Verizon Communications (VZ)

$57.44 (As of 04/10/20)

Price Target (6-12 Months): **$60.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/29/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: B | Momentum: C	

Summary

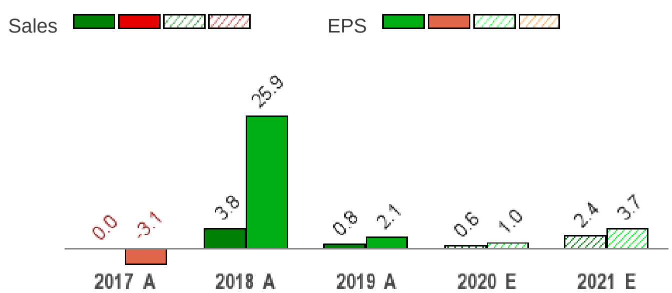
With industry-leading wireless products and services, Verizon remains well poised to benefit from increased 5G deployment across the country. Focus on online content delivery, mobile video and online advertising will likely stoke future growth. Verizon is also changing its revenue mix toward newer growth services like cloud, security and professional services. The company has upped the ante against rivals by launching 5G Ultra Wideband network in several cities and offered solid 2020 guidance. However, Verizon continues to struggle in a competitive U.S. wireless market. The company's wireline division is also struggling with losses in access lines due to competitive pressure from VoIP service providers. In addition, Verizon is spending heavily on promotion and lucrative discounts to woo customers, which further erodes its profitability.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$62.22 - $48.84**
20 Day Average Volume (sh)	**29,441,388**
Market Cap	**$237.6 B**
YTD Price Change	**-6.5%**
Beta	**0.46**
Dividend / Div Yld	**$2.46 / 4.3%**
Industry	**Wireless National**
Zacks Industry Rank	**Top 12% (30 out of 253)**
Last EPS Surprise	**-1.7%**
Last Sales Surprise	**0.7%**
EPS F1 Est- 4 week change	**-1.6%**
Expected Report Date	**04/24/2020**
Earnings ESP	**-0.1%**
P/E TTM	**11.9**
P/E F1	**11.8**
PEG F1	**2.8**
P/S TTM	**1.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	32,900 E	32,838 E	33,763 E	35,496 E	135,805 E
2020	32,421 E	31,690 E	32,981 E	35,217 E	132,624 E
2019	32,128 A	32,071 A	32,894 A	34,775 A	131,868 A

EPS Estimates

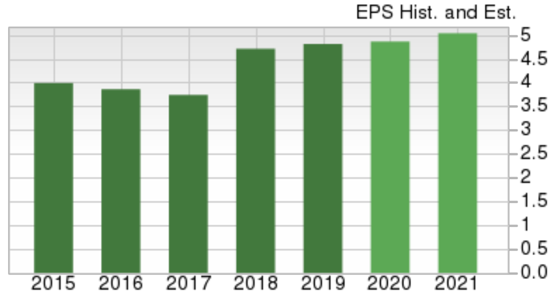
	Q1	Q2	Q3	Q4	Annual*
2021	$1.27 E	$1.28 E	$1.31 E	$1.19 E	$5.04 E
2020	$1.22 E	$1.24 E	$1.27 E	$1.13 E	$4.86 E
2019	$1.20 A	$1.23 A	$1.25 A	$1.13 A	$4.81 A

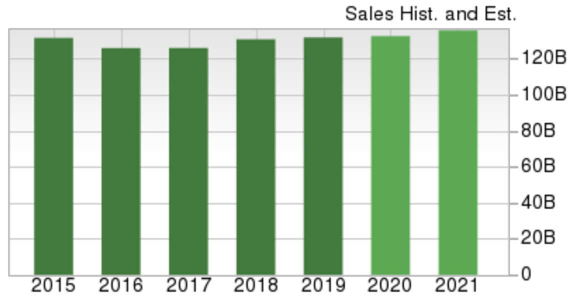
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/10/2020. The reports text is as of 04/13/2020.

Overview

Based in New York, Verizon Communications Inc. was formed through the merger of Bell Atlantic and GTE Corp. The company offers communication services in the form of local phone service, long distance, wireless and data services. In Jan 2006, Verizon completed its merger with MCI Corporation, a leader in long distance and data networking. With the acquisition of Alltel Wireless Corp. in early 2009, Verizon has surpassed AT&T Inc. as the largest wireless carrier in the North America, serving millions of customers nationwide.





Verizon has teamed up with Amazon Web Services to create and deploy low latency applications to mobile devices using 5G and became the first telecom carrier in the world to offer such service. The company has launched a free consumer search engine dubbed OneSearch with enhanced privacy options to add a new dimension to the search ecosystem. It has also announced a pricing breakthrough in the cable industry with the launch of Mix & Match on its FiOS platform, enabling viewers to combine TV with Internet plans effectively without any hidden charges and annual contracts. Focus on online content delivery, mobile video and online advertising will likely stoke future growth.

With the ramp-up of 5G service across the country, Verizon is likely to retain its lead in promulgating 5G mobile networks nationwide by using virtualized machines, advanced levels of operational automation and adaptability. Effective second-quarter 2019, the company has reorganized its operating segments under its new operating structure dubbed Verizon 2.0. Under this operating structure, the new segments of the company are Consumer, Business and Media Group.

- **Consumer** (69.6% of total revenues in fourth-quarter 2019): This segment includes the retail wireline and wireless businesses.
- **Business** (23.2%): This segment includes the wireless and wireline operations of Wholesale, Public Sector and Other, Small and Medium Business, and Global Enterprise.
- **Media Group** (7.2%): This segment includes assets gained through the Yahoo acquisition, media verticals and the ad platform.

Reasons To Buy:

> Verizon plans to deploy next-generation 5G wireless residential broadband services in multiple U.S. markets in 2020, while diversifying itself firmly in digital content and online advertising market.

- Verizon expects considerable business growth in both its Wireless and Wireline businesses in 2020. The company expects healthy improvement in margins on the back of continued strong FiOS network and strategic services in the Wireline business. The company's efforts to improve profitable growth include improving operating and capital efficiency. In the enterprise and the wholesale business, Verizon is changing its revenue mix toward newer growth services like cloud, security and professional services. Also, Verizon is looking forward to capitalize on the countless innovative technology solutions being developed in the Internet of Things and telematics ecosystem across multiple industries. Further, the company's focus on online content delivery, mobile video and online advertising should drive growth.

- Verizon has upped the ante against its rivals by launching the 5G Ultra Wideband network in 31 cities in 2019. The 5G Ultra Wideband network hinges on three fundamental drivers to deliver the full potential of 5G technology. These include massive spectrum holdings, particularly in the millimeter wave bands for faster data transfer, end-to-end deep fiber resources and the ability to deploy large numbers of small cells. Verizon has systematically invested in 5G technology to gain a foothold in the industry. The company expects to capitalize on the impending 5G boom and outsmart competitive pressure.

- Verizon has been looking to slash costs through employee reduction as it ramps up investment in its next-generation 5G network, which is expected to better position itself for future growth. Unsecured debt decreased by $3.9 billion in 2019 as the company remains focused on reducing its net unsecured debt portfolio into its targeted range of 1.75 to 2.0x, while continuing to actively manage its near-term maturities, optimize overall funding footprint and lower its cost of capital. The company realized approximately $1.3 billion of expense savings from its Voluntary Separation Program in 2019. Till date, Verizon has achieved $5.7 billion of cumulative cash savings and remains on track to achieve cumulative cost savings of $10 billion by 2021.

- Verizon is systematically diversifying itself as a major player in the digital content and online advertising space. The company wrote off a majority of its media business — Oath — which includes Yahoo and AOL, due to lower-than-expected performance. Verizon Media replaced the Oath brand. Over the years, the largest U.S. wireless carrier (by subscribers), has spurred technological innovation and economic development, including introduction of mobile data and making the ecosystem more pervasive with 4G LTE. The company has now embarked on a new operating structure under Verizon 2.0, with the operating model closely aligned with the evolving customer needs. The business transformation is likely to propel the growth engine of the company as the industry witnesses a major upheaval.

- With one of the most efficient wireless networks in the United States, Verizon continues to deploy the latest 4G LTE Advanced technologies to deliver faster peak data speeds and capacity for customers, driven by customer-focused planning, disciplined engineering and constant strategic investment. Verizon has been aggressively forging ahead to expand its fiber optics networks to support 4G LTE and upcoming 5G wireless standards as well as wireline connections. For full-year 2020, Verizon offered a healthy guidance based on underlying strength of its business model and healthy momentum in its wireless business. Adjusted earnings per share are likely to increase by 2-4% year over year, while GAAP revenues are likely to increase by low-to-mid single-digit percentage rates driven by expected savings from tax reform and higher cash flow from operations.

Reasons To Sell:

- Verizon continues to struggle in a competitive and saturated U.S. wireless market with incumbents like AT&T, T-Mobile and Sprint. The industry is likely to witness stiff competition in 2020 and beyond with the entry of cable MSOs (multi service operators). Comcast has already entered this space with Xfinity Mobile offering. Charter Communications also reiterated its plans of launching wireless service. Adoption of several unlimited data plans has resulted in reduction of wireless service revenues and lower average revenue per user.

Verizon continues to struggle in a competitive and saturated U.S. wireless market, while wireline woes and depleting margins due to promotions and heavy discounts remain nagging concerns.

- Spectrum crunch has become a major issue in the U.S. telecom industry. Most of the carriers are finding it increasingly difficult to manage mobile data traffic, which is growing by leaps and bounds. The situation has become even more acute with the growing popularity of iPhone and Android smartphones as well as rising online mobile video streaming, cloud computing and video conferencing services.

- During fourth-quarter 2019, the company has lost 51,000 Fios video connections amid pressures from cord-cutting of video bundles. In an effort to expand its customer base, Verizon is spending heavily on promotion and is also offering lucrative discounts, which is weighing on margins. The company's wireline division is struggling with persistent losses in access lines owing to competitive pressure from voice-over-Internet protocol (VoIP) service providers and aggressive triple-play (voice, data, video) offerings by cable companies. These are likely to weigh on the company's revenues in the future. In order to make wireline profitable, Verizon is making significant investments and is streamlining its cost structure. The company recorded high capital expenditures of $17,939 million in 2019 in order to support the transition for the launch and continued build-out of its 5G Ultra Wideband network, deployment of significant fiber assets across the country and upgrade to Intelligent Edge Network architecture. It remains unclear if and when a reasonable return can be achieved from such investments.

Last Earnings Report

Verizon Misses on Q4 Earnings Despite Higher Revenues

Quarter Ending	12/2019
Report Date	Jan 30, 2020
Sales Surprise	0.74%
EPS Surprise	-1.74%
Quarterly EPS	1.13
Annual EPS (TTM)	4.81

Verizon reported solid fourth-quarter 2019 results, primarily led by the wireless business. With industry-leading wireless products and services, the company remains well poised to benefit from increased 5G deployment across the country under the new operational framework.

The Headlines

GAAP earnings for the reported quarter were $5,217 million or $1.23 per share compared with $2,065 million or 47 cents per share in the year-ago quarter. The significant year-over-year increase in GAAP earnings was largely driven by top-line growth and lower operating expenses. Excluding non-recurring items, adjusted earnings were $1.13 per share compared with $1.12 in the year-earlier quarter and missed the Zacks Consensus Estimate by a couple of cents.

For full year 2019, GAAP earnings improved to $19,788 million or $4.65 per share from $16,039 million or $3.76 per share in 2018, as diligent execution of operational plans led to lower operating costs. Adjusted earnings for 2019 were $4.81 per share compared with $4.71 in 2018.

Consolidated GAAP operating revenues for the quarter improved 1.4% year over year to $34,775 million as wireless service revenue growth was partially offset by lower wireless equipment and decline in legacy wireline revenues. The top line beat the Zacks Consensus Estimate of $34,520 million. Operating income improved 6.6% year over year to $8,180 million. For full year 2019, Verizon recorded consolidated GAAP operating revenues of $131,868 million, up from $130,863 million in 2018.

Segment Performance

Consumer: Total revenues from this segment were up 2% year over year to $24,207 million. Service revenues improved 1.1% to $16,341 million due to shift to higher-priced plans, incremental contributions from retail postpaid net additions and an increase in connections per account. Equipment revenues decreased 2.1% to $5,722 million as focus on high-end devices and technology upgrades led to soft sales, while Other revenues totaled $2,144 million, up 23.9% year over year.

Operating income improved 1.2% to $6,886 million due to higher retail postpaid connections, while operating income margin remained relatively stable at 28.4%. Segment EBITDA was $9,658 million, resulting in EBITDA margin of 39.9% compared with respective tallies of $9,773 million and 41.2% in the prior-year quarter.

Verizon reported 852,000 wireless retail postpaid net additions in fourth-quarter 2019. Quarterly retail postpaid churn rate increased to 1.09% from 1.03% in the year-ago quarter. Wireless retail postpaid ARPA (average revenue per account) was $118.03 compared with $115.87 in the year-ago quarter.

Business: Total revenues in the segment were $8,071 million, up 0.8% year over year as lower Wholesale revenues (down 10.6% to $772 million), Public Sector and Other revenues (down 1.6% to $1,487 million) and Global Enterprise (down 1.6% to $2,740 million) were offset by higher Small and Medium revenues (up 7.9% to $3,072 million). Despite growth in high-quality fiber products, Verizon continued to face pricing pressures on legacy products and technology shifts.

Although Verizon added a net of 35,000 Fios Internet connections due to strong demand for value broadband connections, it lost 51,000 Fios Video connections amid pressures from cord-cutting of video bundles, reflecting a strategic shift from traditional linear video to over-the-top offerings. The segment recorded 396,000 wireless retail postpaid net additions in the quarter, up 18.6% year over year with total retail postpaid churn of 1.28%.

Operating income from the segment was $666 million compared with $799 million in the year-ago quarter for respective margins of 8.3% and 10%. Segment EBITDA fell 10.4% to $1,673 million for EBITDA margin of 20.7% compared with 23.3% in the year-ago quarter.

Cash Flow and Liquidity

Verizon generated $35,746 million of cash from operating activities in 2019 compared with $34,339 million in the year-ago period. The year-over-year increase was driven by operational improvements and lower discretionary employee benefit contributions, partially offset by higher cash payments related to the Voluntary Separation Program. At year-end 2019, Verizon had $2,594 million of cash and cash equivalents and $100,712 million in long-term debt compared with respective tallies of $2,745 million and $105,873 million in the prior-year period.

The company remains focused on reducing its net unsecured debt portfolio into its targeted range of 1.75 to 2.0x, while continuing to actively manage its near-term maturities, optimize overall funding footprint and lower its cost of capital. Verizon recorded high capital expenditures of $17,939 million in 2019 in order to support the transition for the launch and continued build-out of its 5G Ultra Wideband network, deployment of significant fiber assets across the country and upgrade to Intelligent Edge Network architecture.

Till date, Verizon has achieved $5.7 billion of cumulative cash savings and remains on track to achieve cumulative cost savings of $10 billion by 2021. The company realized approximately $1.3 billion of expense savings from its Voluntary Separation Program in 2019.

Guidance

For full-year 2020, Verizon offered guidance based on underlying strength of its business model and healthy momentum in its wireless business. Adjusted earnings per share are likely to increase by 2-4% year over year, while GAAP revenues are likely to increase by low-to-mid single-digit percentage rates driven by expected savings from tax reform and higher cash flow from operations. Capital expenditures for 2020 are likely to be in the range of $17 billion to $18 billion.

Moving Forward

With one of the most efficient wireless networks in the United States, Verizon is likely to benefit immensely from the increase in 5G footprint with the launch of the 5G Ultra Wideband network in more markets across the country.

Recent News

On Mar 12, 2020, Verizon announced that it has raised its capital expenditure guidance for 2020 on higher planned investments to augment the infrastructure for increased 5G deployment across the United States. For 2020, Verizon anticipates capital expenditure of $17.5-$18.5 billion, up from $17-$18 billion expected earlier. These include the addition of small cells, MIMO antenna technology advancements and extensive fiber network connectivity for greater capacity and speed for customers. The company expects that the increased capital outlay would enable it to meet the higher demand for video-intensive applications, support the transition to the super-fast 5G network and better equip the country to fight disruptive market forces led by the coronavirus pandemic.

On Feb 24, 2020, Verizon announced that it has joined forces with Emory Healthcare, a leading academic health system in Georgia, to develop its 5G Ultra Wideband-enabled use cases in a way that will likely transform the healthcare industry. Apart from providing 5G service, Verizon will deliver network and security services, project management, professional consulting services and managed infrastructure and will also be part of the Emory Hub Executive Advisory Board. Verizon plans to collaborate with Emory Healthcare and its nine Innovation Hub partners, including founding partner Sharecare, to accelerate the development of 5G-driven healthcare solutions.

On Jan 29, 2020, Verizon announced a collaboration with Charlotte, NC-based Honeywell that will integrate the wireless carrier's Managed Connectivity LTE with Honeywell's IoT sensors to build a smart energy grid. In a combined effort, the two companies will provide utility firms with a scalable, open computing and communications platform to help them manage operations efficiently and deliver new services to customers.

On Jan 23, 2020, Verizon announced its foray into financial services market by collaborating with Synchrony Financial. The partnership is likely to diversify the portfolio of both the companies and is likely to be a win-win deal with Synchrony overcoming the loss of Walmart Inc.'s long-running credit card agreement and Verizon innovating new revenue stream amid increased market competition.

On Jan 14, 2020, Verizon announced that it has launched a free consumer search engine with enhanced privacy options to add a new dimension to the search ecosystem. Dubbed OneSearch, the search engine is likely to offer Verizon Media, a division of Verizon that comprises premium brands like Yahoo, TechCrunch and HuffPost, an edge over its rivals.

Valuation

Verizon shares are down 2.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are down 1.5% and 0.9% over the past year, respectively.

The S&P 500 index is down 4.6% in the past year.

The stock is currently trading at 7.8X trailing 12-month EV/EBITDA, which compares to 5.83X for the Zacks sub-industry, 10.48X for the Zacks sector and 10.17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12X and as low as 6.1X, with a 5-year median of 7.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $60.00 price target reflects 5.22X forward 12-month earnings.

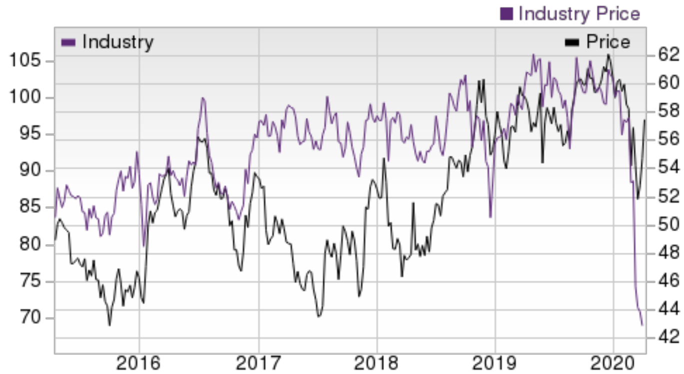
The table below shows summary valuation data for VZ

Valuation Multiples - VZ

		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	7.8	5.83	10.48	10.17
	5-Year High	11.96	11.55	12.83	12.87
	5-Year Low	6.06	5.41	7.55	8.27
	5-Year Median	7.3	6.75	10.58	10.78
P/E F12M	Current	11.5	10.81	20.25	18.11
	5-Year High	14.19	15	21.92	19.34
	5-Year Low	10.07	10.02	16.71	15.19
	5-Year Median	12.13	12.49	19.21	17.45
P/S F12M	Current	1.76	1.46	3.18	3.07
	5-Year High	1.93	1.67	3.58	3.44
	5-Year Low	1.31	1.17	2.32	2.54
	5-Year Median	1.63	1.44	3.09	3.01

As of 04/09/2020

Industry Analysis **Zacks Industry Rank:** Top 12% (30 out of 253)



Top Peers

Cogent Communications Holdings, Inc. **(CCOI)**	Outperform
ATN International, Inc. **(ATNI)**	Neutral
CenturyLink, Inc. **(CTL)**	Neutral
GCI Liberty, Inc. **(GLIBA)**	Neutral
Gogo Inc. **(GOGO)**	Neutral
AT&T Inc. **(T)**	Neutral
T-Mobile US, Inc. **(TMUS)**	Neutral
United States Cellular Corporation **(USM)**	Neutral

Industry Comparison Industry: Wireless National

	VZ Neutral	X Industry	S&P 500	CTL Neutral	T Neutral	TMUS Neutral
				Industry Peers		
VGM Score	B	-	-	A	A	D
Market Cap	237.56 B	223.39 M	19.66 B	11.60 B	220.74 B	73.61 B
# of Analysts	21	5	13	7	20	9
Dividend Yield	4.28%	0.00%	2.18%	9.39%	6.77%	0.00%
Value Score	C	-	-	A	B	B
Cash/Price	0.01	0.12	0.06	0.17	0.06	0.02
EV/EBITDA	8.02	8.02	11.72	20.94	5.56	9.00
PEG Ratio	2.76	1.60	2.04	1.22	1.60	1.07
Price/Book (P/B)	3.78	1.11	2.66	0.86	1.11	2.55
Price/Cash Flow (P/CF)	6.49	5.64	10.44	1.86	3.50	7.29
P/E (F1)	11.72	18.48	17.51	7.30	8.86	19.01
Price/Sales (P/S)	1.80	0.99	2.12	0.52	1.22	1.64
Earnings Yield	8.46%	4.62%	5.65%	13.71%	11.29%	5.26%
Debt/Equity	1.90	0.54	0.70	2.50	0.75	1.36
Cash Flow ($/share)	8.85	2.47	7.01	5.72	8.77	11.79
Growth Score	B	-	-	A	B	D
Hist. EPS Growth (3-5 yrs)	6.07%	6.07%	10.92%	-19.37%	8.63%	64.27%
Proj. EPS Growth (F1/F0)	1.08%	2.32%	-1.14%	10.50%	-2.82%	12.41%
Curr. Cash Flow Growth	-0.75%	3.99%	5.93%	-2.30%	14.11%	7.57%
Hist. Cash Flow Growth (3-5 yrs)	4.16%	2.65%	8.55%	1.14%	15.33%	16.70%
Current Ratio	0.84	1.68	1.24	0.66	0.79	0.74
Debt/Capital	65.46%	50.20%	42.36%	71.46%	42.83%	57.57%
Net Margin	14.61%	-2.46%	11.64%	-23.52%	7.67%	7.71%
Return on Equity	33.39%	1.39%	16.74%	10.36%	13.37%	14.09%
Sales/Assets	0.46	0.49	0.54	0.35	0.33	0.53
Proj. Sales Growth (F1/F0)	0.57%	0.00%	0.45%	-2.64%	-1.17%	4.85%
Momentum Score	C	-	-	C	C	F
Daily Price Chg	-0.62%	1.49%	2.48%	8.34%	2.81%	-1.09%
1 Week Price Chg	3.66%	-0.71%	-4.40%	0.55%	-7.98%	0.32%
4 Week Price Chg	12.19%	10.33%	11.26%	14.76%	-1.92%	11.91%
12 Week Price Chg	-3.74%	-19.16%	-20.02%	-21.46%	-19.20%	5.48%
52 Week Price Chg	-1.91%	-23.85%	-11.31%	-15.41%	-4.57%	17.67%
20 Day Average Volume	29,441,388	416,787	3,931,994	16,083,346	62,031,208	7,617,434
(F1) EPS Est 1 week change	-0.42%	0.00%	-0.12%	-0.20%	-0.27%	0.00%
(F1) EPS Est 4 week change	-1.59%	-1.43%	-5.78%	-1.16%	-3.68%	-1.26%
(F1) EPS Est 12 week change	-1.57%	-5.98%	-7.64%	1.29%	-4.60%	-7.36%
(Q1) EPS Est Mthly Chg	-1.54%	-3.45%	-10.13%	-1.63%	-5.26%	-1.58%

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	B
Momentum Score	C
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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