

T-Mobile US, Inc. (TMUS)

\$106.61 (As of 07/08/20)

Price Target (6-12 Months): **\$123.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 07/07/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: B

Summary

T-Mobile continues to deploy 5G with a mid-band 2.5 GHz spectrum from Sprint. 2.5 GHz 5G is currently live in parts of Chicago, Los Angeles, New York and Philadelphia. The wireless carrier offers 5G coverage in all 50 states and Puerto Rico. Its 5G network is 1.5 times faster than its LTE speeds. Customers get 5G services in almost 6,000 cities and towns, covering more than 225 million people. T-Mobile divested Sprint's prepaid wireless business to DISH. The company is expected to provide 5G to 99% of the U.S. population. Also, it will likely provide average 5G speeds above 100 Mbps to 90% of the population. T-Mobile's business plan is built on covering 90% of rural America with average 5G speeds of 50 Mbps, up to two times faster than broadband. However, it operates in a fiercely competitive and almost saturated U.S. telecom market.

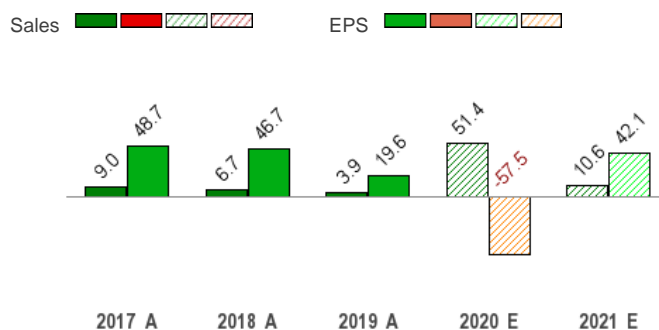
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$111.58 - \$63.50
20 Day Average Volume (sh)	13,356,418
Market Cap	\$148.3 B
YTD Price Change	36.0%
Beta	0.30
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Wireless National
Zacks Industry Rank	Top 19% (48 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	23.0%
Last Sales Surprise	-41.4%
EPS F1 Est- 4 week change	23.0%
Expected Report Date	07/23/2020
Earnings ESP	30.9%
P/E TTM	23.4
P/E F1	62.4
PEG F1	3.3
P/S TTM	3.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	19,044 E	18,584 E	18,770 E	19,854 E	75,330 E
2020	11,113 A	17,282 E	17,884 E	19,101 E	68,106 E
2019	11,080 A	10,979 A	11,061 A	11,878 A	44,998 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.62 E	\$0.64 E	\$0.54 E	\$0.39 E	\$2.43 E
2020	\$1.23 A	\$0.35 E	\$0.39 E	\$0.33 E	\$1.71 E
2019	\$1.17 A	\$1.29 A	\$1.16 A	\$0.87 A	\$4.02 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 07/08/2020. The reports text is as of 07/09/2020.

Overview

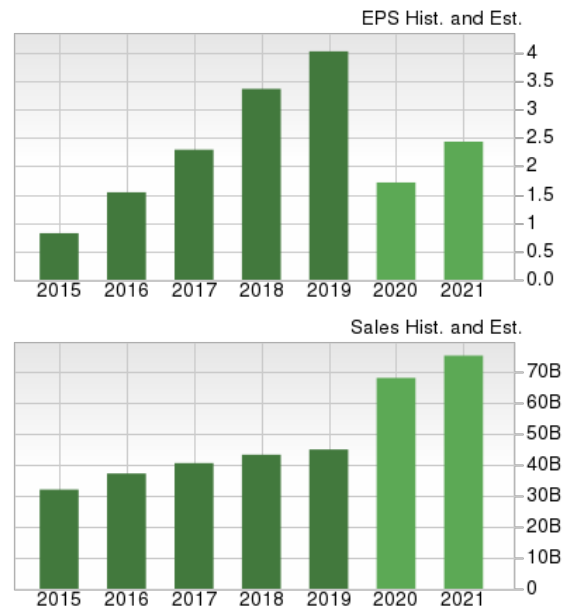
Headquartered in Bellevue, WA, T-Mobile US, Inc. is a national wireless service provider. The company operates under two flagship brands, T-Mobile and MetroPCS. Notably, T-Mobile was formed in 2013 after the merger of T-Mobile USA Inc. and MetroPCS Communications Inc. Deutsche Telekom AG was the owner of the former T-Mobile USA Inc. Under the terms of the business combination with MetroPCS, Deutsche Telekom received shares of common stock representing a majority ownership interest in T-Mobile in exchange for its transfer of all of T-Mobile USA's common stock.

T-Mobile offers mobile voice, messaging, and data services in the postpaid, prepaid, and wholesale markets. The company is extensively deploying 4G LTE (Long-Term Evolution) networks. It also provides wireless devices, such as smartphones, tablets, and other mobile communication devices and accessories manufactured by various suppliers. T-Mobile's business largely depends on its "Un-carrier Value Proposition", which aims to enhance customer satisfaction by means of providing latest products at cheaper rates and uncomplicated terms of conditions. As of Dec 31, 2019, it employed nearly 53,000 full-time and part-time employees, including network, retail, administrative and customer support functions.

T-Mobile reports under the following three segments.

Service (78.4% of total revenues in first-quarter 2020): Includes wireless communication services to branded postpaid and branded prepaid customers through a variety of service plan options.

Equipment (19.1%): Includes sale of devices to dealers and third-party distributors for resale through independent third-party retail outlets; while the balance accounts for Other (2.5%).



Reasons To Buy:

- ▲ T-Mobile has a trailing four-quarter positive earnings surprise of 19.4%, on average. On Jul 1, T-Mobile announced the completion of the divestment of Sprint's prepaid wireless business to DISH Network. The wireless carrier fulfilled a major commitment made to the Department of Justice and the Federal Communications Commission as part of the merger. The divestment represents more than 9.3 million customers. T-Mobile will receive about \$1.4 billion subject to a customary post-closing working capital adjustment. With this transaction, T-Mobile and DISH entered into other ancillary agreements that include a spectrum purchase agreement.
- ▲ On Apr 1, T-Mobile closed its long-pending merger with Sprint to create a new wireless giant that rivals AT&T and Verizon in terms of subscribers. The deal, which allows T-Mobile and Sprint to join their high- and low-band spectrum for a faster nationwide 5G rollout, will undeniably disrupt the competitive landscape of the U.S. telecom market. T-Mobile also completed its planned chief executive officer transition from John Legere to Mike Sievert ahead of schedule. T-Mobile continues to deploy 5G with a mid-band 2.5 GHz spectrum from Sprint. 2.5 GHz 5G is currently live in parts of Chicago, Houston, Los Angeles, New York and Philadelphia. The company offers 5G coverage in all 50 states and Puerto Rico. Its 5G network is 1.5 times faster than its LTE speeds. Customers get 5G services in almost 6,000 cities and towns, covering more than 225 million people. T-Mobile is expected to provide 5G to 99% of the U.S. population. Also, it will likely provide average 5G speeds above 100 Mbps to 90% of the population. T-Mobile's business plan is built on covering 90% of rural America with average 5G speeds of 50 Mbps, up to two times faster than broadband.
- ▲ The company intends to offer the same services at a discounted rate for three years. The revamped T-Mobile will compete for consumers at all price points. Customers, including prepaid and Lifeline, will have access to the same 5G network and services. T-Mobile's commitment to building the world's best nationwide 5G network will likely bring super-fast speeds to urban areas and underserved rural communities. The combined company's network will have 14 times more capacity than on a standalone basis, which enables it to leapfrog the competition in network capability and customer experience. Moreover, T-Mobile launched its own streaming TV service. The acquisition of Layer3 TV has boosted its streaming service. The company continues to leverage LTE network speeds and Layer3 TV's technology to roll out TV streaming service. Notably, offering of such services has become a popular trend in the industry. T-Mobile's improvement in mobile plans, stellar network performance, deployment of LTE-U technology and offering of attractive unlimited data are key factors behind the rising performance.
- ▲ As of Mar 31, 2020, the company had \$1,112 million in cash and cash equivalents with \$36,916 million of long-term debt compared with the respective tallies of \$1,528 million and \$39,065 million at the end of the prior quarter. T-Mobile currently has a debt-to-capital ratio of 0.57 compared with 0.52 of the sub-industry. The times interest earned has increased steadily over the past several quarters to 5.1 at present relative to 3.9 of the sub-industry. This indicates that the company is more likely to clear its debt. It is to be seen whether T-Mobile can maintain the momentum in the coming days amid disruptions stemming from the COVID-19 pandemic.

Accelerated customer growth, continuous network expansion and merger with Sprint to create the New T-Mobile augur well for the wireless carrier's future growth prospects.

Risks

- The U.S. wireless market is highly competitive and almost saturated in nature. T-Mobile has multiple wireless competitors, some of which have greater resources than it has and compete for customers based principally on service or device offerings, price, network coverage, speed and quality and customer service. Success in the wireless service business largely depends on technical superiority, quality of services and scalability. In all three areas, T-Mobile is reportedly behind its main rivals, Verizon Wireless and AT&T. Aggressive competition could limit the company's ability to attract and retain customers and may adversely affect its operating and financial results.
 - In order to lure customers from competitors, T-Mobile launched several low-priced service plans for individual consumers as well as small business entities. Although the company has increased its top line by adding customers, it has not significantly improved its bottom-line numbers. Notably, the costs incurred to gain customers and enhance revenues have not rewarded its shareholders yet.
 - Management's strategy of introducing several promotional activities such as free music streaming, video offer and price cuts on service plans and adoption of phone leasing plans, where equipment revenues are not booked upfront, creates a margin squeeze for the company. Further, wireless carriers are engaging in leasing strategy to gain more customers, which expose them to credit risk. The financial impact of such high leverage will be significantly adverse if the economic conditions deteriorate. Residual value of the surrendered phones, which the companies look to sell in other markets, may induce liquidity risk if the plan falls apart.
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Last Earnings Report

T-Mobile Q1 Earnings Beat Estimates, Revenues Miss

T-Mobile reported mixed first-quarter 2020 results, with the bottom line beating the Zacks Consensus Estimate and the top line missing the same. The Bellevue, WA-based company completed its merger with Sprint on Apr 1 to form the revamped T-Mobile.

Net Income

The national wireless carrier's net income in the March quarter was \$951 million or \$1.10 per share compared with \$908 million or \$1.06 per share in the year-ago quarter. The upside was driven by higher operating income, partially offset by higher income tax expenses. Adjusted earnings per share came in at \$1.23, which beat the Zacks Consensus Estimate by 23 cents.

Revenues

Quarterly total revenues inched up 0.3% year over year to \$11,113 million. This was driven by growth in service revenues, offset by decline in equipment revenues impacted by reduced demand from social distancing rules and retail store closures arising from COVID-19. The top line lagged the consensus estimate of \$18,968 million.

Segment Results

Total **Service** revenues increased 5.3% year over year to \$8,713 million. This represents T-Mobile's best quarterly performance ever as it led the industry for the 24th consecutive quarter in year-over-year service revenue percentage growth. Within this segment, branded postpaid revenues were \$5,887 million, up 7.2% year over year. The company recorded 777,000 branded postpaid net additions and 452,000 branded postpaid phone net additions in the reported quarter.

Branded postpaid phone average revenue per user (ARPU) declined to \$45.80, down 1% year over year. This was primarily caused by an increase in promotional activities, which include growth in Netflix offering and reduction in regulatory program revenues from the adoption of tax inclusive plans.

Branded prepaid revenues were \$2,373 million, down 0.5% year over year. Branded prepaid ARPU increased 1% to \$38.11 primarily owing to the removal of certain branded prepaid customers associated with products currently offered by an MVNO partner. While wholesale revenues were \$325 million, up 6.9%; roaming and other service revenues were \$128 million, up 36.2%. Revenues in **Equipment** totaled \$2,117 million, down 15.9% year over year. Other revenues were \$283 million, down 1.4%.

Other Details

T-Mobile recorded adjusted EBITDA of \$3,665 million compared with \$3,284 million in the prior-year quarter. The upside was driven by higher service revenues and lower net losses on equipment sales, partially offset by higher cost of services and SG&A expenses. Total operating expenses declined to \$9,574 million from \$9,604 million in the year-ago quarter. Operating income improved to \$1,539 million from \$1,476 million in the prior-year quarter.

Cash Flow & Liquidity

In the first quarter, T-Mobile generated \$1,617 million of net cash from operations compared with \$1,392 million in the year-ago quarter driven by higher net income, adjusted for non-cash income and expenses. Free cash flow in the quarter was \$732 million compared with \$618 million in the prior-year quarter, led by higher net cash provided by operating activities as well as lower cash purchases of property and equipment.

As of Mar 31, the company had \$1,112 million in cash and equivalents with \$10,959 million of long-term debt compared with the respective tallies of \$1,528 million and \$10,958 million at the end of the prior quarter.

Q2 Outlook

Due to uncertainties related to COVID-19, the New T-Mobile has provided guidance only for the second quarter. The company expects to guide the remainder of 2020 on its second-quarter earnings call. It expects postpaid net customer additions between 0 and 150,000. This reflects the ongoing impact of the pandemic including retail store closures partially offset by lower churn.

T-Mobile is unable to guide net income. Adjusted EBITDA is anticipated between \$6.2 billion and \$6.5 billion, which include leasing revenues of \$1.3-\$1.4 billion. Cash purchases of property and equipment, including capitalized interest of about \$100 million, are estimated between \$2.3 billion and \$2.5 billion. Free cash flow, including payments for merger-related costs and COVID-19 related costs but excluding \$2.3 billion in gross payments for the settlement of interest rate swaps, is projected between \$1.3 billion and \$1.5 billion.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	-41.41%
EPS Surprise	23.00%
Quarterly EPS	1.23
Annual EPS (TTM)	4.55

Recent News

On Jul 8, 2020, T-Mobile announced that it has opened up the Home Internet pilot to Kent, Muskegon and Ottawa county residents. The Home Internet pilot provides home broadband on T-Mobile's LTE network. With additional capacity unlocked by the merger with Sprint, T-Mobile is preparing to launch 5G Home Internet commercially nationwide, covering more than 50% of U.S. households within six years.

On Jul 1, T-Mobile announced the completion of its previously-stated divestment of Sprint's prepaid wireless business to DISH Network. With this, the wireless carrier fulfilled a major commitment made to the Department of Justice and the Federal Communications Commission as part of the merger. The divestment of Sprint's prepaid business represents more than 9.3 million customers. T-Mobile will receive about \$1.4 billion subject to a customary post-closing working capital adjustment. With this transaction, T-Mobile and DISH entered into other ancillary agreements that include a spectrum purchase agreement. Per the deal, the divested prepaid customers and DISH's new wireless customers will have access to the new T-Mobile network in a phased approach. This will be achieved through a mobile virtual network operator arrangement as well as an infrastructure mobile network operator. This will enable roaming in certain areas until DISH's 5G network is ready.

On Jun 1, T-Mobile announced that it has achieved a milestone by offering 5G services across all 50 states in the country. The company collaborated with General Communication Inc., a telecommunications firm operating in Alaska, to provide 5G network connectivity in Anchorage — the largest city in the state. With this, T-Mobile reportedly became the only wireless carrier to offer 5G services throughout the country either on its own or through partner coverage. T-Mobile and General Communication have a long-serving business relationship and had inked the first LTE roaming partnership in 2014.

On Apr 21, T-Mobile and Avangrid Renewables — a subsidiary of AVANGRID and part of the IBERDROLA Group — announced a long-term contract for the Otter Creek Wind Farm in LaSalle County, IL. The 158-megawatt wind farm, which achieved commercial operation on Mar 1, is expected to generate more than 504,100 megawatt hours annually. T-Mobile is all for using 100% renewable energy to offset the environmental impact of its operations.

On Apr 1, T-Mobile officially completed its long-pending merger with Sprint to create a new wireless giant. The deal, which allows T-Mobile and Sprint to join their high- and low-band spectrum for a faster nationwide 5G rollout, will disrupt the competitive landscape of the U.S. telecom market. T-Mobile also completed its planned chief executive officer transition from John Legere to Mike Sievert ahead of schedule.

Valuation

T-Mobile shares are up 35.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 4.2% over the past year, and stocks in the Zacks Computer and Technology sector are up 27.3% in the same time frame.

The S&P 500 Index is up 5.6% in the past year.

The stock is currently trading at 14.31X trailing 12-month EV/EBITDA, which compares to 6.09X for the Zacks sub-industry, 12.86X for the Zacks sector and 12X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 14.33X and as low as 4.57X, with a 5-year median of 8.34X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$123 price target reflects 2.18X forward 12-month earnings.

The table below shows summary valuation data for TMUS

Valuation Multiples - TMUS					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	14.31	6.09	12.86	12
	5-Year High	14.33	11.09	12.97	12.45
	5-Year Low	4.57	5.41	7.96	8.04
	5-Year Median	8.34	6.7	10.7	10.76
P/E F12M	Current	56.53	12.79	26.04	22.46
	5-Year High	58.70	15.03	26.04	22.46
	5-Year Low	15.35	10.1	16.78	15.27
	5-Year Median	23.04	12.25	19.36	17.59
P/S F12M	Current	2.06	1.59	3.9	3.5
	5-Year High	2.35	1.67	3.9	3.5
	5-Year Low	0.8	1.16	2.33	2.52
	5-Year Median	1.24	1.46	3.12	3.04

As of 07/08/2020

Industry Analysis Zacks Industry Rank: Top 19% (48 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
United States Cellular Corporation (USM)	Outperform	2
Cogent Communications Holdings, Inc. (CCOI)	Neutral	2
CenturyLink, Inc. (CTL)	Neutral	3
GCI Liberty, Inc. (GLIBA)	Neutral	3
Gogo Inc. (GOGO)	Neutral	4
Liberty Latin America Ltd. (LILA)	Neutral	4
ATT Inc. (T)	Neutral	3
Verizon Communications Inc. (VZ)	Neutral	3

Industry Comparison Industry: Wireless National

	TMUS	X Industry	S&P 500	T	USM	VZ
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	1	-	-	3	2	3
VGM Score	B	-	-	B	A	B
Market Cap	148.34 B	263.55 M	21.57 B	218.80 B	2.63 B	229.16 B
# of Analysts	4	5	14	19	4	20
Dividend Yield	0.00%	0.00%	1.94%	6.83%	0.00%	4.44%
Value Score	D	-	-	A	A	B
Cash/Price	0.01	0.10	0.07	0.05	0.10	0.03
EV/EBITDA	14.91	7.86	12.68	5.50	4.75	7.86
PEG Ratio	3.29	2.56	2.88	1.73	NA	4.12
Price/Book (P/B)	3.17	1.38	3.03	1.12	0.62	3.72
Price/Cash Flow (P/CF)	9.06	7.01	11.62	3.47	3.20	6.26
P/E (F1)	62.35	27.13	21.12	9.54	20.58	11.68
Price/Sales (P/S)	3.29	0.93	2.27	1.22	0.65	1.74
Earnings Yield	1.60%	1.41%	4.44%	10.47%	4.88%	8.56%
Debt/Equity	1.27	0.56	0.76	0.75	0.56	2.02
Cash Flow (\$/share)	11.77	2.47	6.94	8.77	9.62	8.85
Growth Score	B	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	57.71%	6.20%	10.90%	8.17%	25.38%	6.14%
Proj. EPS Growth (F1/F0)	-57.40%	-6.08%	-9.99%	-10.53%	3.82%	-1.40%
Curr. Cash Flow Growth	7.57%	3.99%	5.51%	14.11%	4.94%	-0.75%
Hist. Cash Flow Growth (3-5 yrs)	16.70%	2.65%	8.55%	15.33%	10.62%	4.16%
Current Ratio	0.64	1.72	1.30	0.76	2.18	0.99
Debt/Capital	56.02%	42.96%	44.46%	42.96%	35.81%	66.91%
Net Margin	7.80%	3.56%	10.62%	8.05%	3.56%	14.00%
Return on Equity	13.96%	1.61%	15.75%	13.27%	3.40%	33.26%
Sales/Assets	0.52	0.49	0.55	0.33	0.49	0.46
Proj. Sales Growth (F1/F0)	51.35%	0.00%	-2.57%	-5.70%	-2.58%	-3.50%
Momentum Score	B	-	-	F	D	D
Daily Price Chg	0.77%	0.29%	0.23%	0.46%	0.29%	0.62%
1 Week Price Chg	0.77%	2.88%	3.66%	3.44%	5.08%	3.07%
4 Week Price Chg	0.78%	-2.74%	-4.65%	-5.23%	-6.28%	-4.60%
12 Week Price Chg	20.41%	6.89%	11.62%	1.23%	7.63%	-2.72%
52 Week Price Chg	35.58%	-17.85%	-7.46%	-9.77%	-33.78%	-2.84%
20 Day Average Volume	13,356,418	256,441	2,368,260	40,009,476	159,055	16,296,450
(F1) EPS Est 1 week change	23.04%	0.00%	0.00%	-0.23%	-2.13%	0.01%
(F1) EPS Est 4 week change	23.04%	-0.04%	0.00%	-0.49%	-2.13%	-0.07%
(F1) EPS Est 12 week change	-59.23%	-21.19%	-7.67%	-7.70%	21.05%	-2.46%
(Q1) EPS Est Mthly Chg	22.13%	0.00%	0.00%	-0.47%	0.00%	-0.10%

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	D
Growth Score	B
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.

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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