T-Mobile US, Inc. (TMUS)

$115.09 (As of 08/07/20)

Price Target (6-12 Months): **$121.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 08/05/20)	
	Prior Recommendation: Outperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:F
	Value: C Growth: D Momentum: F	

Summary

T-Mobile reported stellar second-quarter 2020 results, with the bottom line beating the Zacks Consensus Estimate. The company has the country's largest 5G network, covering more than 250 million people. It surpassed AT&T in total branded customers across postpaid and prepaid to become America's #2 wireless provider. It has a mid-band 5G service using 2.5 GHz spectrum live in eight major markets. T-Mobile aims to deliver $43 billion of synergies and achieve $6 billion of annualized cost savings from the merger with Sprint. However, the company operates in a fiercely competitive and almost saturated U.S. telecom market. Low-priced service plans for individual consumers and small business entities have not improved the bottom line. Also, several promotional activities to lure customers from rivals have eroded its profitability.
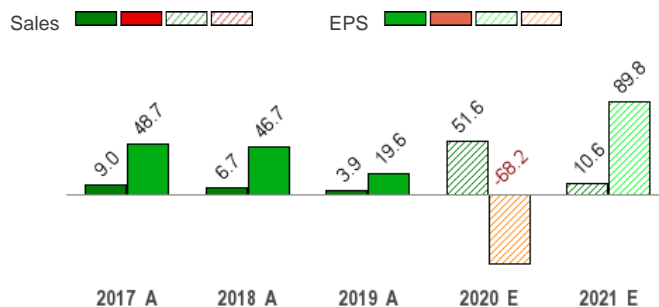
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$118.00 - $62.68**
20 Day Average Volume (sh)	**4,631,961**
Market Cap	**$160.1 B**
YTD Price Change	**46.8%**
Beta	**0.30**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Wireless National**
Zacks Industry Rank	**Bottom 23% (195 out of 252)**
Last EPS Surprise	**454.6%**
Last Sales Surprise	**-0.6%**
EPS F1 Est- 4 week change	**-21.1%**
Expected Report Date	**NA**
Earnings ESP	**-289.9%**
P/E TTM	**29.7**
P/E F1	**89.9**
PEG F1	**4.6**
P/S TTM	**3.1**

Sales and EPS Growth Rates (Y/Y %)

Sales ▮▮ EPS ▮▮

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	19,025 E	18,751 E	18,902 E	19,942 E	75,438 E
2020	11,113 A	17,671 A	18,009 E	19,104 E	68,231 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	$0.53 E	$0.55 E	$0.47 E	$0.34 E	$2.43 E
2020	$1.23 A	$0.61 A	$0.14 E	$0.15 E	$1.28 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 08/07/2020. The reports text is as of 08/10/2020.

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 (74.9% of total revenues in second-quarter 2020): Includes wireless communication services to branded postpaid and branded prepaid customers through a variety of service plan options.

Equipment (24.1%): Includes sale of devices to dealers and third-party distributors for resale through independent third-party retail outlets; while the balance accounts for Other (1%).

EPS Hist. and Est.

Sales Hist. and Est.
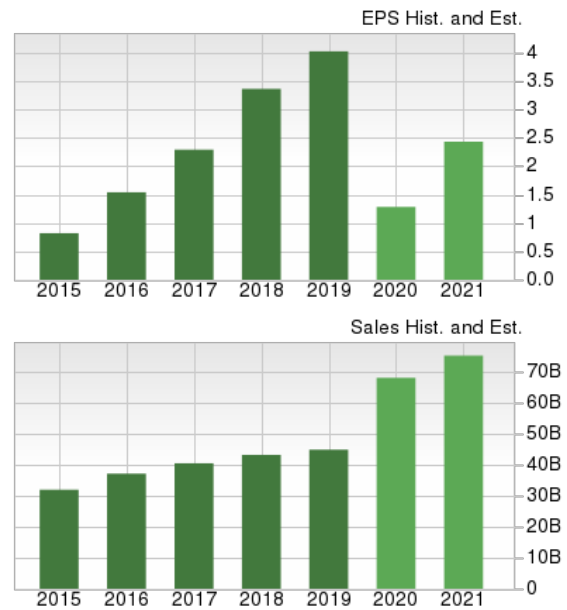
Reasons To Buy:

▲ T-Mobile has a trailing four-quarter earnings surprise of 125.5%, on average. On Jul 1, the company completed 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.

▲ T-Mobile is confident of its ability to unlock massive synergies and build the world's best 5G network. It has the country's largest 5G network, covering more than 250 million people across 1.3 million square miles. It has a mid-band 5G service using 2.5 GHz spectrum live in eight major markets. The list includes Atlanta, Chicago, Dallas, Houston, Los Angeles, New York City, Philadelphia and Washington DC. The company aims to deliver $43 billion of synergies and achieve $6 billion of annualized cost savings from the merger with Sprint.

> T-Mobile has the country's largest 5G network, covering more than 250 million people across 1.3 million square miles. It has a mid-band 5G service using 2.5 GHz spectrum live in eight major markets.

▲ On Apr 1, T-Mobile closed its 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 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. 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.

Reasons To Sell:

▼ 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.

> T-Mobile continues to struggle in a highly competitive and saturated U.S. wireless market. Also, low-priced service plans hurt the wireless provider's operating margin.

▼ 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.

▼ As of Jun 30, 2020, the company had $11,076 million in cash and cash equivalents with $87,522 million of long-term debt compared with the respective tallies of $1,112 million and $36,916 million at the end of the previous quarter. T-Mobile currently has a debt-to-capital ratio of 0.59 compared with 0.52 of the industry. The times interest earned (TIE) ratio has declined since the last quarter to 2.9 at present relative to 3.9 of the industry. This indicates that the company is less likely to meet its debt obligations. It is to be seen whether T-Mobile can turn the tables in the coming days amid disruptions stemming from the COVID-19 crisis.

Last Earnings Report

T-Mobile Beats Q2 Earnings on Sprint-Merger Synergies

T-Mobile reported stellar second-quarter 2020 results, with the bottom line beating the Zacks Consensus Estimate. This was the firm's first quarter as the New T-Mobile, since the closing of its merger with Sprint on Apr 1.

The Bellevue, WA-based company reportedly surpassed AT&T in total branded customers across postpaid and prepaid to become America's #2 wireless provider. Also, it has become the world's first operator to launch a nationwide standalone 5G network.

Quarter Ending	06/2020
Report Date	**Aug 06, 2020**
Sales Surprise	**-0.57%**
EPS Surprise	**454.55%**
Quarterly EPS	**0.61**
Annual EPS (TTM)	**3.87**

Net Income

Net income in the June-end quarter was $110 million or 9 cents per share compared with $939 million or $1.09 per share in the year-ago quarter. The downside was due to the Sprint merger-related costs, impacts of COVID-19 and non-cash impairments. Adjusted earnings per share came in at 61 cents, which beat the Zacks Consensus Estimate by 50 cents and marked an earnings surprise of 454.6%.

Revenues

Quarterly aggregate revenues soared 61% year over year to $17,671 million, driven by the Sprint merger and customer growth at T-Mobile. The figure excludes almost $1.3 billion of Boost revenues that are reflected in discontinued operations. Nevertheless, the top line lagged the consensus estimate of $17,773 million.

Segment Results

Total **Service** revenues increased 54.8% year over year to $13,230 million. In this segment, postpaid revenues were $9,959 million, up 77.4% year over year. The company recorded 1,112,000 postpaid net customer additions and 253,000 postpaid phone net customer additions in the quarter. Postpaid phone average revenue per user (ARPU) increased 4.1% year over year to $47.99. Prepaid revenues were $2,311 million, down 2.9% year over year. Prepaid net customer additions were 133,000 in the quarter. Prepaid ARPU inched up 0.9% to $37.80. Wholesale revenues were $408 million, up 30.4% year over year. Roaming and other service revenues were $552 million, up 129%.

Equipment revenues totaled $4,269 million, up 88.6% year over year. Other revenues were $172 million, up 1.2%.

Other Details

Total operating expenses increased to $16,851 million from $9,438 million in the year-ago quarter. Operating income declined to $820 million from $1,541 million in the prior-year quarter. T-Mobile recorded adjusted EBITDA of $7,017 million compared with $3,461 million in the prior-year quarter.

Cash Flow & Liquidity

In the first half of 2020, T-Mobile generated $2,394 million of net cash from operating activities compared with $3,539 million in the year-ago period. In the first six months of 2020, free cash flow was $2,173 million compared with $1,787 million in the prior-year period. As of Jun 30, the company had $11,076 million in cash and cash equivalents with $62,783 million of long-term debt.

Outlook

For the second half of 2020, T-Mobile expects postpaid net customer additions between 1.7 million and 1.9 million. Adjusted EBITDA is estimated between $12.4 billion and $12.7 billion, which includes leasing revenues of $2.4-$2.6 billion. Cash purchases of property and equipment, including capitalized interest, are projected between $6.5 billion and $6.9 billion. Free cash flow, including payments for merger-related costs, is anticipated between $300 million and $500 million.

Going Forward

T-Mobile is confident in its ability to unlock massive synergies and build the world's best 5G network. It has the country's largest 5G network, covering more than 250 million people across 1.3 million square miles. It has a mid-band 5G service using 2.5 GHz spectrum live in eight major markets. The list includes Atlanta, Chicago, Dallas, Houston, Los Angeles, New York City, Philadelphia and Washington DC. The company aims to deliver $43 billion of synergies and achieve $6 billion of annualized cost savings from the merger with Sprint.

Recent News

On Aug 4, 2020, T-Mobile announced that it is the world's first operator to launch a commercial nationwide standalone 5G network. The company is currently covering 250 million people in more than 7,500 cities and towns across 1.3 million square miles.

On Jul 8, 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.

Valuation

T-Mobile shares are up 49.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 8.9% over the past year, and stocks in the Zacks Computer and Technology sector are up 37.3% in the same period.

The S&P 500 Index is up 16.4% in the past year.

The stock is currently trading at 15.46X trailing 12-month EV/EBITDA, which compares to 6.24X for the Zacks sub-industry, 13.68X for the Zacks sector and 12.99X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 15.46X and as low as 4.57X, with a 5-year median of 8.34X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $121 price target reflects 2.08X 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	15.46	6.24	13.68	12.99
	5-Year High	15.46	11.55	13.83	12.99
	5-Year Low	4.57	5.41	7.59	8.24
	5-Year Median	8.34	6.7	10.9	10.9
P/E F12M	Current	58.12	13.36	26.39	22.81
	5-Year High	58.70	15	26.39	22.81
	5-Year Low	15.35	10.1	16.72	15.25
	5-Year Median	23.04	12.24	19.47	17.55
P/S F12M	Current	1.97	1.65	4.08	3.67
	5-Year High	2.35	1.67	4.08	3.67
	5-Year Low	0.8	1.17	2.32	2.53
	5-Year Median	1.25	1.47	3.14	3.04

As of 08/07/2020

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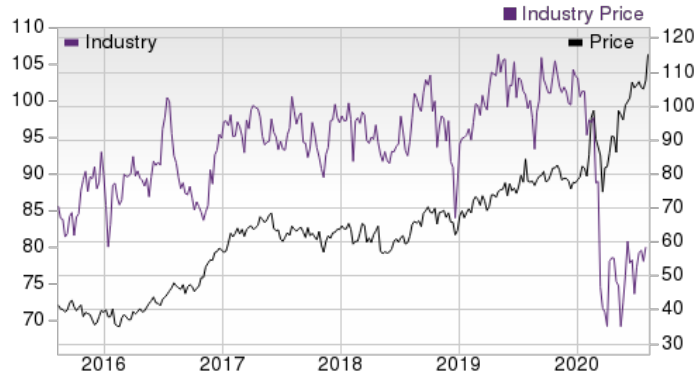
Top Peers

Company (Ticker)	Rec	Rank
Cogent Communications Holdings, Inc. (CCOI)	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
United States Cellular Corporation (USM)	Neutral	4
Verizon Communications Inc. (VZ)	Neutral	3
CenturyLink, Inc. (CTL)	Underperform	3

Industry Comparison Industry: Wireless National | Industry Peers

	TMUS	X Industry	S&P 500	T	USM	VZ
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	F	-	-	B	A	A
Market Cap	160.13 B	287.41 M	23.30 B	213.89 B	3.00 B	242.20 B
# of Analysts	5	5	14	18	4	19
Dividend Yield	0.00%	0.00%	1.76%	6.93%	0.00%	4.20%
Value Score	C	-	-	A	A	A
Cash/Price	0.01	0.10	0.07	0.08	0.10	0.03
EV/EBITDA	15.86	8.12	13.32	5.42	5.12	8.12
PEG Ratio	4.58	2.65	2.94	1.70	NA	3.60
Price/Book (P/B)	3.42	1.58	3.19	1.11	0.70	3.78
Price/Cash Flow (P/CF)	9.78	7.01	12.51	3.42	3.65	6.61
P/E (F1)	89.91	33.69	22.02	9.37	24.60	12.26
Price/Sales (P/S)	3.10	1.12	2.53	1.22	0.75	1.87
Earnings Yield	1.11%	1.21%	4.37%	10.66%	4.07%	8.15%
Debt/Equity	1.27	0.56	0.77	0.79	0.56	1.94
Cash Flow ($/share)	11.77	2.47	6.94	8.77	9.62	8.85
Growth Score	D	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	57.71%	6.20%	10.46%	7.55%	25.38%	6.18%
Proj. EPS Growth (F1/F0)	-68.11%	-5.50%	-6.80%	3,305.00%	-0.87%	17.30%
Curr. Cash Flow Growth	7.57%	3.99%	5.39%	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	1.33	0.81	2.18	0.96
Debt/Capital	56.02%	44.22%	44.50%	44.22%	35.81%	65.98%
Net Margin	5.19%	4.48%	10.13%	6.84%	4.48%	14.76%
Return on Equity	12.50%	2.40%	14.39%	13.03%	4.27%	32.15%
Sales/Assets	0.60	0.49	0.51	0.32	0.49	0.45
Proj. Sales Growth (F1/F0)	51.63%	0.00%	-1.51%	-5.94%	-3.02%	-3.12%
Momentum Score	F	-	-	D	B	B
Daily Price Chg	6.47%	1.73%	0.90%	0.60%	17.30%	1.21%
1 Week Price Chg	2.33%	0.10%	0.14%	0.03%	-1.98%	1.11%
4 Week Price Chg	8.40%	6.38%	8.95%	1.62%	15.60%	8.51%
12 Week Price Chg	21.26%	8.47%	18.90%	5.04%	24.94%	6.59%
52 Week Price Chg	47.74%	-11.51%	1.18%	-13.09%	-4.95%	4.85%
20 Day Average Volume	4,631,961	199,354	2,057,775	33,393,322	155,996	13,291,229
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.03%	0.00%	0.00%
(F1) EPS Est 4 week change	-21.09%	0.00%	1.36%	0.29%	-6.55%	0.73%
(F1) EPS Est 12 week change	-21.00%	0.06%	1.57%	0.12%	3.26%	0.66%
(Q1) EPS Est Mthly Chg	-44.77%	0.00%	0.54%	-1.37%	-0.87%	0.44%

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.

Value Score	C
Growth Score	D
Momentum Score	F
VGM Score	F

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.

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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

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.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.