

CenturyLink, Inc. (CTL)

\$13.09 (As of 01/13/20)

Price Target (6-12 Months): **\$14.00**

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: F

Summary

CenturyLink remains focused on digitally transforming its business through product evolution, improvement in customer experience, network simplification and streamlining operations for employees. The company is working with customers to enable their 5G roadmaps while expanding its fiber footprint. It anticipates to return significant value to shareholders while investing in revenue and EBITDA growth drivers. However, its phone business has slackened due to the replacement of wireline telephone services by wireless services, which leads to greater subscriber loss. CenturyLink's high debt level also poses a concern. The communications industry is mostly governed by technological innovations, involving considerable investments, which may ultimately lead to dilution of the company's cash flow.

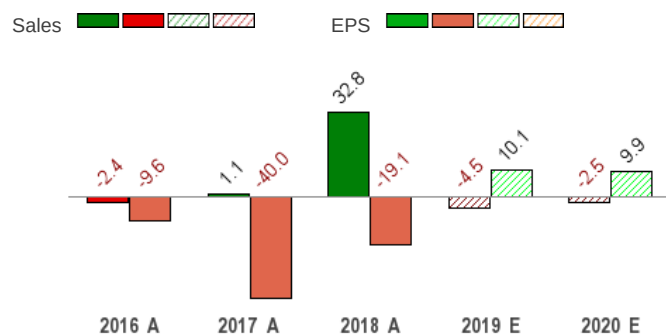
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$16.44 - \$9.64
20 Day Average Volume (sh)	10,656,478
Market Cap	\$14.3 B
YTD Price Change	-0.9%
Beta	0.87
Dividend / Div Yld	\$1.00 / 7.6%
Industry	Wireless National
Zacks Industry Rank	Bottom 14% (218 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.1%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/12/2020
Earnings ESP	0.0%
P/E TTM	9.6
P/E F1	9.1
PEG F1	1.0
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	5,528 E	5,504 E	5,489 E	5,407 E	21,822 E
2019	5,647 A	5,578 A	5,606 A	5,544 E	22,381 E
2018	5,945 A	6,040 A	5,818 A	5,778 A	23,443 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.38 E	\$0.39 E	\$0.37 E	\$0.38 E	\$1.44 E
2019	\$0.34 A	\$0.34 A	\$0.31 A	\$0.33 E	\$1.31 E
2018	\$0.25 A	\$0.26 A	\$0.30 A	\$0.37 A	\$1.19 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 01/13/2020. The reports text is as of 01/14/2020.

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.

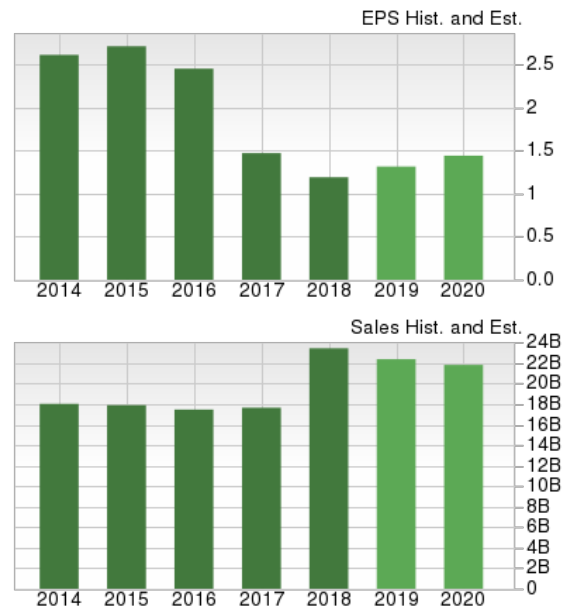
CenturyLink is an international facilities-based communications company engaged mainly in providing a wide range of integrated services to its business and residential customers. The company's terrestrial and subsea fiber optic long-haul network throughout North America, Europe, Latin America and Asia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



Reasons To Buy:

- ▲ CenturyLink is shifting focus from integration to transformation efforts. 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.
- ▲ CenturyLink 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 fortified its global edge delivery footprint in 11 cities across Asia Pacific (APAC) by leveraging the revamped version of its Edge Computing platform — Content Delivery Network (CDN). The company's CDN service provides top-notch technology to ensure increased bandwidth to cater to the burgeoning demands from over-the-top video streaming platforms, advanced gaming platforms and global broadcasters. The strategic move is likely to facilitate the digital transformation of most APAC businesses and enable them to shift toward an agile networking infrastructure that seamlessly integrate various technology platforms, applications and services. This, in turn, is likely to strengthen its market position and supplement top-line growth.

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

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 Sep 30, 2019, the communications company had \$1,404 million in cash and equivalents with \$33,381 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 Q3 Earnings Miss, Revenues Beat Estimates

CenturyLink reported mixed third-quarter 2019 financial results, wherein the top line surpassed the Zacks Consensus Estimate but the bottom line missed the same.

Net Income

Net income for the September quarter was \$302 million or 28 cents per share compared with \$272 million or 25 cents per share in the year-ago quarter. The improvement was primarily due to higher operating income and lower interest expense.

Net income (excluding the aggregate effects of integration and transformation costs, and special items of \$26 million and \$55 million, respectively) came in at \$328 million or 31 cents per share compared with \$327 million or 30 cents per share in the prior-year quarter. The bottom line, however, missed the Zacks Consensus Estimate by a penny.

Revenues

Quarterly consolidated operating revenues declined 3.6% year over year to \$5,606 million primarily due to lower revenues at Consumer segment. This compares to declines of 5.5% in the second quarter and 5% in the first quarter of 2019. The company witnessed a substantial increase in Universal Service Fund rates in the reported quarter. The top line, however, surpassed the consensus estimate of \$5,551 million.

By business unit, Small & Medium business revenues were \$734 million compared with \$785 million reported in the prior-year quarter mainly due to decline in legacy voice services. Revenues from Wholesale declined 6.6% year over year to \$1,025 million, despite recording a \$15 million benefit from a carrier settlement. Consumer revenues were \$1,398 million compared with \$1,539 million in the third quarter of 2018. This, however, reflected a \$40 million benefit from a revenue recognition-related adjustment completed during the year-ago quarter.

Despite currency pressures, revenues from International & Global Accounts grew 0.8% year over year to \$899 million. Enterprise revenues totaled \$1,550 million, up 3%, driven by installs from sales earlier in the year as well as strength in the federal government channel. Overall, the company has progressed toward its objective of growing both International & Global Accounts and Enterprise revenues in the second half of 2019 compared with the first half.

Other Quarterly Details

Total operating expenses reduced 5.4% year over year to \$4,656 million attributable to lower cost of services & products, and SG&A expenses. Operating income was \$950 million compared with \$894 million in the prior-year quarter supported by decline in expenses. Adjusted EBITDA slipped to \$2,223 million from \$2,228 million. Adjusted EBITDA margin was 39.7% compared with 38.3% a year ago, driven by cost-transformation initiatives.

Capital expenditures were \$957 million compared with \$684 million in the prior-year quarter. The company continues to invest in expanding its fiber footprint, adding buildings to the network. During the third quarter, it added nearly 4900 new fiber-fed buildings, bringing the year-to-date tally to 14,500.

Cash Flow & Liquidity

During the first nine months of 2019, CenturyLink generated \$4,771 million of net cash from operating activities compared with \$5,036 million in the year-ago period. For the third quarter, free cash flow (excluding cash integration and transformation costs, and special items) was \$983 million compared with \$1,163 million in the prior-year quarter. As of Sep 30, 2019, the communications company had \$1,404 million in cash and equivalents with \$33,381 million of long-term debt.

2019 Guidance Reiterated

CenturyLink has reiterated all of its financial targets for full-year 2019. It continues to expect adjusted EBITDA of \$9.00-\$9.20 billion. While free cash flow is expected in the range of \$3.10-\$3.40 billion, free cash flow after dividends is projected between \$2.005 billion and \$2.305 billion. Capital expenditures are anticipated between \$3.50 billion and \$3.80 billion, and depreciation and amortization are expected to be \$4.75-\$4.85 billion. Effective income tax rate is expected to be about 25%.

Outlook

CenturyLink 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.

Further, 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.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	1.08%
EPS Surprise	-3.12%
Quarterly EPS	0.31
Annual EPS (TTM)	1.36

Recent News

On Dec 12, 2019, CenturyLink announced its collaboration with Intel to develop an advanced gateway to deliver ultra-fast gigabit speeds via FTTH and DOCSIS powered broadband networks. The company's latest generation of WiFi, WiFi 6, has been specifically designed to meet the burgeoning demands of premium home connectivity by reinforcing low-latency data transmission with enhanced security features to protect valuable customer data. The gateway will leverage Intel's state-of-the-art technology, Wi-Fi 6 Gig+ technology, to increase data-capacity and support managed network services.

On Dec 9, 2019, CenturyLink announced that it has fortified its global edge delivery footprint in 11 cities across APAC by leveraging the revamped version of its Edge Computing platform — CDN. The company's CDN service provides top-notch technology to ensure increased bandwidth to cater to the burgeoning demands from over-the-top video streaming platforms, advanced gaming platforms and global broadcasters. The strategic move is likely to facilitate the digital transformation of most APAC businesses and enable them to shift toward an agile networking infrastructure that seamlessly integrate various technology platforms, applications and services.

On Dec 3, 2019, Century Link has announced the creation of first-of-a-kind managed solution, CenturyLink Network Storage, to provide enterprise grade data storage facility. The avant-garde technology solves latency issues, reduces complexity and adapts to multiple platforms, thereby gaining a competitive advantage for accessing, storing and processing real-time data. It is a flexible data management solution, which is likely to deliver improved customer experience and agile data infrastructure with an optimal cost structure.

On Nov 21, 2019, CenturyLink announced that it has unveiled the revamped version of its Edge Computing platform — CDN — to create a more reliable, dynamic and customized web experience for application developers. The avant-garde content delivery model provides multiple benefits for enhancing application performance by leveraging a secure and private mesh delivery system to offer a fully transparent, customizable and controllable edge platform. This strategic move is likely to strengthen the company's position as a leading provider in the content delivery market by reinforcing its commitment toward edge computing services.

On Nov 18, 2019, CenturyLink announced that it has collaborated with Infinera to support SCinet's high-performance network with adequate speed and agility. The tech companies will be providing top-notch equipment and services to meet the supercomputing requirements in the conference for networking, storage and analysis — SC19. The deployment of the trailblazing technology, supported by a strong 450,000-route-mile fiber network and Infinera's automated transport solutions will connect the Colorado Convention Center. This will provide CenturyLink's 100-gigabit services for long-haul connectivity applications.

Valuation

CenturyLink shares are down 19.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 10.5% and 33.7% over the past year, respectively.

The S&P 500 index is up 25.1% in the past year.

The stock is currently trading at 5.62X trailing 12-month EV/EBITDA, which compares to 6.32X for the Zacks sub-industry, 12.41X for the Zacks sector and 12.12X for the S&P 500 index.

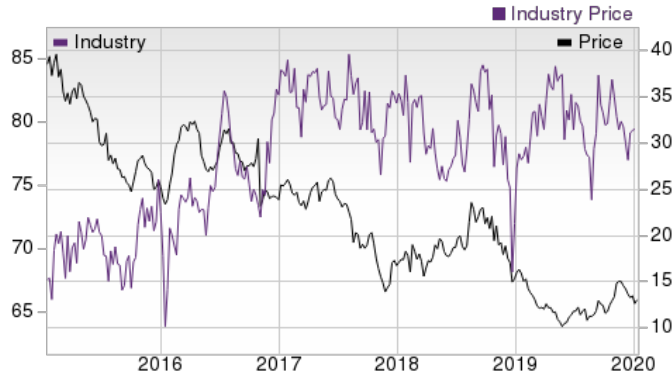
Over the past five years, the stock has traded as high as 10.5X and as low as 4.5X, with a 5-year median of 5.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$14 price target reflects 1.54X forward 12-month earnings.

The table below shows summary valuation data for CTL

Valuation Multiples - CTL					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	5.62	6.32	12.41	12.12
	5-Year High	10.46	11.62	12.6	12.86
	5-Year Low	4.45	5.99	7.68	8.48
	5-Year Median	5.4	6.67	10.52	10.67
P/E F12M	Current	9.09	12.28	22.94	19
	5-Year High	21.95	16.01	22.94	19.34
	5-Year Low	7.31	10.88	16.87	15.17
	5-Year Median	11.59	13.79	19.24	17.44
P/S F12M	Current	0.65	1.5	3.7	3.52
	5-Year High	1.35	1.54	3.7	3.52
	5-Year Low	0.47	1.12	2.3	2.54
	5-Year Median	0.82	1.34	3.01	3

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (218 out of 254)



Top Peers

DISH Network Corporation (DISH)	Outperform
Gogo Inc. (GOGO)	Outperform
ATN International, Inc. (ATNI)	Neutral
Altice USA, Inc. (ATUS)	Neutral
Cincinnati Bell Inc (CBB)	Neutral
Frontier Communications Corporation (FTR)	Neutral
AT&T Inc. (T)	Neutral
Verizon Communications Inc. (VZ)	Neutral

Industry Comparison Industry: Wireless National				Industry Peers		
	CTL Neutral	X Industry	S&P 500	CBB Neutral	T Neutral	VZ Neutral
VGM Score	A	-	-	C	A	A
Market Cap	14.27 B	489.28 M	24.31 B	542.53 M	278.32 B	244.63 B
# of Analysts	5	6	13	1	17	16
Dividend Yield	7.64%	0.00%	1.76%	0.00%	5.46%	4.16%
Value Score	A	-	-	C	A	B
Cash/Price	0.10	0.11	0.04	0.01	0.02	0.01
EV/EBITDA	8.28	5.46	14.12	8.05	6.54	8.64
PEG Ratio	1.04	3.06	2.05	NA	2.39	3.72
Price/Book (P/B)	1.04	1.41	3.34	NA	1.43	4.06
Price/Cash Flow (P/CF)	2.21	6.63	13.66	2.69	4.17	6.63
P/E (F1)	9.10	14.80	18.82	NA	10.56	11.97
Price/Sales (P/S)	0.63	0.94	2.64	0.35	1.53	1.86
Earnings Yield	11.00%	1.35%	5.29%	-9.85%	9.48%	8.35%
Debt/Equity	2.54	0.59	0.72	-7.53	0.79	1.99
Cash Flow (\$/share)	5.92	2.78	6.94	3.99	9.14	8.93
Growth Score	A	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	-19.36%	6.19%	10.56%	NA	8.60%	6.19%
Proj. EPS Growth (F1/F0)	9.59%	24.53%	7.49%	17.19%	1.24%	2.33%
Curr. Cash Flow Growth	31.43%	14.35%	14.83%	0.30%	29.91%	14.35%
Hist. Cash Flow Growth (3-5 yrs)	0.77%	7.86%	9.00%	2.16%	12.00%	8.29%
Current Ratio	0.70	0.91	1.23	0.75	0.74	0.89
Debt/Capital	71.75%	51.35%	42.99%	NA	44.14%	66.55%
Net Margin	-34.96%	-0.32%	11.08%	-4.92%	8.97%	12.26%
Return on Equity	9.56%	0.02%	17.16%	NA	13.42%	34.50%
Sales/Assets	0.34	0.50	0.55	0.58	0.34	0.47
Proj. Sales Growth (F1/F0)	-2.50%	5.05%	4.23%	0.28%	0.41%	1.32%
Momentum Score	F	-	-	F	A	C
Daily Price Chg	0.77%	0.00%	0.73%	0.19%	-1.22%	0.27%
1 Week Price Chg	3.18%	-2.58%	0.39%	3.47%	-1.25%	-2.33%
4 Week Price Chg	-3.61%	-1.74%	1.84%	41.95%	-1.27%	-3.40%
12 Week Price Chg	5.48%	-0.49%	6.48%	129.91%	-0.34%	-2.63%
52 Week Price Chg	-19.30%	-14.29%	23.15%	26.00%	24.43%	1.93%
20 Day Average Volume	10,656,478	288,823	1,578,594	1,290,918	25,841,946	12,565,670
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.88%	-0.07%
(F1) EPS Est 4 week change	-0.10%	0.00%	0.00%	-25.44%	0.86%	-0.34%
(F1) EPS Est 12 week change	5.59%	-0.20%	-0.48%	-63.71%	-0.21%	0.88%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.20%	0.57%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
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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