

CenturyLink, Inc. (CTL)

\$13.22 (As of 02/21/20)

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: A

Summary

CenturyLink reported decent fourth-quarter 2019 results wherein the top line surpassed the Zacks Consensus Estimate. It 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 hybrid platforms. However, its phone business has slowed down due to the substitution of wireline telephone services. CenturyLink's huge debt burden also remains a concern. The dynamics of the communications industry is largely governed by technological innovations, which involve huge investments. This can dilute the company's cash flow going forward.

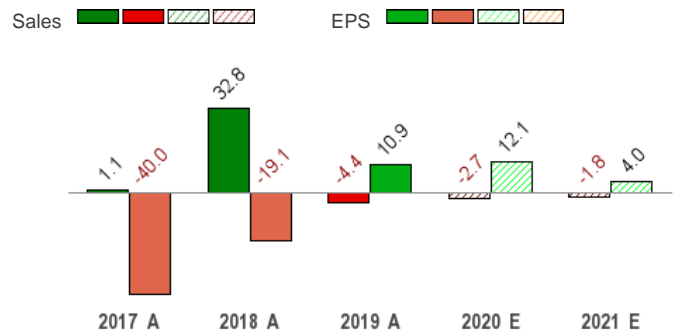
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$15.30 - \$9.64
20 Day Average Volume (sh)	10,364,094
Market Cap	\$14.4 B
YTD Price Change	0.1%
Beta	0.86
Dividend / Div Yld	\$1.00 / 7.6%
Industry	Wireless National
Zacks Industry Rank	Top 44% (111 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	3.1%
Expected Report Date	NA
Earnings ESP	-1.8%
P/E TTM	10.0
P/E F1	8.9
PEG F1	1.0
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,357 E	5,312 E	5,287 E	5,285 E	21,386 E
2020	5,489 E	5,460 E	5,452 E	5,399 E	21,789 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	\$0.33 E	\$0.35 E	\$0.43 E	\$0.39 E	\$1.54 E
2020	\$0.36 E	\$0.38 E	\$0.37 E	\$0.38 E	\$1.48 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 02/21/2020. The reports text is as of 02/24/2020.

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.

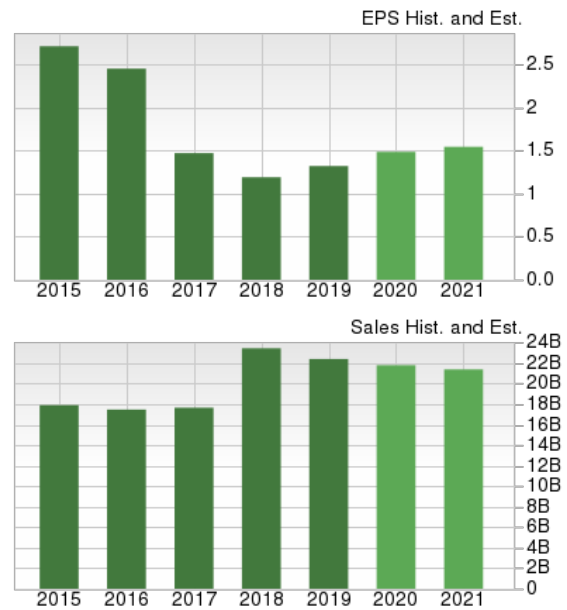
CenturyLink is an international facilities-based communications company engaged mainly in providing a wide range of integrated services to its business and residential customers. The company's terrestrial and subsea fiber optic long-haul network throughout North America, Europe, Latin America and Asia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



Reasons To Buy:

- ▲ 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.
- ▲ 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.

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 Jan 22, 2020, CenturyLink announced that it has secured a task order from the U.S. Department of Defense Education Activity to provide secure connectivity to the government agency's learning network. Per the mini contract, the networking company has been selected to deliver government security standard compliant virtual private networking, voice and Internet services to more than 85 DoDEA locations around the globe. Notably, the task order made through the General Services Administration's Enterprise Infrastructure Solutions program is the first EIS award to the company by DoD. The connectivity agreement consists of an initial base period of one year with 12 additional option periods.

On Jan 16, 2020, CenturyLink communicated that it has secured a task order, valued up to \$1.6 billion, from the U.S. Department of the Interior to deliver managed core network with upgraded and secured cloud services. Per the mini-contract, CenturyLink will provide cybersecurity and IT services that will be beneficial for the federal executive body in conservation of the nation's natural resources.

On Jan 6, 2020, CenturyLink announced that it has augmented its portfolio of voice and real-time communication services by including CenturyLink Engage. The company's new solution allows 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.

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 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.

Valuation

CenturyLink shares are up 0.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 16.3% and 24.7% over the past year, respectively.

The S&P 500 Index is up 18.5% in the past year.

The stock is currently trading at 5.40X trailing 12-month EV/EBITDA, which compares to 6.48X for the Zacks sub-industry, 13.02X for the Zacks sector and 12.31X for the S&P 500 Index.

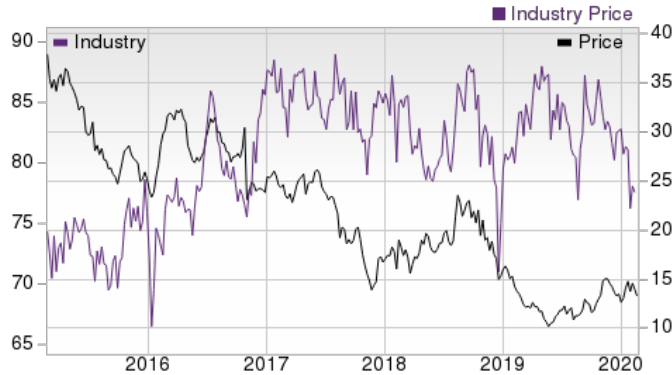
Over the past five years, the stock has traded as high as 10.46X and as low as 4.45X, with a 5-year median of 5.39X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$14 price target reflects 1.58X forward 12-month earnings.

The table below shows summary valuation data for CTL

Valuation Multiples - CTL					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	5.4	6.48	13.02	12.31
	5-Year High	10.46	11.62	13.02	12.85
	5-Year Low	4.45	5.99	7.68	8.47
	5-Year Median	5.39	6.66	10.54	10.72
P/E F12M	Current	8.85	13.01	22.26	19.09
	5-Year High	21.95	16.01	22.26	19.34
	5-Year Low	7.31	10.88	16.87	15.18
	5-Year Median	11.47	13.76	19.32	17.47
P/S F12M	Current	0.66	1.57	3.7	3.51
	5-Year High	1.35	1.57	3.7	3.51
	5-Year Low	0.47	1.12	2.3	2.54
	5-Year Median	0.81	1.35	3.02	3

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 255)



Top Peers

DISH Network Corporation (DISH)	Outperform
ATN International, Inc. (ATNI)	Neutral
Alice USA, Inc. (ATUS)	Neutral
Cincinnati Bell Inc (CBB)	Neutral
Frontier Communications Corporation (FTR)	Neutral
Gogo Inc. (GOGO)	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	-	-	B	A	B
Market Cap	14.41 B	438.15 M	24.03 B	636.31 M	281.61 B	240.70 B
# of Analysts	7	6	13	1	20	20
Dividend Yield	7.56%	0.00%	1.76%	0.00%	5.40%	4.23%
Value Score	A	-	-	C	B	B
Cash/Price	0.11	0.11	0.04	0.01	0.04	0.01
EV/EBITDA	21.65	6.50	14.08	8.34	6.51	8.09
PEG Ratio	1.02	2.72	2.08	NA	2.02	3.42
Price/Book (P/B)	1.07	1.60	3.29	NA	1.39	3.83
Price/Cash Flow (P/CF)	2.31	6.58	13.42	2.46	4.40	6.58
P/E (F1)	8.90	21.24	19.00	NA	10.70	11.75
Price/Sales (P/S)	0.64	1.25	2.64	0.41	1.55	1.83
Earnings Yield	11.20%	3.16%	5.26%	-8.40%	9.34%	8.51%
Debt/Equity	2.40	0.59	0.70	-7.53	0.75	1.90
Cash Flow (\$/share)	5.72	2.78	7.03	5.12	8.77	8.85
Growth Score	A	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	-19.37%	6.10%	10.84%	NA	8.63%	6.07%
Proj. EPS Growth (F1/F0)	12.45%	17.78%	7.09%	30.72%	0.87%	2.96%
Curr. Cash Flow Growth	-2.50%	-0.83%	6.72%	28.89%	14.11%	-0.75%
Hist. Cash Flow Growth (3-5 yrs)	1.14%	5.80%	8.25%	4.84%	15.33%	4.16%
Current Ratio	0.66	0.84	1.22	0.75	0.80	0.84
Debt/Capital	70.63%	50.24%	42.37%	NA	42.90%	65.46%
Net Margin	-23.52%	-1.56%	11.56%	-4.33%	7.67%	14.61%
Return on Equity	10.36%	-0.25%	16.80%	NA	13.37%	33.39%
Sales/Assets	0.35	0.49	0.55	0.58	0.33	0.46
Proj. Sales Growth (F1/F0)	-2.73%	1.90%	3.90%	-0.12%	0.41%	2.05%
Momentum Score	A	-	-	D	B	B
Daily Price Chg	-1.12%	-1.07%	-0.83%	0.08%	-0.16%	0.19%
1 Week Price Chg	-4.34%	-0.40%	1.65%	-0.54%	-0.52%	-2.39%
4 Week Price Chg	-10.98%	-0.10%	-0.37%	12.18%	-0.21%	-3.82%
12 Week Price Chg	-9.14%	4.93%	3.74%	98.74%	2.36%	-3.16%
52 Week Price Chg	-0.83%	-0.32%	14.14%	19.06%	25.04%	3.65%
20 Day Average Volume	10,364,094	206,733	1,992,841	799,704	30,352,010	13,202,310
(F1) EPS Est 1 week change	1.17%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	3.08%	0.00%	-0.02%	0.00%	0.69%	-0.08%
(F1) EPS Est 12 week change	4.00%	-0.09%	-0.17%	-54.18%	0.49%	-0.18%
(Q1) EPS Est Mthly Chg	-3.98%	-0.24%	-0.48%	0.00%	-0.24%	-1.61%

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	A
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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