

T-Mobile US, Inc. (TMUS)

\$94.49 (As of 02/11/20)

Price Target (6-12 Months): **\$99.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: F

Summary

T-Mobile reported impressive fourth-quarter 2019 results wherein the bottom line and the top line beat the Zacks Consensus Estimate. The wireless carrier has received a green signal for its \$26.5 billion merger with Sprint in Federal Court. It continues to deploy its 600 MHz spectrum, which covers 248 million people, and is live in 8,900 cities and towns across 49 states and Puerto Rico. With the New T-Mobile, it will be able to combine the foundational layer of 5G with Sprint's 2.5 GHz mid-band spectrum. However, a competitive and saturated U.S. wireless market remains a headwind. Intensifying competition is likely to limit its ability to attract and retain customers that may adversely affect results. The company launched several low-priced service plans, which have enhanced its revenues, but not meaningfully improved the operating margin.

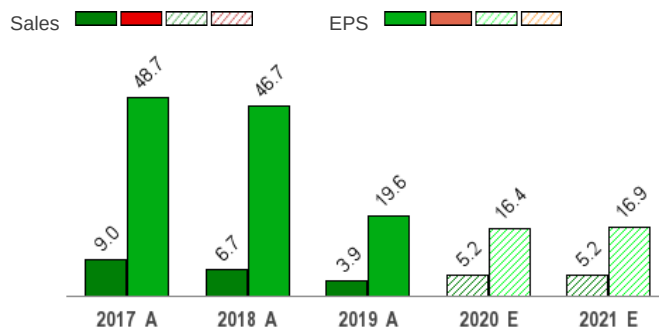
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$95.23 - \$68.16
20 Day Average Volume (sh)	3,915,873
Market Cap	\$81.0 B
YTD Price Change	20.5%
Beta	0.43
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Wireless National
Zacks Industry Rank	Bottom 37% (159 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.8%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-4.0%
Expected Report Date	04/23/2020
Earnings ESP	-0.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	12,153 E	12,213 E	12,392 E	13,246 E	49,823 E
2020	11,537 E	11,539 E	11,750 E	12,550 E	47,339 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	\$1.35 E	\$1.40 E	\$1.44 E	\$1.37 E	\$5.47 E
2020	\$1.14 E	\$1.25 E	\$1.24 E	\$1.08 E	\$4.68 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.

P/E TTM	21.1
P/E F1	20.2
PEG F1	1.6
P/S TTM	1.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/11/2020. The reports text is as of 02/12/2020.

Overview

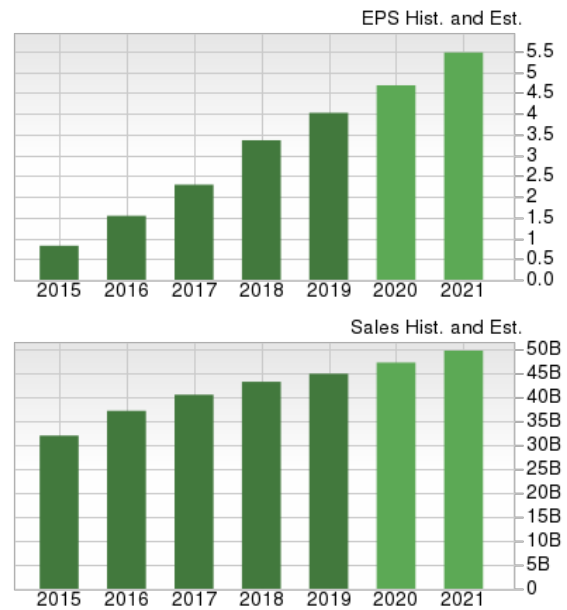
Headquartered in Bellevue, WA, T-Mobile US, Inc. is a national wireless service provider. The company operates under two flagship brands, T-Mobile and MetroPCS. Notably, T-Mobile was formed in 2013 after the merger of T-Mobile USA Inc. and MetroPCS Communications Inc. Deutsche Telekom AG was the owner 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.

T-Mobile reports under the following three segments.

Service (73.3% of total revenues in fourth-quarter 2019): Includes wireless communication services to branded postpaid and branded prepaid customers through a variety of service plan options.

Equipment (24.2%): 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 received a green signal for its long-pending \$26.5 billion merger with Sprint in Federal Court. Repudiating a lawsuit by a group of states to block the combination, the ruling clears the path to create a strong rival in 5G wireless services to Verizon Communications and AT&T. While Judge Victor Marrero approved the deal without stipulations, the Department of Justice and Federal Communications Commission earlier approved it when the carriers agreed to sell some assets to Dish Network. T-Mobile and Sprint advocated the idea that the merger would better prepare the new company, New T-Mobile, to compete with arch-rivals and lead to lower prices and faster Internet speeds. The companies further said that the consolidation could speed up the rollout of a national 5G network, as the deal would combine their spectrum holdings. The merger, which is expected to be closed as early as Apr 1, remains subject to certain closing conditions, including probable additional court proceedings, and satisfactory resolution of outstanding business issues among the parties.
- ▲ New T-Mobile will compete for consumers at all price points and all customers, including prepaid and Lifeline, will have access to the same 5G network and services. With speeds up to five times faster than current LTE in just a few years and reaching as much as 15 times faster by 2024, New T-Mobile's 5G network will likely change the way consumers use the Internet. New T-Mobile's plans to deploy a higher quality and more robust network for rural America and to prioritize more vulnerable urban populations will ensure that all Americans have a meaningful chance to thrive in the 5G economy. It will deliver 100-plus Mbps speeds for wireless broadband to 90% of the population and in-home service to more than half the country's households by 2024. In the first year, New T-Mobile is expected to have more than 3,500 additional full-time U.S. employees than the standalone companies would have had, and 11,000 more people by 2024. Moreover, plans to build more than 600 new retail locations and five new customer experience centers will create about 12,000 more jobs.
- ▲ The wireless carrier continues to invest in building its nationwide 4G LTE network, which now covers 327 million Americans. It also continues to rapidly deploy its 600 MHz spectrum, which now covers 248 million people, and is live in nearly 8,900 cities and towns across 49 states and Puerto Rico. In December 2019, the company launched America's first nationwide 5G network, including prepaid 5G with Metro by T-Mobile. This covers more than 200 million people and more than 5,000 cities and towns across the United States with 5G. Further, it introduced two new 600 MHz 5G capable superphones, the OnePlus 7T Pro 5G McLaren and the Samsung Galaxy Note 10+ 5G and anticipates offering an industry-leading smartphone portfolio built to work on nationwide 5G in 2020. With the New T-Mobile, it will be able to combine this foundational layer of 5G with Sprint's 2.5 GHz mid-band spectrum.
- ▲ 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. This is supported by improving scale, healthy free cash flow generation, strong liquidity and spectrum assets that provide credit support.

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.

Reasons To Sell:

- ▼ The U.S. wireless market is highly competitive and almost saturated. 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 has not rewarded its shareholders yet. In fourth-quarter 2019, its total operating expenses were \$10,644 million compared with \$10,308 million in the year-ago quarter due to higher selling, general and administrative expenses, and higher cost of services expenses.
- ▼ 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.

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

Last Earnings Report

T-Mobile Q4 Earnings Top Estimates on Record Revenues

T-Mobile reported impressive fourth-quarter 2019 results, wherein the bottom line and the top line surpassed the respective Zacks Consensus Estimate, and increased year over year.

The Bellevue, WA-based company recorded 1.9 million total net customer additions, which mark the 27th consecutive quarter with more than 1 million total net customer additions. T-Mobile delivered all-time high financial results, including service and total revenues, as well as record adjusted EBITDA.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	0.53%
EPS Surprise	4.82%
Quarterly EPS	0.87
Annual EPS (TTM)	4.49

Net Income

The national wireless carrier's net income for the December quarter was \$751 million or 87 cents per share compared with \$640 million or 75 cents per share in the year-ago quarter. The improvement was primarily driven by higher operating income. The bottom line surpassed the Zacks Consensus Estimate by 4 cents. For 2019, net income was \$3,468 million or \$4.02 per share compared with \$2,888 million or \$3.36 per share in 2018.

Revenues

Quarterly aggregate revenues increased 3.8% year over year to \$11,878 million led by growth in service revenues. The momentum, however, was partly offset by a decrease in equipment revenues. The top line surpassed the consensus estimate of \$11,816 million. For 2019, revenues increased 3.9% year over year to \$44,998 million.

Quarterly Segment Results

Total **Service** revenues were up 6.3% year over year to \$8,708 million, signifying best quarterly performance ever. T-Mobile led the industry for the 23rd consecutive quarter in year-over-year service revenue percentage growth. Within this segment, branded postpaid revenues were \$5,821 million, up 8.1% year over year. The company recorded 1.3 million branded postpaid net additions, and 1 million branded postpaid phone net additions in the quarter.

Branded postpaid phone average revenue per user (ARPU) declined to \$45.79, down 1.1%. This was mainly due to increased promotional activities, including growth in the company's Netflix offering, and a reduction in regulatory program revenues from the adoption of tax inclusive plans.

Branded prepaid revenues were \$2,393 million, down 0.3% year over year. Branded prepaid ARPU was essentially flat at \$38.54. This indicates the impact of dilution from promotional activity and growth in the company's Amazon Prime offering. While wholesale revenues were \$341 million, up 12.2%; roaming and other service revenues were \$153 million, up 50%. Revenues from **Equipment** totaled \$2,875 million, down 2.2% year over year. **Other** revenues were \$295 million, down 6.6%.

Other Details

T-Mobile recorded adjusted EBITDA of \$3,242 million compared with \$2,970 million in the prior-year quarter. This was supported by higher service revenues, however, partly offset by increased SG&A expenses and cost of services.

Overall operating expenses increased to \$10,644 million from \$10,308 million in the year-ago quarter. Operating income improved to \$1,234 million from \$1,137 million in the prior-year quarter, backed by top-line growth.

Cash Flow & Liquidity

In 2019, T-Mobile generated \$6,824 million of net cash from operations compared with \$3,899 million in 2018. Free cash flow for the year was \$4,319 million compared with \$3,552 million in 2018. As of Dec 31, 2019, the company had \$1,528 million in cash and equivalents with \$10,958 million of long-term debt compared with the respective tallies of \$1,203 million and \$12,124 million a year ago.

2020 Outlook

On a standalone basis, T-Mobile expects branded postpaid net customer additions between 2.6-3.6 million in 2020. Adjusted EBITDA is anticipated between \$13.7 billion and \$14 billion, which includes leasing revenues of \$450-\$550 million and takes into account network expansion, including the deployment of its 600 MHz spectrum and 5G network. Cash purchases of property and equipment, including capitalized interest of about \$400 million, are estimated between \$5.9 billion and \$6.2 billion. Free cash flow, excluding payments for merger-related costs and any settlement of interest rate swaps, is projected between \$5.4 billion and \$5.8 billion.

Going Forward

T-Mobile continues to invest in building its nationwide 4G LTE network, which now covers 327 million Americans. It also continues to rapidly deploy its 600 MHz spectrum, which now covers 248 million people, and is live in nearly 8,900 cities and towns across 49 states and Puerto Rico.

In December 2019, the company launched America's first nationwide 5G network, including prepaid 5G with Metro by T-Mobile. This covers more than 200 million people and more than 5,000 cities and towns across the United States with 5G. Further, it introduced two new 600 MHz 5G capable superphones, the OnePlus 7T Pro 5G McLaren and the Samsung Galaxy Note 10+ 5G and anticipates offering an industry-leading smartphone portfolio built to work on nationwide 5G in 2020. With the New T-Mobile, it will be able to combine this foundational layer of 5G with Sprint's 2.5 GHz mid-band spectrum.

Recent News

On Feb 11, 2020, T-Mobile announced that it has received the green signal for its long-pending \$26.5 billion merger with Sprint in Federal Court. Repudiating a lawsuit by a group of states to block the combination, the ruling clears the path to create a strong rival in 5G wireless services to Verizon Communications and AT&T. While Judge Victor Marrero approved the deal without stipulations, the Department of Justice and Federal Communications Commission earlier approved it when the carriers agreed to sell some assets to Dish Network. The integration is undeniably going to disrupt the competitive landscape of the U.S. telecom market.

On Dec 2, 2019, T-Mobile announced that it has become the first telecom carrier to activate nationwide 5G network, covering nearly 200 million Americans in more than 5,000 cities and towns. The company's widely accessible and affordable 600 MHz 5G network is likely to give a run for money to larger rivals like Verizon and AT&T with approval from the Federal Communications Commission for its \$26.5 billion megamerger with Sprint Corporation. The network will also be accessible to T-Mobile's prepaid wireless carrier brand, Metro, marking the first prepaid 5G offering in the country.

On Nov 14, 2019, T-Mobile and Sprint unveiled the location of the fourth Customer Experience Center (CEC), post their proposed merger. The facility, to be built in New York's Nassau County, is expected to create about 1,000 local direct jobs with several benefits such as healthcare, stock grants, college tuition assistance, childcare subsidy, and paid parental leave. The new facility will join the league of previously announced CEC locations — Overland Park, KS, Rochester, NY, and Kingsburg, CA.

Valuation

T-Mobile shares are up 36.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 16.3% and 29.1% over the past year, respectively.

The S&P 500 Index is up 20.8% in the past year.

The stock is currently trading at 8.76X trailing 12-month EV/EBITDA, which compares to 6.38X for the Zacks sub-industry, 12.74X for the Zacks sector and 11.36X for the S&P 500 Index.

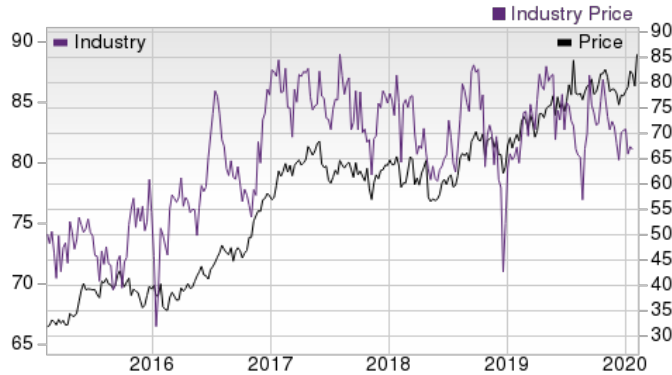
Over the past five years, the stock has traded as high as 10.2X and as low as 4.6X, with a 5-year median of 8.2X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$99 price target reflects 5.13X forward 12-month earnings.

The table below shows summary valuation data for TMUS

Valuation Multiples - TMUS					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	8.76	6.38	12.74	11.36
	5-Year High	10.16	11.62	12.74	12.85
	5-Year Low	4.57	5.99	7.68	8.47
	5-Year Median	8.23	6.67	10.53	10.7
P/E F12M	Current	19.31	12.55	23.07	19.27
	5-Year High	38.04	16.01	23.07	19.34
	5-Year Low	15.35	10.88	16.87	15.18
	5-Year Median	23.74	13.76	19.32	17.47
P/S F12M	Current	1.7	1.53	3.76	3.55
	5-Year High	1.7	1.54	3.76	3.55
	5-Year Low	0.77	1.12	2.3	2.54
	5-Year Median	1.2	1.35	3.02	3

As of 02/11/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (159 out of 254)



Top Peers

ATN International, Inc. (ATNI)	Neutral
CenturyLink, Inc. (CTL)	Neutral
GCI Liberty, Inc. (GLIBA)	Neutral
Gogo Inc. (GOGO)	Neutral
Sprint Corporation (S)	Neutral
AT&T Inc. (T)	Neutral
United States Cellular Corporation (USM)	Neutral
Verizon Communications Inc. (VZ)	Neutral

Industry Comparison Industry: Wireless National				Industry Peers		
	TMUS Neutral	X Industry	S&P 500	S Neutral	T Neutral	VZ Neutral
VGM Score	D	-	-	B	B	A
Market Cap	80.97 B	479.58 M	24.17 B	35.03 B	278.83 B	242.73 B
# of Analysts	13	6	13	13	20	20
Dividend Yield	0.00%	0.00%	1.77%	0.00%	5.45%	4.19%
Value Score	C	-	-	B	B	B
Cash/Price	0.02	0.12	0.04	0.16	0.04	0.01
EV/EBITDA	9.59	6.11	13.89	5.96	6.47	8.14
PEG Ratio	1.63	2.89	2.05	NA	2.24	3.53
Price/Book (P/B)	2.81	1.38	3.27	1.36	1.38	3.86
Price/Cash Flow (P/CF)	8.02	6.63	13.60	3.07	4.35	6.63
P/E (F1)	20.19	16.02	19.00	NA	10.60	11.85
Price/Sales (P/S)	1.80	1.14	2.66	1.08	1.54	1.84
Earnings Yield	4.95%	1.28%	5.26%	-1.88%	9.43%	8.43%
Debt/Equity	1.36	0.59	0.71	1.51	0.75	1.90
Cash Flow (\$/share)	11.79	2.78	6.89	2.78	8.77	8.85
Growth Score	D	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	64.27%	6.10%	10.85%	NA	8.63%	6.07%
Proj. EPS Growth (F1/F0)	16.48%	20.72%	7.22%	-1,692.30%	0.87%	2.97%
Curr. Cash Flow Growth	7.57%	-0.75%	8.88%	30.13%	14.11%	-0.75%
Hist. Cash Flow Growth (3-5 yrs)	16.70%	5.80%	8.36%	36.43%	15.33%	4.16%
Current Ratio	0.74	0.91	1.22	0.76	0.80	0.84
Debt/Capital	57.57%	50.24%	42.90%	60.18%	42.90%	65.46%
Net Margin	7.71%	-0.32%	11.81%	-8.25%	7.67%	14.61%
Return on Equity	14.09%	0.02%	16.98%	-2.61%	13.37%	33.39%
Sales/Assets	0.53	0.50	0.54	0.37	0.33	0.46
Proj. Sales Growth (F1/F0)	5.20%	5.20%	4.06%	-4.66%	0.41%	2.05%
Momentum Score	F	-	-	F	D	A
Daily Price Chg	11.78%	0.29%	0.45%	77.50%	-0.44%	-2.57%
1 Week Price Chg	7.89%	2.94%	2.47%	12.81%	2.21%	0.84%
4 Week Price Chg	18.41%	4.57%	0.95%	75.31%	0.21%	-0.59%
12 Week Price Chg	22.46%	0.22%	5.05%	48.43%	0.45%	-1.36%
52 Week Price Chg	35.76%	2.61%	16.18%	38.76%	28.04%	7.85%
20 Day Average Volume	3,915,873	185,703	1,999,386	25,951,734	32,277,254	12,054,908
(F1) EPS Est 1 week change	-3.01%	0.00%	0.00%	0.00%	-0.02%	0.00%
(F1) EPS Est 4 week change	-4.01%	-0.30%	0.00%	-4.55%	-0.30%	0.08%
(F1) EPS Est 12 week change	-3.44%	-0.13%	-0.18%	-6.66%	-0.10%	-0.16%
(Q1) EPS Est Mthly Chg	-1.20%	0.00%	0.00%	-141.67%	-0.28%	-0.73%

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	C
Growth Score	D
Momentum Score	F
VGM Score	D

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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