

CenturyLink, Inc. (CTL)

\$10.85 (As of 08/13/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

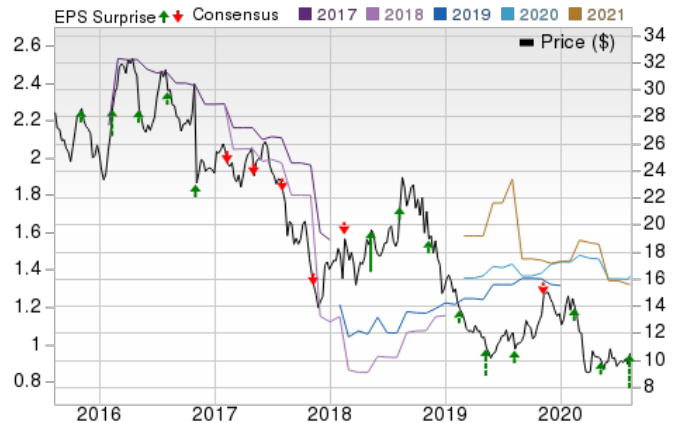
Growth: B

Momentum: F

Summary

CenturyLink's fiber and IP-based network capacity enables it to support customers and boost shareholders' value. The company is focused on four areas — investing in growth through product and network expansions, delivering enhanced customer experience across business, transforming operations to improve efficiency and employee experience as well as deleveraging to strengthen its balance sheet. It reported decent second-quarter results with earnings and revenues beating respective estimates. However, CenturyLink's huge debt burden is a concern. The dynamics of the communications industry is governed by technological advances, which involve massive investments and can dilute its cash flow. Its local phone business has slowed down due to the substitution of wireline telephone services by wireless and other competitive offerings.

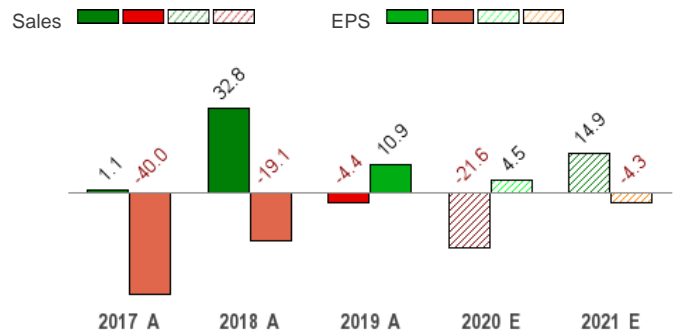
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$15.30 - \$8.16
20 Day Average Volume (sh)	12,967,694
Market Cap	\$11.9 B
YTD Price Change	-17.9%
Beta	0.93
Dividend / Div Yld	\$1.00 / 9.2%
Industry	Wireless National
Zacks Industry Rank	Bottom 23% (195 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	31.3%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	2.1%
Expected Report Date	11/04/2020
Earnings ESP	0.8%
P/E TTM	7.6
P/E F1	7.9
PEG F1	1.3
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,000 E	4,980 E	4,997 E	5,017 E	20,169 E
2020	5,228 A	5,192 A	5,155 E	5,143 E	17,554 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	\$0.34 E	\$0.32 E	\$0.33 E	\$0.33 E	\$1.32 E
2020	\$0.37 A	\$0.42 A	\$0.31 E	\$0.30 E	\$1.38 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 08/13/2020. The reports text is as of 08/14/2020.

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 communications service provider reports under five operating segments – International and Global Accounts Management (IGAM), Enterprise, Small and Medium Business (SMB), Wholesale and Consumer.

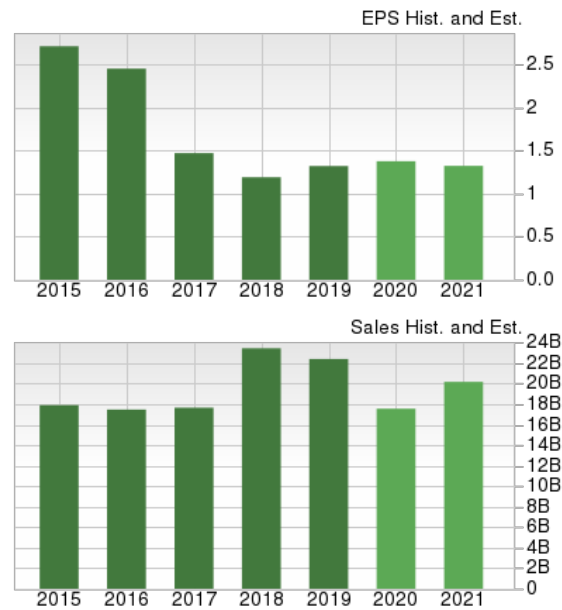
IGAM (16.4% of aggregate revenues in second-quarter 2020): This segment offers products and services to almost 200 global enterprise customers and operates across Latin America, Asia-Pacific and Europe, the Middle East and Africa.

Enterprise (27.6%): This segment provides products and services to the public sector organizations as well as large and regional domestic and global enterprises.

SMB (12.4%): This segment offers products and services to small and medium businesses directly as well indirectly via channel partners.

Wholesale (18.3%): This segment provides products and services to a broad range of communication providers including small regional providers and large global telecom providers across wireless, cable, data center and wireline sectors.

Consumer (25.3%): This segment provides products and services to residential consumers across 37 states.



Reasons To Buy:

▲ CenturyLink's fiber and IP-based network capacity positions it well to support customers and boost shareholders' value in the long term. The company is focused on four key areas — investing in growth through product and network expansions, delivering enhanced customer experience across business, transforming operations to improve efficiency and employee experience as well as deleveraging to strengthen its balance sheet. It is likely to capitalize on opportunity for revenue growth from market dynamics such as growth in security, IoT, Big Data, 5G, AI and the demand for edge computing. CenturyLink plans to expand its network infrastructure in 20 cities this year, as it helps enterprise businesses meet the growing demand for high-speed connectivity.

CenturyLink's fiber and IP-based network capacity positions it well to support customers and boost shareholders' value in the long term.

▲ The company aims to transform its business operations through product evolution and digitizing of customer interactions, which augurs well for revenue growth. CenturyLink 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 is focused on execution, particularly on improving revenue trajectory, maximizing profitability and staying disciplined on cost transformation and deleveraging. CenturyLink is confident in its ability to meet its deleveraging objectives and reach the target leverage range of 2.75-3.25x (net debt to adjusted EBITDA) within the next three years. The company intends to return significant value to shareholders while investing in revenue and EBITDA growth drivers.

▲ The acquisition of Level 3 Communications 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 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 managed to enhance broadband speed with 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 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. The company's managed and cloud services are key differentiator from other players in the market.

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. In the last reported quarter, CenturyLink had a net loss of 29,000 total broadband subs.
- ▼ As of Jun 30, 2020, the company had \$1,763 million in cash and equivalents with \$31,414 million of long-term debt compared with the respective tallies of \$1,567 million and \$34,797 million at the end of the previous quarter. CenturyLink currently has a debt-to-capital ratio of 0.72 compared with 0.52 of the industry. The times interest earned (TIE) ratio is currently pegged at 1.9 compared with 3.9 for the industry. This suggests that the company is less likely to meet its debt obligations. CenturyLink has a dividend payout rate of 69.9% compared with 52.9% of the industry. The rate has declined in the past quarters, which indicates that the company is sharing less of its earnings with shareholders. It is to be seen whether CenturyLink can turn the tables in the coming days amid disruptions stemming from the COVID-19 crisis.
- ▼ 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 upgrade networks, it might result in greater subscriber loss to bigger competitors in the future. Moreover, CenturyLink's bottom line has contracted over the past quarters as operating expenses have increased.

Due to uncertainties related to COVID-19, CenturyLink has withdrawn its 2020 outlook for adjusted EBITDA, free cash flow and capital expenditures. Huge debt burden is another concern.

Last Earnings Report

CenturyLink Q2 Earnings Top Estimates, Revenues Down

CenturyLink reported decent second-quarter 2020 results, with the top and bottom line beating the Zacks Consensus Estimate. However, lower revenues in the Consumer, Wholesale, SMB and IGAM segments led to year over year top-line contraction.

Net Income

Net income in the June quarter was \$377 million or 35 cents per share compared with \$371 million or 35 cents per share in the year-ago quarter. The year-over-over improvement can be attributed to lower operating expenses.

Second-quarter net income (excluding integration and transformation costs, and special items) came in at \$450 million or 42 cents per share compared with \$369 million or 34 cents per share in the prior-year quarter. The bottom line beat the Zacks Consensus Estimate by 10 cents.

Revenues

Quarterly total operating revenues declined 3.4% year over year to \$5,192 million due to lower sales in the Consumer, Wholesale, SMB and International and Global Accounts (IGAM) segments. Nevertheless, the top line surpassed the consensus estimate of \$5,138 million.

CenturyLink's revenues are largely recurring in nature with a well-diversified customer base. By segment, SMB revenues fell 6.1% year over year to \$646 million, due to persistent deterioration in legacy voice services. Revenues in Wholesale fell 6.3% year over year to \$948 million. CenturyLink expects customers to continue to optimize spending with other vendors in this environment and anticipates witnessing healthy momentum in the upcoming quarters with 5G investments. Consumer revenues fell to \$1,316 million from \$1,389 million in the year-ago quarter, primarily due to decline in legacy voice revenues. However, it was partially offset by growth in Broadband. The company continues to focus on improving broadband revenue performance while boosting the penetration of competitive assets. In the reported quarter, CenturyLink saw a net loss of 29,000 total broadband subs. In speeds of 100 meg and above, it added 68,000 subs.

Revenues in IGAM declined 3.2% year over year to \$849 million due to currency headwinds along with reduced levels of activity across Asia, Latin America and Europe stemming from COVID-19 related business shutdowns. Meanwhile, Enterprise revenues inched up 1.7% year over year to \$1,433 million, primarily driven by solid collaboration services on the back of a revamped network infrastructure. Despite COVID-19 challenges, the company expects both IGAM and Enterprise segments to witness a significant push in their digital strategies with growing sales orders in the near term.

Other Details

Total operating expenses declined 2.5% year over year to \$4,289 million, primarily due to lower SG&A and amortization expenses. Operating income was \$903 million compared with \$976 million in the prior-year quarter. Adjusted EBITDA slipped to \$2,085 million from \$2,215 million in the year-ago quarter. The adjusted EBITDA margin was 40.2% compared with 41.2% in the year-ago quarter. Capital expenditures were \$1,009 million compared with \$800 million in the prior-year quarter.

Cash Flow & Liquidity

In the first six months of 2020, CenturyLink generated \$3,048 million of net cash from operations compared with \$2,883 million in the year-ago quarter. Free cash flow (excluding cash integration and transformation costs, and special items) for the quarter was \$803 million compared with \$956 million in the prior-year quarter. As of Jun 30, the company had \$1,763 million in cash and cash equivalents with \$31,414 million of long-term debt. Notably, 2020-2025 debt maturities have been reduced by approximately \$14 billion.

2020 Guidance Updated

Due to uncertainties related to COVID-19, CenturyLink has withdrawn its 2020 outlook for adjusted EBITDA, free cash flow and capital expenditures. However, the company expects net cash interest in the range of \$1.65-\$1.70 billion down from the prior guidance of \$1.75-\$1.80 billion. Depreciation and amortization outlook remained unchanged within the range of \$4.7-\$4.9 billion. The effective income tax rate, too, remained unchanged and is likely to be around 28%.

Quarter Ending **06/2020**

Report Date	Aug 05, 2020
Sales Surprise	1.05%
EPS Surprise	31.25%
Quarterly EPS	0.42
Annual EPS (TTM)	1.43

Recent News

On Jul 28, 2020, CenturyLink announced that it has won a contract with the State of Arizona to provide network connectivity and managed IT services. The company will be providing local and wide area network management, Wi-Fi, security, unified voice communications, contact center communications, IT management, data center and cloud-based services to the state under the new AZNet contract.

On Jul 7, CenturyLink announced the expansion of its tripartite partnership with VMware and Dell to accelerate cloud connectivity solutions for enterprises. The tech giants will likely capitalize on CenturyLink's hybrid cloud solutions to address the growing digital demands of businesses based in Asia Pacific regions.

On Jun 30, CenturyLink announced plans to bring fiber to more than 1,000 homes and enterprises in Nessel Township, MN. The company also won a second task order from the National Aeronautics and Space Administration ("NASA") to manage all of its voice traffic and support space exploration programs. It will provide secure network connectivity to NASA's more than 15 space centers and regional research facilities.

On Jun 22, CenturyLink announced the extension of its global alliance with SAP SE to better serve businesses in the region. The initiative will likely enable business enterprises to have seamless access to SAP business management solutions along with managed end-to-end applications, hybrid cloud and edge capabilities of CenturyLink's global network.

On Jun 15, CenturyLink announced that it has augmented its footprint in Latin America with a new fiber optic route between Colombia and Ecuador. Backed by 600 gigabits of network capacity, the 800-kilometer fiber optic route will connect the cities of Cali and Quito, located in Colombia and Ecuador respectively. This infrastructure expansion and network coverage will likely provide corporate customers with streamlined broadband connectivity as well as offer diversified fiber routes for service contingencies.

On May 29, CenturyLink announced the completion of the construction of a fiber-optic project that was started in 2019, connecting more than 14,000 additional homes in Boulder, CO to gigabit Internet speeds. The project provides fast and reliable Fiber-to-the-Home (FTTH) Internet service with gigabit speeds to residents and enterprises. Fiber optic-based Internet services have been made by connecting fiber optic cable directly to homes and businesses using FTTH technology.

Valuation

CenturyLink shares are up 2.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 9% over the past year, and stocks in the Zacks Computer and Technology sector are up 38.9% in the same period.

The S&P 500 Index is up 18.8% in the past year.

The stock is currently trading at 5.13X trailing 12-month EV/EBITDA, which compares to 6.3X for the Zacks sub-industry, 13.36X for the Zacks sector and 12.75X for the S&P 500 Index.

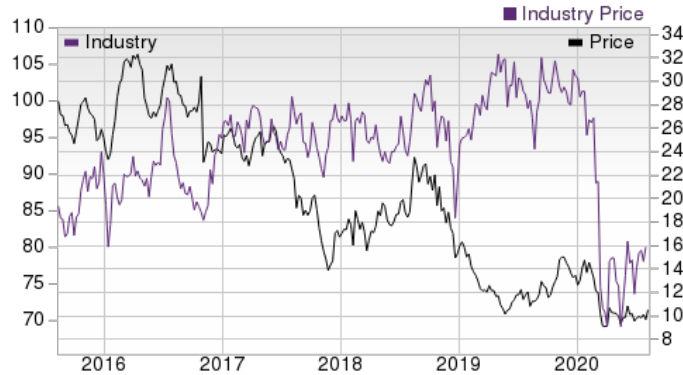
Over the past five years, the stock has traded as high as 10.5X and as low as 4.37X, with a 5-year median of 5.37X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$12 price target reflects 1.48X forward 12-month earnings.

The table below shows summary valuation data for CTL

Valuation Multiples - CTL					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	5.13	6.3	13.36	12.75
	5-Year High	10.5	11.55	13.51	12.84
	5-Year Low	4.37	5.41	7.59	8.24
	5-Year Median	5.37	6.7	10.91	10.9
P/E F12M	Current	8.12	13.44	26.26	22.91
	5-Year High	21.95	15	26.31	22.91
	5-Year Low	5.88	10.1	16.72	15.25
	5-Year Median	11.07	12.25	19.61	17.58
P/S F12M	Current	0.62	1.65	4.07	3.7
	5-Year High	1.35	1.67	4.07	3.7
	5-Year Low	0.44	1.17	2.32	2.53
	5-Year Median	0.78	1.47	3.14	3.05

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (195 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
ATN International, Inc. (ATNI)	Outperform	3
Altice USA, Inc. (ATUS)	Neutral	3
Cogent Communications Holdings, Inc. (CCOI)	Neutral	4
GCI Liberty, Inc. (GLIBA)	Neutral	2
Gogo Inc. (GOGO)	Neutral	4
Liberty Latin America Ltd. (LILA)	Neutral	4
ATT Inc. (T)	Neutral	3
United States Cellular Corporation (USM)	Neutral	3

Industry Comparison Industry: Wireless National				Industry Peers		
	CTL	X Industry	S&P 500	ATUS	LILA	USM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	A	-	-	A	C	A
Market Cap	11.91 B	310.92 M	23.58 B	15.69 B	1.77 B	3.08 B
# of Analysts	5	5	14	6	1	4
Dividend Yield	9.22%	0.00%	1.68%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.15	0.13	0.07	0.12	NA	0.14
EV/EBITDA	19.94	8.12	13.34	9.36	NA	5.18
PEG Ratio	1.32	4.43	2.99	NA	NA	NA
Price/Book (P/B)	0.88	1.38	3.20	13.55	NA	0.71
Price/Cash Flow (P/CF)	1.90	7.23	12.83	6.36	NA	3.75
P/E (F1)	7.93	21.00	21.99	40.11	NA	21.00
Price/Sales (P/S)	0.55	1.17	2.53	1.59	0.48	0.77
Earnings Yield	12.72%	1.25%	4.35%	2.51%	-13.61%	4.76%
Debt/Equity	2.33	0.43	0.77	21.24	NA	0.58
Cash Flow (\$/share)	5.72	2.47	6.94	4.27	NA	9.62
Growth Score	B	-	-	B	F	A
Hist. EPS Growth (3-5 yrs)	-18.23%	6.43%	10.41%	NA	NA	27.17%
Proj. EPS Growth (F1/F0)	4.24%	-5.50%	-6.32%	222.22%	-200.00%	19.44%
Curr. Cash Flow Growth	-2.30%	3.99%	5.20%	6.97%	NA	4.94%
Hist. Cash Flow Growth (3-5 yrs)	1.14%	2.65%	8.55%	NA	NA	10.62%
Current Ratio	0.65	1.34	1.33	0.69	NA	2.46
Debt/Capital	70.00%	44.22%	44.59%	95.50%	NA	36.67%
Net Margin	5.63%	4.48%	10.13%	1.91%	NA	4.48%
Return on Equity	11.35%	8.21%	14.51%	14.30%	NA	4.24%
Sales/Assets	0.34	0.48	0.51	0.29	NA	0.48
Proj. Sales Growth (F1/F0)	-21.64%	0.00%	-1.43%	1.82%	3.26%	-1.51%
Momentum Score	F	-	-	A	F	B
Daily Price Chg	0.56%	0.00%	-0.44%	-0.80%	-6.01%	0.81%
1 Week Price Chg	8.70%	1.49%	2.30%	2.89%	-8.37%	18.37%
4 Week Price Chg	9.26%	1.25%	4.38%	12.29%	1.25%	14.56%
12 Week Price Chg	11.74%	6.38%	13.59%	11.60%	4.53%	18.23%
52 Week Price Chg	2.75%	-2.39%	5.75%	0.89%	-37.34%	5.99%
20 Day Average Volume	12,967,694	213,139	1,984,154	5,955,329	208,903	158,220
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	20.49%
(F1) EPS Est 4 week change	2.08%	1.29%	2.08%	18.71%	0.00%	15.05%
(F1) EPS Est 12 week change	-0.58%	0.39%	2.66%	21.92%	-34.69%	23.08%
(Q1) EPS Est Mthly Chg	-4.62%	0.00%	0.94%	18.64%	NA	10.53%

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	B
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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