

Verizon Communications Inc.

1Q24 preview – Consumer segment progressing, trimming Business slightly

Maintain Rating: NEUTRAL | PO: 41.00 USD | Price: 39.77 USD

A generally quiet quarter so far

We have tweaked our estimates heading into 1Q24 results to reflect our most recent observations. Verizon (VZ) is successfully leveraging its new team and tools to deliver operating improvements in the Consumer unit. We expect mid-single digit gross add growth and very slightly elevated churn on recent price increases which should lead to ~1% q/q ARPU growth. Business will likely prove slightly softer relative to expectations on elevated competition. We maintain our Neutral rating on valuation but believe VZ is on the right track to improve its Wireless business while expanding in broadband. A summary of our updates presented in [Exhibit 1](#) on page 3.

Consumer evolving positively but no quick fixes

We expect price and go-to-market changes to fuel VZ's Consumer segment turnaround in the coming quarters. We have updated our Consumer post-paid phone net add estimate for 1Q to -216k from -240k phone nets, implying 5% y/y gross add growth. This showcases continued momentum in volumes driven by VZ's retail store traffic and sales strategy. We expect churn to rise slightly y/y to 0.86% on phone plan price hikes introduced during the quarter. The pricing change will affect ~30mn subs by approximately \$4/month. We expect an incremental benefit to Consumer ARPA in 1Q (\$135.26) with a full quarter tailwind in 2Q (\$136.14). Segment EBITDA is forecast at \$10.69bn compared the Street at \$10.67bn. VZ also introduced price hikes in its Business segment during the first quarter at an average of \$3-4/mo. We have lowered our Business post-paid phone net add forecast to +110k from +145k on elevated churn (1.15%) and slower customer buying decisions following the price hikes.

AT&T nibbling at FWA market in 1Q

Verizon expects to maintain 350k-400k total broadband net additions per quarter at this point for 2024 but will likely land at the low end for 1Q. Recent conference commentary suggests a seasonally softer broadband quarter in general, but AT&T's entry into the market with Internet Air to defend its copper base is impacting share balance.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.18	4.72	4.63	4.59	4.69
GAAP EPS	4.94	2.65	4.51	4.47	4.57
EPS Change (YoY)	-4.1%	-8.9%	-1.9%	-0.9%	2.2%
Consensus EPS (Bloomberg)			4.58	4.70	4.88
DPS	2.59	2.64	2.69	2.74	2.80
Valuation (Dec)					
P/E	7.7x	8.4x	8.6x	8.7x	8.5x
GAAP P/E	8.1x	15.0x	8.8x	8.9x	8.7x
Dividend Yield	6.5%	6.6%	6.8%	6.9%	7.0%
EV / EBITDA*	7.4x	7.6x	7.1x	7.0x	6.9x
Free Cash Flow Yield*	8.4%	11.2%	11.4%	11.5%	11.5%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 15 March 2024 05:00AM EDT

15 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	135,162.6	135,394.5
2025E Rev (m)	135,909.8	136,342.6
2026E Rev (m)	136,948.7	137,560.9
2024E EPS	4.58	4.63
2025E EPS	4.51	4.59
2026E EPS	4.58	4.69

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Stock Data

Price	39.77 USD
Price Objective	41.00 USD
Date Established	22-Mar-2023
Investment Opinion	B-2-7
52-Week Range	30.14 USD - 43.21 USD
Mkt Val (mn) / Shares Out (mn)	167,204 USD / 4,204.3
Free Float	91.7%
Average Daily Value (mn)	677.57 USD
BofA Ticker / Exchange	VZ / NYS
Bloomberg / Reuters	VZ US / VZ.N
ROE (2024E)	20.6%
Net Dbt to Eqty (Dec-2023A)	158.4%
ESGMeter TM	High

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FWA: fixed wireless access

iQprofileSM Verizon Communications Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.0%	6.0%	7.2%	7.3%	7.4%
Return on Equity	25.2%	21.7%	20.6%	19.2%	18.2%
Operating Margin	22.3%	21.4%	23.7%	24.2%	24.6%
Free Cash Flow	14,054	18,708	18,996	19,198	19,261

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	1.9x	1.9x	1.9x	1.9x
Asset Replacement Ratio	1.4x	1.1x	1.0x	1.0x	1.0x
Tax Rate	23.1%	28.8%	23.3%	23.2%	23.3%
Net Debt-to-Equity Ratio	160.1%	158.4%	146.0%	128.6%	112.9%
Interest Cover	8.4x	5.2x	4.5x	4.4x	4.3x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	136,835	133,974	135,395	136,343	137,561
% Change	2.4%	-2.1%	1.1%	0.7%	0.9%
Gross Profit	77,702	79,087	80,830	82,000	83,311
% Change	0.5%	1.8%	2.2%	1.4%	1.6%
EBITDA	47,566	46,342	49,442	50,328	51,295
% Change	-2.2%	-2.6%	6.7%	1.8%	1.9%
Net Interest & Other Income	(2,240)	(11,678)	(5,987)	(7,046)	(7,425)
Net Income (Adjusted)	21,759	19,890	19,510	19,353	19,766
% Change	-2.8%	-8.6%	-1.9%	-0.8%	2.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	21,256	11,614	19,510	19,353	19,766
Depreciation & Amortization	17,099	17,624	17,351	17,379	17,428
Change in Working Capital	(456)	(267)	164	(5)	(2)
Deferred Taxation Charge	2,973	2,388	400	0	0
Other Adjustments, Net	(3,731)	6,116	(970)	84	(136)
Capital Expenditure	(23,087)	(18,767)	(17,459)	(17,612)	(17,794)
Free Cash Flow	14,054	18,708	18,996	19,198	19,261
% Change	-27.0%	33.1%	1.5%	1.1%	0.3%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(10,805)	(11,025)	(11,321)	(11,548)	(11,779)
Change in Debt	4,348	(2,162)	(3,711)	(4,129)	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,605	2,065	5,969	9,221	16,865
Trade Receivables	24,506	25,085	25,525	25,944	26,414
Other Current Assets	10,746	9,664	9,453	9,528	9,612
Property, Plant & Equipment	107,434	108,310	108,418	108,651	109,018
Other Non-Current Assets	234,389	235,131	235,131	235,131	235,131
Total Assets	379,680	380,255	384,496	388,475	397,040
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	40,208	40,250	40,662	41,168	41,739
Long-Term Debt	150,639	150,674	149,782	145,653	145,653
Other Non-Current Liabilities	96,370	95,532	95,532	95,532	95,532
Total Liabilities	287,217	286,456	285,977	282,353	282,925
Total Equity	92,463	93,799	98,520	106,122	114,115
Total Equity & Liabilities	379,680	380,255	384,496	388,475	397,040

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Telecom Services-Wireline

Company Description

Verizon is one of the largest US telecom companies. It offers voice, data and video services and solutions. Its Consumer division includes wireless and wireline operations with 114.6mn wireless connections and 7.3mn broadband connections. The Business division provides wireless and wireline services to business, government and wholesale customers and has over 28mn connections.

Investment Rationale

VZ has leveraged its premium network to build a premium value subscriber base. Its long-term strategy is to use its network as a service model as the foundation for the emerging 5G economy. In the near term, it faces competitive pressure that will likely increase promotional spending and impact margins as it awaits for the 5G economy to take off.

Stock Data

Average Daily Volume 17,037,220

Quarterly Earnings Estimates

	2023	2024
Q1	1.20A	1.13E
Q2	1.21A	1.17E
Q3	1.22A	1.20E
Q4	1.08A	1.13E

Exhibit 1: Our new vs old estimates for 1Q24 and FY24

We forecast \$1.13 EPS and \$12.0bn total adj. EBITDA for 1Q.

	New	Old	%	New	Old	%
	1Q2024	1Q2024	Change	2024	2024	Change
Consolidated Revenue	33,311	33,049	-0.8%	135,163	134,642	0.4%
EBITDA	12,008	12,117	0.9%	48,482	48,335	0.3%
EBITDA Margin	36.0%	36.7%	1.7%	35.9%	35.9%	-0.1%
EPS	1.13	1.15	1.8%	4.58	4.58	0.0%
Capex	4,340	4,340	0.0%	17,461	17,562	-0.6%
Free cash flow	3,503	3,435	-1.9%	18,962	18,361	3.3%
Consumer						
Revenue	25,307	25,037	-1.1%	103,053	102,281	0.8%
Service revenue	18,994	18,992	0.0%	76,486	77,021	-0.7%
EBITDA	10,687	10,792	1.0%	43,330	43,458	-0.3%
EBITDA Margin	42.2%	43.1%	2.1%	42.0%	42.5%	-1.0%
Post-paid ARPA	135.26	135.26	0.0%	135.97	135.12	0.6%
Post-paid phone net adds	(216)	(240)	11.1%	128	(158)	-181.1%
Post-paid phone churn	0.86%	0.86%	0.0%	0.84%	0.83%	0.5%
Post-paid net adds	402	378	-6.0%	2,223	2,275	-2.3%
Business						
Revenue	7,448	7,455	0.1%	29,886	30,103	-0.7%
EBITDA	1,570	1,624	3.4%	6,505	6,417	1.4%
EBITDA Margin	21.1%	21.8%	3.3%	21.8%	21.3%	2.1%
Post-paid phone net adds	110	145	31.9%	592	583	1.5%
Post-paid phone churn	1.15%	1.11%	-3.5%	1.08%	1.07%	1.0%
Wireless						
Service revenue	19,474	19,475	0.0%	78,837	79,320	-0.6%
Post-paid phone net adds	(106)	(95)	-10.4%	720	425	69.6%
Post-paid phone churn	0.92%	0.91%	-0.9%	0.89%	0.88%	0.6%
Post-paid net adds	868	879	1.3%	3,646	3,927	-7.2%
Pre-paid net adds	(143)	(143)		(679)	(549)	

Source: BofA Global Research estimates

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Price objective basis & risk

Verizon Communications Inc. (VZ)

Our \$41 price objective is based on a target multiple of 9.0x. The target multiple is at a discount to the historical average multiple of 11.4x over the last decade and the more recent average of 10.4x over the past 5-years. The discounted multiple is justified as VZ must adjust its value proposition to account for the improved network quality and coverage of its competitors.

Downside risks to our price objective are rising competitive pressure in wireless and corresponding margin pressure, higher inflation-related costs, litigation risk, and negative economic impacts on the Business segment.

Upside risks are faster-than-expected traction with VZ's new price plan, expense reduction, emergence of 5G killer-apps, and a re-rating of risk in the market.

Analyst Certification

I, David W. Barden, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Telecom Services Coverage Cluster

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	Digital Realty Trust Inc	DLR	DLR US	David W. Barden, CFA
	Dycom Industries, Inc.	DY	DY US	Alexander Waters
	Equinix, Inc.	EQIX	EQIX US	David W. Barden, CFA
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	Rogers Communications	RCI	RCI US	David W. Barden, CFA
	Rogers Communications	YRCIB	RCI/B CN	David W. Barden, CFA
	SBA Communications Corporation	SBAC	SBAC US	David W. Barden, CFA
	TELUS Corporation	YT	T CN	David W. Barden, CFA
	TELUS Corporation	TU	TU US	David W. Barden, CFA
	T-Mobile US	TMUS	TMUS US	David W. Barden, CFA
NEUTRAL				
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	BCE Inc.	BCE	BCE US	David W. Barden, CFA
	Cogent	CCOI	CCOI US	David W. Barden, CFA
	Crown Castle Inc	CCI	CCI US	David W. Barden, CFA
	Verizon Communications Inc.	VZ	VZ US	David W. Barden, CFA
UNDERPERFORM				
	Cogeco Communications Inc.	YCCA	CCA CN	Matthew Griffiths, CFA
	Lumen Technologies Inc.	LUMN	LUMN US	David W. Barden, CFA
	Uniti Group Inc	UNIT	UNIT US	David W. Barden, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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Verizon Comm (VZ) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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