral	X Industry	S&P 500	ATNI Neutral	ATUS Neutral	USM Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>D</b>	<b>B</b>	<b>D</b>
Market Cap	11.60 B	223.39 M	19.66 B	1.03 B	15.45 B	2.68 B
# of Analysts	7	5	13	2	6	4
Dividend Yield	9.39%	0.00%	2.18%	1.06%	0.00%	0.00%
<b>Value Score</b>	<b>A</b>	-	-	<b>C</b>	<b>C</b>	<b>B</b>
Cash/Price	0.17	0.12	0.06	0.18	0.05	0.12
EV/EBITDA	20.94	8.02	11.72	9.65	9.59	4.78
PEG Ratio	1.01	1.60	2.04	NA	NA	NA
Price/Book (P/B)	0.86	1.11	2.66	1.27	6.83	0.64
Price/Cash Flow (P/CF)	1.86	5.64	10.44	11.26	5.77	3.23
P/E (F1)	6.96	18.48	17.51	1,605.25	33.54	25.20
Price/Sales (P/S)	0.52	0.99	2.12	2.34	1.58	0.67
Earnings Yield	13.71%	4.62%	5.65%	0.06%	2.97%	3.98%
Debt/Equity	2.50	0.54	0.70	0.17	10.76	0.56
Cash Flow (\$/share)	5.72	2.47	7.01	5.70	4.27	9.62
<b>Growth Score</b>	<b>A</b>	-	-	<b>F</b>	<b>C</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	-19.37%	6.07%	10.92%	-32.00%	NA	24.68%
Proj. EPS Growth (F1/F0)	10.50%	2.32%	-1.14%	136.36%	249.20%	-14.24%
Curr. Cash Flow Growth	-2.30%	3.99%	5.93%	-14.75%	6.97%	4.94%
Hist. Cash Flow Growth (3-5 yrs)	1.14%	2.65%	8.55%	-2.08%	NA	10.62%
Current Ratio	0.66	1.68	1.24	1.91	0.70	2.10
Debt/Capital	71.46%	50.20%	42.36%	14.69%	91.50%	36.10%
Net Margin	-23.52%	-2.46%	11.64%	-2.46%	1.42%	3.13%
Return on Equity	10.36%	1.39%	16.74%	-0.25%	13.32%	3.02%
Sales/Assets	0.35	0.49	0.54	0.38	0.29	0.49
Proj. Sales Growth (F1/F0)	-2.64%	0.00%	0.45%	14.79%	3.78%	0.29%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>C</b>	<b>C</b>	<b>F</b>
Daily Price Chg	8.34%	1.49%	2.48%	9.52%	2.46%	1.90%
1 Week Price Chg	0.55%	-0.71%	-4.40%	5.65%	-2.36%	-7.51%
4 Week Price Chg	14.76%	10.33%	11.26%	37.11%	18.50%	22.95%
12 Week Price Chg	-21.46%	-19.16%	-20.02%	14.05%	-15.00%	-14.55%
52 Week Price Chg	-15.41%	-23.85%	-11.31%	8.44%	7.28%	-34.33%
20 Day Average Volume	16,083,346	416,787	3,931,994	69,032	7,828,779	282,765
(F1) EPS Est 1 week change	-0.20%	0.00%	-0.12%	0.00%	-1.79%	-0.20%
(F1) EPS Est 4 week change	-1.16%	-1.43%	-5.78%	0.00%	-6.98%	-20.96%
(F1) EPS Est 12 week change	1.29%	-5.98%	-7.64%	-84.31%	-18.00%	-20.45%
(Q1) EPS Est Mthly Chg	-1.63%	-3.45%	-10.13%	0.00%	-3.85%	-26.72%

## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	C
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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