

CenturyLink, Inc. (CTL)

\$9.93 (As of 07/16/20)

Price Target (6-12 Months): **\$8.50**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/15/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

Summary

CenturyLink's phone business has waned drastically over the past few quarters with substitution of the wireline telephone services. Earnings estimates for the current and next year have declined over the past year, signifying negative investor sentiments as the company continues to grapple with coronavirus-induced global economic turmoil. Notably, CenturyLink's bottom line has contracted significantly over the past few quarters as operating costs have increased, straining its margins. A huge debt burden is another concern. The dynamics of the communications industry is governed by technological advances, which involve periodic investments. This can further dilute its cash flow, going forward. However, fiber and IP-based network capacity positions it well to boost shareholders' value in the long term.

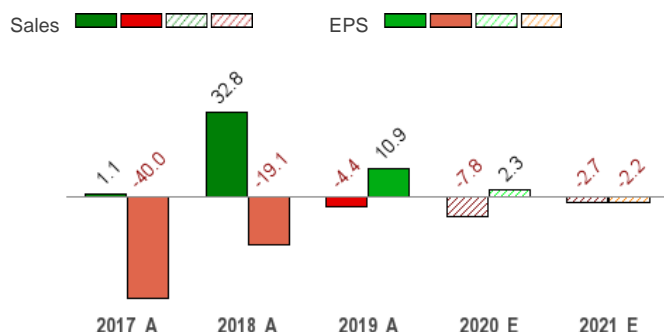
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$15.30 - \$8.16
20 Day Average Volume (sh)	10,403,411
Market Cap	\$10.9 B
YTD Price Change	-24.8%
Beta	0.96
Dividend / Div Yld	\$1.00 / 10.1%
Industry	Wireless National
Zacks Industry Rank	Top 38% (96 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.8%
Last Sales Surprise	-4.7%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	08/05/2020
Earnings ESP	4.9%
P/E TTM	7.4
P/E F1	7.4
PEG F1	1.2
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,052 E	4,995 E	5,044 E	5,082 E	20,109 E
2020	5,228 A	5,142 E	5,166 E	5,157 E	20,658 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	\$0.35 E	\$0.32 E	\$0.33 E	\$0.34 E	\$1.32 E
2020	\$0.37 A	\$0.32 E	\$0.33 E	\$0.34 E	\$1.35 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 07/16/2020. The reports text is as of 07/17/2020.

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.

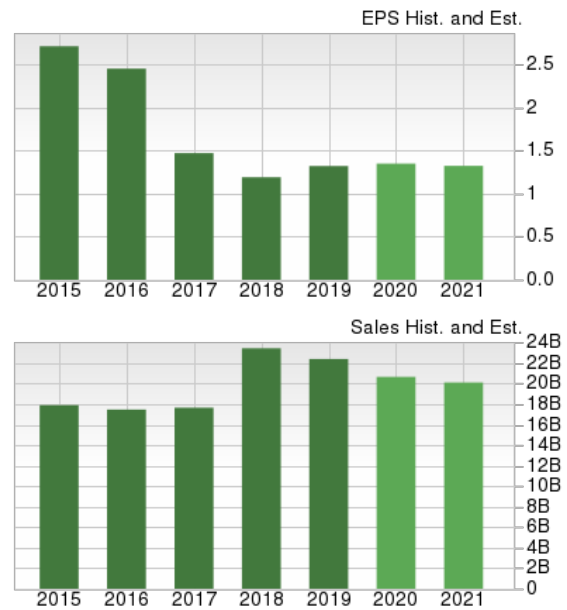
CenturyLink is an international facilities-based communications company engaged mainly in providing a wide range of integrated services to its business and residential customers. The company's terrestrial and subsea fiber optic long-haul network throughout North America, Europe, Latin America and Asia 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 (25.4% of aggregate operating revenues in first-quarter 2020): The segment provides products and services to residential consumers across 37 states.

Business (74.6%): 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 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.
- ▼ CenturyLink's cash and liquidity position appears to be a major concern. As of Mar 31, 2020, the company had \$1,567 million in cash and equivalents with \$34,797 million of long-term debt compared with the respective tallies of \$1,693 million and \$33,736 million at the end of the prior quarter. CenturyLink currently has a debt-to-capital ratio of 0.73 compared with 0.52 of the sub-industry. The times interest earned has decreased over the past few quarters to 1.9 at present relative to 3.9 for the sub-industry. This shows that the company is less likely to clear its debt. CenturyLink has a dividend payout rate of 74.1% compared with 51.7% of the sub-industry. The rate has declined over the past few quarters, indicating that the company is sharing less of its earnings with stockholders. It is to be seen whether CenturyLink can turn the tables in the coming days despite disruptions caused by the COVID-19 pandemic.
- ▼ 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.
- ▼ Earnings estimate for the current year has decreased 6.3% over the past 90 days, while that of the next year has declined 30.2% over the past year. This signifies negative investor sentiments as the company continues to grapple with coronavirus-induced global economic turmoil. Notably, CenturyLink's bottom line has contracted significantly over the past few quarters as operating costs have increased, straining its margins.

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

Risks

- 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. It plans to expand its network infrastructure in 20 cities this year, as it helps enterprise businesses meet the growing demand for high-speed connectivity.
 - 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.
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Last Earnings Report

CenturyLink Q1 Earnings Top Estimates, Revenues Lag

CenturyLink reported mixed first-quarter 2020 results, with the bottom line beating the Zacks Consensus Estimate and the top line missing the same.

The Monroe, LA-based communications company's fiber and IP-based network capacity along with its financial strength, positions it well to support customers and deliver long-term shareholders' value.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	-4.68%
EPS Surprise	2.78%
Quarterly EPS	0.37
Annual EPS (TTM)	1.35

Net Income

Net income in the March quarter amounted to \$314 million or 29 cents per share against a net loss of \$6,165 million or loss of \$5.77 per share in the year-ago quarter. The improvement can be attributed to an operating income as well as lower interest and income tax expenses.

First-quarter net income (excluding integration and transformation costs, and special items) came in at \$399 million or 37 cents per share compared with \$360 million or 34 cents per share in the prior-year quarter. The bottom line beat the Zacks Consensus Estimate by a penny.

Revenues

Quarterly total operating revenues declined 3.7% year over year to \$5,228 million due to lower sales in the Consumer, Wholesale and SMB segments. CenturyLink's revenues are largely recurring from a well-diversified customer base. The company has seen steady improvement in its revenue trajectory in the past few quarters. However, the top line lagged the consensus estimate of \$5,484 million.

By segment, SMB revenues fell 6% year over year to \$658 million. This is in line with the average year-over-year decline of 6.5% in 2019 due to persistent deterioration in legacy voice services. Revenues in Wholesale fell 7% year over year to \$958 million. CenturyLink expects customers to continue to optimize spending with other vendors in this environment, which may put pressure on revenues in the upcoming quarters.

Consumer revenues fell to \$1,327 million from \$1,409 million in the year-ago quarter, primarily due to legacy voice revenues. The company continues to focus on improving broadband revenue-performance by its targeted fiber investments and driving up the penetration of competitive assets. In the reported quarter, CenturyLink saw a net loss of 11,000 total broadband subs. In speeds of 100 meg and above, it added 60,000 subs.

Revenues in International and Global Accounts (IGAM) were almost flat year over year at \$865 million. Enterprise revenues dropped 0.4% year over year to \$1,420 million. In the short term for both IGAM and Enterprise, the company expects the demand impact from cancellation of live events and customers' differing major network buying decisions.

Other Details

Total operating expenses declined 61.1% year over year to \$4,248 million, primarily due to the absence of goodwill impairment that amounted to \$6,506 million in the first quarter of 2019. Operating income was \$980 million against an operating loss of \$5,499 million in the prior-year quarter.

Adjusted EBITDA slipped to \$2,209 million from \$2,228 million in the year-ago quarter. The adjusted EBITDA margin was 42.3% compared with 41.1% in the year-ago quarter. Capital expenditures were \$974 million compared with \$931 million in the prior-year quarter.

Cash Flow & Liquidity

In the first quarter, CenturyLink generated \$1,299 million of net cash from operations compared with \$1,182 million in the year-ago quarter. For the same period, free cash flow (excluding cash integration and transformation costs, and special items) was \$407 million compared with \$315 million in the prior-year quarter.

As of Mar 31, the company had \$1,564 million in cash and equivalents with \$33,481 million of long-term debt compared with the respective tallies of \$1,690 million and \$32,394 million at the end of the prior quarter.

2020 Guidance

Due to uncertainties related to COVID-19, CenturyLink has withdrawn its 2020 financial outlook for adjusted EBITDA, free cash flow and capital expenditures. However, it continues to estimate net cash interest between \$1.75 billion and \$1.80 billion. Depreciation and amortization are expected in the range of \$4.7-\$4.9 billion. The effective income tax rate is likely to be around 28%.

Going Forward

CenturyLink ended the quarter with a strong liquidity position due to its capital allocation decisions and refinancing activity in 2019. It continues to execute strategy around 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.

Recent News

On Jun 22, 2020, CenturyLink announced that it has extended its global alliance with SAP SE to better serve businesses in the region. The strategic initiative will 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 secure, global network.

On Jun 15, 2020, 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 new infrastructure expansion and network coverage will provide corporate customers with streamlined broadband connectivity as well as provide diversified fiber routes for service contingencies.

On May 29, 2020, CenturyLink announced that it has completed 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. CenturyLink's fiber Internet services include quick upload and download speeds as well as the ability to support users on multiple devices at the same time.

On May 19, CenturyLink announced that it has expanded its fiber network in many parts of the country. The company plans to sustain growth by bringing faster Internet speeds to additional homes and businesses in multiple cities. CenturyLink enabled around 300,000 homes and small businesses with faster Internet speeds in 2019. This includes the delivery of gigabit speeds in select areas of Boulder, CO; Spokane, WA; and Tucson, AZ. The company anticipates bringing gigabit speeds to 400,000 additional households and enterprises in various cities. The list includes Denver, CO; Idaho Falls, ID; Omaha, NE; and Phoenix, AZ, among others. The company has also expanded its network infrastructure in eight cities, connecting technology corporations, start-ups and data centers to its fiber network. The company plans to expand its network infrastructure in 20 cities this year, as it helps enterprise businesses meet the growing demand for high-speed connectivity.

Valuation

CenturyLink shares are down 12.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 3.8% over the past year, while stocks in the Zacks Computer and Technology sector are up 26% in the same time frame.

The S&P 500 Index is up 8.4% in the past year.

The stock is currently trading at 5.2X trailing 12-month EV/EBITDA, which compares to 6.05X for the Zacks sub-industry, 13.06X for the Zacks sector and 11.99X for the S&P 500 Index.

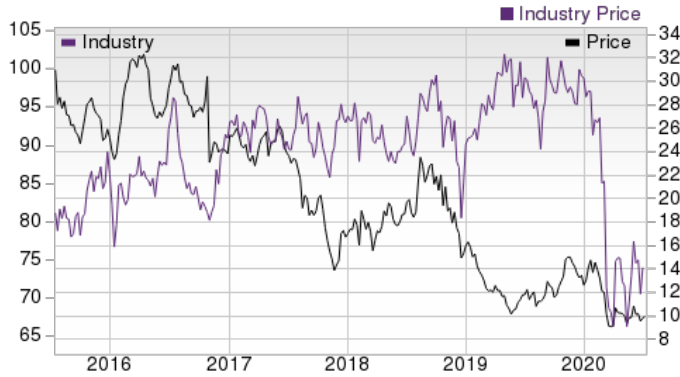
Over the past five years, the stock has traded as high as 10.50X and as low as 4.37X, with a 5-year median of 5.40X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$8.50 price target reflects 1.15X forward 12-month earnings.

The table below shows summary valuation data for CTL

Valuation Multiples - CTL					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	5.2	6.05	13.06	11.99
	5-Year High	10.5	11.55	13.2	12.86
	5-Year Low	4.37	5.41	7.59	8.25
	5-Year Median	5.4	6.72	10.85	10.87
P/E F12M	Current	7.4	12.72	26.18	22.89
	5-Year High	21.95	15	26.18	22.89
	5-Year Low	5.88	10.1	16.72	15.25
	5-Year Median	11.13	12.25	19.33	17.52
P/S F12M	Current	0.54	1.58	3.94	3.58
	5-Year High	1.35	1.67	3.94	3.58
	5-Year Low	0.44	1.17	2.32	2.53
	5-Year Median	0.78	1.46	3.14	3.02

As of 07/16/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 251)



Top Peers

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

Industry Comparison Industry: Wireless National				Industry Peers		
	CTL	X Industry	S&P 500	ATUS	LILA	USM
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	5	-	-	3	4	3
VGM Score	B	-	-	B	C	A
Market Cap	10.90 B	278.18 M	22.43 B	14.35 B	1.75 B	2.69 B
# of Analysts	5	5	14	6	1	4
Dividend Yield	10.07%	0.00%	1.82%	0.00%	0.00%	0.00%
Value Score	B	-	-	B	A	A
Cash/Price	0.14	0.10	0.07	0.02	NA	0.10
EV/EBITDA	21.17	7.89	13.00	9.44	NA	4.82
PEG Ratio	1.23	2.48	2.97	NA	NA	NA
Price/Book (P/B)	0.81	1.41	3.13	9.16	NA	0.63
Price/Cash Flow (P/CF)	1.74	6.89	12.13	5.66	NA	3.28
P/E (F1)	7.36	27.76	21.97	42.40	NA	21.09
Price/Sales (P/S)	0.50	1.04	2.38	1.46	0.45	0.67
Earnings Yield	13.60%	1.43%	4.35%	2.36%	-13.78%	4.76%
Debt/Equity	2.62	0.56	0.75	15.43	NA	0.56
Cash Flow (\$/share)	5.72	2.47	6.94	4.27	NA	9.62
Growth Score	C	-	-	B	F	A
Hist. EPS Growth (3-5 yrs)	-18.92%	6.20%	10.85%	NA	NA	25.38%
Proj. EPS Growth (F1/F0)	2.12%	-6.07%	-9.37%	171.43%	-200.00%	3.82%
Curr. Cash Flow Growth	-2.30%	3.99%	5.51%	6.97%	NA	4.94%
Hist. Cash Flow Growth (3-5 yrs)	1.14%	2.65%	8.55%	NA	NA	10.62%
Current Ratio	0.82	1.72	1.30	0.49	NA	2.18
Debt/Capital	72.36%	42.96%	44.33%	93.91%	NA	35.81%
Net Margin	5.50%	3.56%	10.59%	1.66%	NA	3.56%
Return on Equity	10.70%	1.61%	15.74%	10.81%	NA	3.40%
Sales/Assets	0.34	0.49	0.54	0.29	NA	0.49
Proj. Sales Growth (F1/F0)	-7.78%	0.00%	-2.44%	1.01%	3.26%	-2.95%
Momentum Score	B	-	-	C	D	D
Daily Price Chg	2.27%	0.00%	-0.06%	-0.17%	-1.14%	0.86%
1 Week Price Chg	1.23%	0.53%	-0.41%	0.30%	5.20%	1.01%
4 Week Price Chg	-2.17%	0.01%	1.63%	-1.67%	-7.44%	0.86%
12 Week Price Chg	-0.10%	0.06%	15.55%	-6.21%	-7.80%	0.06%
52 Week Price Chg	-12.90%	-10.90%	-4.26%	-5.95%	-43.01%	-33.06%
20 Day Average Volume	10,403,411	252,273	2,236,294	5,002,029	252,273	170,807
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.15%	0.00%	0.01%	0.00%	-34.69%	-2.13%
(F1) EPS Est 12 week change	-7.49%	-20.41%	-5.24%	-21.38%	-34.69%	21.05%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	-0.87%

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	B
Growth Score	C
Momentum Score	B
VGM Score	B

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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