

AT&T Inc.

4Q Wrap: A stable mobile market is leading revs, EBITDA, & FCF ahead of expectations

Reiterate Rating: BUY | PO: 20.00 USD | Price: 16.68 USD

Wireless and Consumer broadband propelling growth

The market reacted negatively to AT&T's 4Q results, which were somewhat mixed versus the Street, and the 2024 EPS outlook is being impacted by a host of non-cash, mostly one-off, items. We view the results as solid on net adds, revenue, and cash flow and see sustainable growth into 2024. The wireless market overall remains healthy, and demand for wireless service is strong. AT&T continues to enjoy pricing power, and we see room for "modest" ARPU expansion in 2024E. Investor anxiety about how normalizing wireless subscriber growth might impact AT&T has diminished. Importantly, AT&T is explicitly guiding to 1Q24 FCF of at least \$2.5bn to level set expectations relative to last year's disappointment of \$1bn (but AT&T ended up beating FCF expectations at the end of day in 2023). We reiterate our Buy rating. AT&T is well positioned to grow subscribers, benefit from pricing power, raise margins, reduce capex, grow free cash flow, delever, and strengthen dividend coverage. We see no fundamental reason for T to trade at a 2x multiple discount to VZ given its premium growth outlook.

EBITDA growth and falling capital investment lifting FCF

On the conference call, T elaborated on its 2024 guide. Adj. EBITDA growth of 3% is comprised of mid-single-digit growth in Mobility, mid-single-digit growth in Consumer Broadband, a ~10% decline in Business Wireline, and lower costs in Corporate and other. Management provided a bridge from this year's \$16.8bn of FCF to 2024E guide of \$17-\$18bn. It includes +\$1.0bn of EBITDA, \$2.0bn of lower capex, \$1.5bn of higher cash taxes, and \$0.7bn of lower DirecTV cash distribution. Please see [Exhibit 1](#) for our updated estimates given 4Q results.

Fiber and 5G-centric investments on tap

AT&T reiterated its previously stated capital investment guidance of \$21-\$22bn. Management is focused on reducing the use of vendor financing, which should shift the balance toward capital expenditures and away from vendor financing. The team is committed to investing in fiber deployment and 5G network densification. Longer term, AT&T targets mid-teens capital intensity, implying capital investment of ~\$19bn.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.57	2.42	2.20	2.35	2.49
GAAP EPS	(1.19)	1.98	1.77	1.93	2.06
EPS Change (YoY)	-24.4%	-5.8%	-9.1%	6.8%	6.0%
Consensus EPS (Bloomberg)			2.44	2.44	2.54
DPS	1.11	1.11	1.11	1.11	1.11
Valuation (Dec)					
P/E	6.7x	7.1x	7.8x	7.3x	6.9x
GAAP P/E	NM	8.7x	9.7x	8.9x	8.3x
Dividend Yield	6.5%	6.5%	6.5%	6.5%	6.5%
EV / EBITDA*	22.2x	7.1x	6.7x	6.4x	6.2x
Free Cash Flow Yield*	9.1%	16.6%	15.8%	16.2%	16.5%

* 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: 24 January 2024 05:09PM EST

24 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	123,295.6	123,570.8
2025E Rev (m)	125,548.6	124,917.8
2026E Rev (m)	NA	126,288.8
2024E EPS	2.43	2.20
2025E EPS	2.47	2.35
2026E EPS	NA	2.49

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Stock Data

Price	16.68 USD
Price Objective	20.00 USD
Date Established	31-Aug-2023
Investment Opinion	B-1-7
52-Week Range	13.43 USD - 21.53 USD
Mrkt Val (mn) / Shares Out (mn)	122,909 USD / 7,150.0
Free Float	99.9%
Average Daily Value (mn)	680.16 USD
BofA Ticker / Exchange	T / NYS
Bloomberg / Reuters	T US / T.N
ROE (2024E)	13.4%
Net Dbt to Eqty (Dec-2023A)	114.2%
ESGMeter TM	High

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ARPU: average revenue per user

revs: revenues

VZ: Verizon

iQprofileSM AT&T Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-1.0%	5.0%	5.4%	5.7%	5.9%
Return on Equity	13.2%	16.1%	13.4%	13.5%	13.1%
Operating Margin	-3.8%	19.2%	20.4%	21.5%	22.4%
Free Cash Flow	11,160	20,461	19,394	19,930	20,289

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	2.2x	2.4x	2.3x	2.1x
Asset Replacement Ratio	1.1x	1.0x	0.9x	0.9x	0.9x
Tax Rate	NM	21.3%	20.3%	20.3%	20.3%
Net Debt-to-Equity Ratio	129.9%	114.2%	102.8%	87.8%	74.0%
Interest Cover	-0.8x	3.5x	3.9x	4.0x	4.0x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	120,741	122,428	123,571	124,918	126,289
% Change	-28.5%	1.4%	0.9%	1.1%	1.1%
Gross Profit	69,893	72,305	74,005	75,411	76,795
% Change	-21.5%	3.5%	2.4%	1.9%	1.8%
EBITDA	13,434	42,238	44,849	46,489	47,882
% Change	-70.9%	214.4%	6.2%	3.7%	3.0%
Net Interest & Other Income	1,493	(3,613)	(7,246)	(7,485)	(7,735)
Net Income (Adjusted)	18,492	17,374	15,794	16,923	17,895
% Change	-24.4%	-6.0%	-9.1%	7.1%	5.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(8,343)	14,400	12,993	14,122	15,094
Depreciation & Amortization	18,021	18,777	19,662	19,620	19,539
Change in Working Capital	28,809	22,670	22,453	20,811	19,524
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(7,521)	(17,533)	(17,309)	(16,361)	(16,038)
Capital Expenditure	(19,806)	(17,853)	(18,404)	(18,261)	(17,830)
Free Cash Flow	11,160	20,461	19,394	19,930	20,289
% Change	-53.7%	83.3%	-5.2%	2.8%	1.8%
Share / Issue Repurchase	(862)	(191)	0	0	0
Cost of Dividends Paid	(9,859)	(8,136)	(7,982)	(7,982)	(7,982)
Change in Debt	(38,118)	(1,093)	(8,278)	(5,221)	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3,701	6,722	7,346	12,077	22,421
Trade Receivables	11,466	10,289	10,380	10,491	10,608
Other Current Assets	17,941	19,447	19,447	19,447	19,447
Property, Plant & Equipment	127,445	128,489	128,388	128,056	127,355
Other Non-Current Assets	242,300	242,113	242,113	242,113	242,113
Total Assets	402,853	407,060	407,674	412,184	421,944
Short-Term Debt	6,062	5,798	5,570	5,350	5,139
Other Current Liabilities	42,644	35,852	35,227	35,222	35,235
Long-Term Debt	135,890	137,331	131,264	126,043	126,043
Other Non-Current Liabilities	111,800	108,664	109,603	109,603	108,603
Total Liabilities	296,396	287,645	281,664	276,218	275,020
Total Equity	106,457	119,415	126,010	135,965	146,924
Total Equity & Liabilities	402,853	407,060	407,674	412,184	421,944

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

Company Sector

Telecom Services-Wireless/Cellular

Company Description

AT&T is the largest US telecom company. AT&T provides wireless and wireline service to retail, enterprise and wholesale customers. The company's wireless network serves approximately 124m mobile connections with 77m post-paid subscribers. AT&T's traditional wireline voice business has undergone a period of secular decline due to wireless substitution and cable competition.

Investment Rationale

AT&T is fundamentally sound, with a stable subscription-based business model. Historically, the stock has outperformed during periods of M&A and wireless margin expansion fueled EPS growth and during periods of market uncertainty when AT&T's dividend yield and predictable business model are highly valued.

Stock Data

Average Daily Volume 39,567,016

Quarterly Earnings Estimates

	2023	2024
Q1	0.60A	0.50E
Q2	0.63A	0.54E
Q3	0.64A	0.56E
Q4	0.54A	0.60E

New versus old estimates

Exhibit 1: Our new versus old estimates for 1Q24 and FY-24

We update our estimates given 4Q results

	New 1Q24	Old 1Q24	Change	New 2024E	Old 2024E	Change
Total Consolidated Revenue	30,139	30,505	-1.2%	123,571	123,296	0.2%
EBITDA	10,589	10,650	-0.6%	44,849	43,659	2.7%
Adj EPS	0.60	0.59	2.6%	2.20	2.43	-9.7%
Capex	5,607	4,601	21.9%	21,404	22,048	-2.9%
FCF	2,540	1,158	119.4%	17,694	17,651	0.2%
Wireless						
Service Revenue	16,192	16,125	0.4%	65,448	65,162	0.4%
EBITDA	8,798	8,642	1.8%	36,257	35,286	2.8%
EBITDA Margin (Service rev)	54.3%	53.6%		55.4%	54.2%	
Business Wireline						
Revenue	4,687	4,861	-3.6%	19,130	19,380	-1.3%
EBITDA	1,486	1,507	-1.4%	6,026	6,178	-2.5%
Broadband						
Revenue	2,704	3,327	-18.7%	13,631	13,451	1.3%
EBITDA	1,034	981	5.5%	4,366	4,141	5.4%
Latin America						
Revenue	957	960	-0.2%	4,174	4,195	-0.5%
EBITDA	197	198	-0.2%	830	834	-0.5%

Source: BofA Global Research

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Price objective basis & risk

AT&T Inc. (T)

Our \$20 price objective is based on a P/E multiple of 9.0x our FY24 EPS estimate. The multiple is a slight premium to the historical average. We think this is warranted based on AT&T's focused investing in its core wireless and wireline connectivity businesses to drive subscriber growth.

Downside risks to our price objective are lower-than-projected growth, greater wireless competition, and litigation risk.

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	AT&T Inc.	T	T US	David W. Barden, CFA
	Cogent	CCOI	CCOI US	David W. Barden, CFA
	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
	Quebecor Inc.	YQBRB	QBR/B CN	Matthew Griffiths, CFA
	Rogers Communications	RCI	RCI US	David W. Barden, CFA
	Rogers Communications	YRCIB	RCI/B CN	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				
	BCE Inc.	YBCE	BCE CN	David W. Barden, CFA
	BCE Inc.	BCE	BCE US	David W. Barden, CFA
	Crown Castle Inc	CCI	CCI US	David W. Barden, CFA
	SBA Communications Corporation	SBAC	SBAC 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

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + 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

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + 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

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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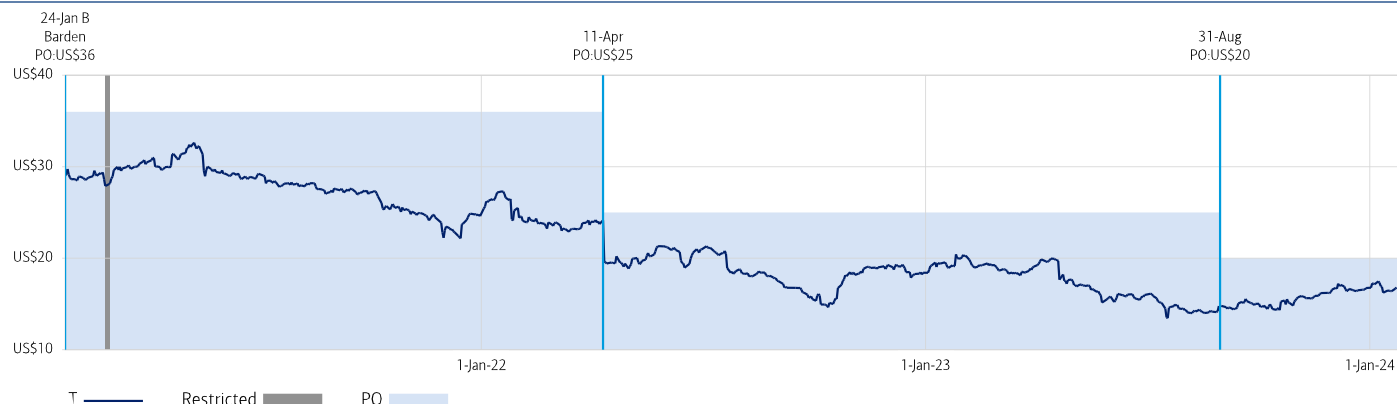
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Important Disclosures

AT&T (T) 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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
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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