T-Mobile US, Inc. (TMUS)

$81.44 (As of 01/16/20)

Price Target (6-12 Months): **$86.00**

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:B
	Value: B Growth: C Momentum: D	

Summary

T-Mobile has cleared most of the regulatory and shareholder approvals for its game-changing merger with Sprint. The New T-Mobile will have about 127 million customers with a strong closing balance sheet, and is expected to increase competition in the 5G era. It has introduced 5G millimeter wave network in six cities, including New York and Los Angeles. The company continues to invest in its network and prepare for nationwide 5G with the aggressive rollout of its 600 MHz spectrum. However, intensifying competition is likely to limit its ability to attract and retain customers, which might adversely impact its operating results. The company launched several low-priced service plans that have enhanced revenues, but did not significantly improve the bottom line. Highly competitive and saturated U.S. wireless market remains a major headwind.
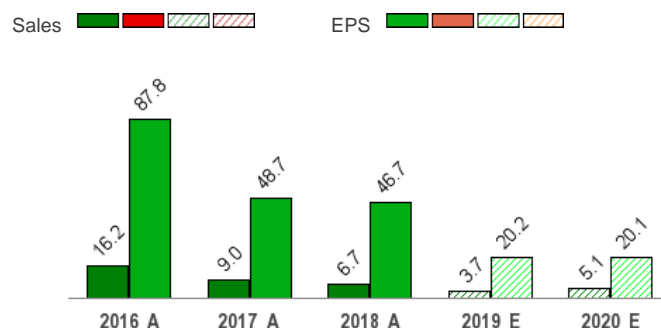
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$85.22 - $65.56**
20 Day Average Volume (sh)	**2,159,943**
Market Cap	**$69.7 B**
YTD Price Change	**3.9%**
Beta	**0.36**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Wireless National**
Zacks Industry Rank	**Bottom 26% (187 out of 254)**
Last EPS Surprise	**19.6%**
Last Sales Surprise	**-2.0%**
EPS F1 Est- 4 week change	**-0.6%**
Expected Report Date	**02/06/2020**
Earnings ESP	**2.2%**
P/E TTM	**18.6**
P/E F1	**16.8**
PEG F1	**1.4**
P/S TTM	**1.6**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	11,512 E	11,556 E	11,695 E	12,427 E	47,182 E
2019	11,080 A	10,979 A	11,061 A	11,791 E	44,902 E
2018	10,455 A	10,571 A	10,839 A	11,445 A	43,310 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$1.15 E	$1.23 E	$1.29 E	$1.17 E	$4.85 E
2019	$1.17 A	$1.29 A	$1.16 A	$0.85 E	$4.04 E
2018	$0.78 A	$0.92 A	$0.93 A	$0.75 A	$3.36 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 01/16/2020. The reports text is as of 01/17/2020.

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 (77.6% of total revenues in third-quarter 2019): Includes wireless communication services to branded postpaid and branded prepaid customers through a variety of service plan options.

Equipment (19.8%): Includes sale of devices to dealers and third-party distributors for resale through independent third-party retail outlets; while the balance accounts for Other (2.6%).

EPS Hist. and Est.

Sales Hist. and Est.
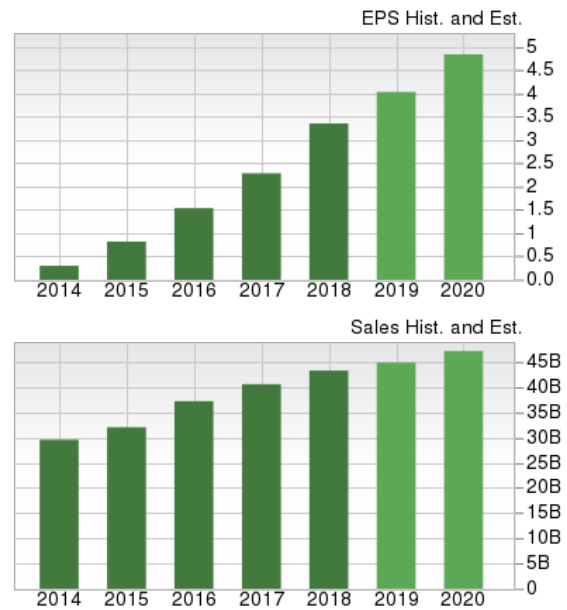
Reasons To Buy:

▲ After striving for more than a year, T-Mobile has finally received clearance from Department of Justice for merger with Sprint. The deal should help accelerate development of faster 5G wireless networks. Reportedly, the combined company — New T-Mobile — will have about 127 million customers, a strong closing balance sheet and a fully funded business plan. It represents a total implied enterprise value of about $146 billion. T-Mobile's innovative network expansion methodologies continue to be faster and technologically sounder, in an attempt to stay ahead of competitors. The U.S. wireless carrier's network has been the fastest network in America in both download and upload speeds.

> 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.

▲ The company continues to invest in its network and prepare for nationwide 5G with the aggressive rollout of its 600 MHz spectrum. Furthermore, it has successfully conducted Narrowband Internet of Things (NB-IoT) tests live on its commercial network. T-Mobile is also planning to team up with dark fiber partners to backhaul small cell densification project. Its customer growth will continue to accelerate and benefit from the investments in network and customer experience. The company boasts one of the fastest LTE networks in the industry realizing average 4G LTE download speeds of 33.4 Mbps, and average 4G LTE upload speeds of 12.1 Mbps. Covering more than 325 million people with 4G LTE, T-Mobile is building out standards-based 5G across the country. 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 has introduced 5G millimeter wave network in six cities including New York and Los Angeles.

▲ T-Mobile plans to launch its own streaming TV service. The acquisition of Layer3 TV has boosted its streaming service. The company will 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.

▲ Owing to compelling third-quarter results, T-Mobile has offered a bullish guidance for full-year 2019 with expectation of branded postpaid net customer additions of 4.1-4.3 million (up from the previous guidance of 3.5-4 million). Adjusted EBITDA is anticipated between $13.1 billion and $13.3 billion, which includes leasing revenues of $550 million-$600 million, (up from the prior guidance of 12.9 billion and $13.3 billion). Cash purchases of property and equipment, including capitalized interest, are expected to be in the range of $6.35-$6.45 billion (up from the prior guidance of $5.8-$6.1 billion).

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 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 third-quarter 2019, its total operating expenses were $9,590 million compared with $9,399 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 Q3 Earnings Surpass Estimates, Revenues Grow

T-Mobile delivered solid third-quarter 2019 results, with record-high service revenues of $8.6 billion. The company continues to successfully translate customer growth into industry-leading service revenue with 1.7 million total customer net additions. Both the top line and the bottom line increased on a year-over-year basis.

Quarter Ending	09/2019
Report Date	Oct 28, 2019
Sales Surprise	-1.98%
EPS Surprise	19.59%
Quarterly EPS	1.16
Annual EPS (TTM)	4.37

Net Income

Net income for the September quarter was $870 million or $1.01 per share compared with $795 million or 93 cents per share in the year-ago quarter. The year-over-year improvement was largely attributable to top-line growth.

Adjusted earnings per share came in at $1.16 compared with 93 cents reported in the year-ago quarter, beating the Zacks Consensus Estimate by 19 cents.

Revenues

Quarterly total revenues increased 2% year over year to $11,061 million driven by growth in service revenues, partially offset by a decrease in equipment revenues due to a decline in the number of devices sold. The top line, however, lagged the consensus estimate of $11,308 million.

Segment Results

Total **Service** revenues were up 6.4% to a record high of $8,583 million compared with $8,066 million in the prior-year quarter, primarily driven by a surge in branded postpaid revenues and customer base growth. T-Mobile led the industry for the 22nd consecutive quarter in year-over-year service revenue percentage growth. Within this segment, branded postpaid revenues were $5,746 million, up 9.6% year over year. The U.S. wireless carrier registered 1.1 million branded postpaid net additions and 754,000 branded postpaid phone net additions in the quarter, down 5,000 and 20,000, respectively, partially offset by record low churn rate. Branded postpaid phone average revenue per user (ARPU) was flat at $46.22. This was primarily due to higher premium service revenues coupled with growth of new customer segments and rate plans, offset by a reduction in regulatory program revenues from the continued adoption of tax inclusive plans and the impact of the ongoing growth in Netflix offering.

Branded prepaid revenues were $2,385 million, down 0.4% year over year. Branded prepaid ARPU was $38.16, down 0.5%, mainly due to dilution from promotional rate plans and growth in Amazon Prime offering, partially offset by the removal of certain branded prepaid customers. Wholesale revenues were $321 million, down 5% while roaming and other service revenues were $131 million, up 47.2%. Revenues from **Equipment** totaled $2,186 million, down 8.6% year over year. **Other** revenues were $292 million, down 23.6%.

Other Details

T-Mobile recorded third-quarter adjusted EBITDA of $3,396 million, up 4.85% from $3,239 million in the prior-year quarter on the back of higher service revenues. However, this was partly offset by higher selling, general and administrative expenses, and higher cost of services expenses. Total operating expenses increased from $9,399 million to $9,590 million year over year. Operating income increased to $1,471 million from $1,440 million backed by top-line growth.

Cash Flow & Liquidity

T-Mobile generated $1,748 million of net cash from operations, up 91% from $914 million in the year-ago quarter. This increase was primarily driven by lower net cash outflows from changes in working capital and higher net income. Free cash flow was $1,134 million, up 27% from $890 million. As of Sep 30, 2019, the company had $1,653 million in cash and cash equivalents with $10,956 million of long-term debt.

Outlook

Owing to such impressive third-quarter results, T-Mobile has offered a bullish guidance for full-year 2019 with expectation of branded postpaid net customer additions of 4.1-4.3 million (up from the previous guidance of 3.5-4 million). Adjusted EBITDA is expected to be in the range of $13.1-$13.3 billion (up from the previous guidance of $12.9-13.3 billion), which includes leasing revenues of $550-$600 million. Cash purchases of property and equipment, including capitalized interest, are anticipated to be in the range of $6.35-$6.45 billion (up from the prior guidance of $5.8-$6.1 billion).

The higher capital expenditure guidance reflects the rapid rollout of 600 MHz spectrum, thereby accelerating plans to launch the first nationwide 5G network with more than 200 million purchase option prices with compatible smartphones this year.

Going Forward

T-Mobile has cleared most of the regulatory and shareholder approvals for its pending merger with Sprint. Strong customer growth continues to accelerate and benefit from the investments in network and customer experience with the launch of America's first nationwide 5G network in 2019, in collaboration with the introduction of the compatible 5G smartphones and Sprint spectrum, forming the foundational 5G coverage layer for a new T-Mobile. The company boasts one of the fastest LTE networks in the industry, covering almost 200 million people across 8,300 cities and towns in 48 states, including Puerto Rico.

Covering more than 26 million compatible devices with 600 MHz, T-Mobile is building standard-based 5G across the country. The company has introduced 5G millimeter wave network in six cities including New York and Los Angeles, in conjunction with the launch of its first 5G handset — Samsung Galaxy S10 5G.

Recent News

On Jan 7, 2020, T-Mobile recently unveiled a preliminary view of its customer growth trajectory for the fourth quarter and full-year 2019 to showcase the inherent strength of its resilient business model amid a competitive and cut-throat business environment. For fourth-quarter 2019, T-Mobile recorded an impressive 1.9 million net customer additions, representing the 27th consecutive quarter in which more than 1 million customer additions were witnessed. For full-year 2019, T-Mobile recorded 7 million net customer additions, including 4.5 million branded postpaid net additions. Much of these improved customer metrics were attributable to a wide array of convenient Un-carrier tariff plans and related customer service.

On Dec 13, 2019, media reports revealed that after a long period of uncertainty, telecom giants — T-Mobile US, Inc. and Sprint Corporation — are facing a landmark trial from certain state attorney generals, aiming to prevent the $26.5 billion megamerger deal. Notably, this federal trial is the outcome of an alliance of 14 Democratic state attorneys general who believe that the proposed deal will threaten competitive market in the U.S. wireless industry, affecting customers and escalating costs.

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 21.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 11.7% and 31.8% over the past year, respectively.

The S&P 500 Index is up 23.2% in the past year.

The stock is currently trading at 8.48X trailing 12-month EV/EBITDA, which compares to 6.32X for the Zacks sub-industry, 12.41X for the Zacks sector and 12.12X 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 8.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $86 price target reflects 5.19X 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	8.48	6.32	12.41	12.12
	5-Year High	10.16	11.62	12.6	12.86
	5-Year Low	4.57	5.99	7.68	8.48
	5-Year Median	8.08	6.67	10.52	10.67
P/E F12M	Current	16.56	12.25	22.78	18.97
	5-Year High	38.04	16.01	22.78	19.34
	5-Year Low	15.35	10.88	16.87	15.17
	5-Year Median	24.07	13.79	19.24	17.44
P/S F12M	Current	1.47	1.5	3.68	3.53
	5-Year High	1.54	1.54	3.68	3.53
	5-Year Low	0.73	1.12	2.3	2.54
	5-Year Median	1.19	1.34	3.01	3

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (187 out of 254)
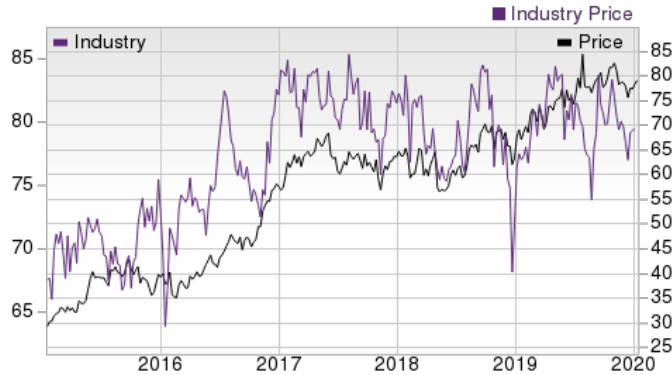
Top Peers

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

Industry Comparison Industry: Wireless National — Industry Peers

	TMUS **Neutral**	X Industry	S&P 500	S **Underperform**	T **Neutral**	VZ **Neutral**
VGM Score	B	-	-	C	A	B
Market Cap	69.68 B	493.68 M	24.61 B	20.21 B	277.81 B	246.78 B
# of Analysts	13	5	13	13	18	17
Dividend Yield	0.00%	0.00%	1.74%	0.00%	5.47%	4.12%
Value Score	B	-	-	A	A	B
Cash/Price	0.02	0.11	0.04	0.22	0.02	0.01
EV/EBITDA	9.12	5.54	14.24	4.62	6.53	8.69
PEG Ratio	1.36	3.07	2.07	NA	2.38	3.76
Price/Book (P/B)	2.51	1.40	3.38	0.78	1.43	4.09
Price/Cash Flow (P/CF)	7.37	6.69	13.75	1.77	4.16	6.69
P/E (F1)	16.85	14.86	19.09	NA	10.53	12.08
Price/Sales (P/S)	1.56	0.96	2.68	0.61	1.52	1.88
Earnings Yield	5.96%	1.31%	5.24%	-3.05%	9.49%	8.28%
Debt/Equity	1.41	0.59	0.72	1.50	0.79	1.99
Cash Flow ($/share)	11.05	2.78	6.94	2.78	9.14	8.93
Growth Score	C	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	71.62%	6.19%	10.56%	NA	8.60%	6.19%
Proj. EPS Growth (F1/F0)	19.99%	24.53%	7.57%	-1,638.50%	1.48%	2.32%
Curr. Cash Flow Growth	17.42%	14.35%	14.73%	30.13%	29.91%	14.35%
Hist. Cash Flow Growth (3-5 yrs)	20.68%	7.86%	9.00%	36.43%	12.00%	8.29%
Current Ratio	0.66	0.91	1.24	0.78	0.74	0.89
Debt/Capital	58.56%	51.35%	42.99%	60.06%	44.14%	66.55%
Net Margin	7.53%	-0.32%	11.14%	-8.19%	8.97%	12.26%
Return on Equity	14.21%	0.02%	17.16%	-2.63%	13.42%	34.50%
Sales/Assets	0.55	0.50	0.55	0.38	0.34	0.47
Proj. Sales Growth (F1/F0)	5.08%	5.08%	4.16%	-4.20%	0.42%	1.45%
Momentum Score	D	-	-	F	A	D
Daily Price Chg	1.46%	0.78%	0.89%	1.23%	0.42%	0.96%
1 Week Price Chg	1.06%	-2.58%	0.39%	-5.79%	-1.25%	-2.33%
4 Week Price Chg	5.46%	-0.63%	2.65%	-6.99%	-2.31%	-1.86%
12 Week Price Chg	-0.05%	1.06%	7.55%	-21.66%	3.29%	-1.50%
52 Week Price Chg	22.93%	-9.40%	22.12%	-18.14%	24.12%	5.00%
20 Day Average Volume	2,159,943	279,793	1,536,375	10,836,188	25,340,968	12,024,467
(F1) EPS Est 1 week change	-0.90%	0.00%	0.00%	-1.01%	-0.17%	-0.01%
(F1) EPS Est 4 week change	-0.62%	0.00%	0.00%	-1.01%	0.64%	-0.38%
(F1) EPS Est 12 week change	-0.58%	-0.51%	-0.40%	-108.33%	-0.44%	0.85%
(Q1) EPS Est Mthly Chg	0.01%	0.00%	0.00%	-4.17%	0.10%	1.50%

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	B
Growth Score	C
Momentum Score	D
VGM Score	B

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.

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