

Verizon Communications Inc.

4Q23 Wrap: Consumer net adds getting back on track; flat FCF outlook y/y

Reiterate Rating: NEUTRAL | PO: 41.00 USD | Price: 42.23 USD

Guidance in-line with Street

VZ reported solid 4Q results and improved Consumer segment post-paid phone net additions. Go-to-market adjustments management implemented during 2023 (local vs. national management structure, targeted retail sales compensation) are gaining traction. The company shared 2024 guidance that is generally in-line with expectations. Management sees improving wireless service revenue growth (normalized for shifting 'other' revenue into service revenue in '23 vs. '22) stemming from a combination of price action and Consumer volume growth. VZ did not guide to 2024 free cash flow, but the net of the major moving pieces strongly suggests flat y/y FCF in 2024E (\$18.9bn). We reiterate our Neutral rating on VZ's in-line results and premium valuation for the slowest free cash flow growth among the large wireless operators.

We forecast flat FCF y/y of \$18.9bn

The moving pieces of our flat y/y FCF forecast include 1) approximately 2% EBITDA growth (\$0.7bn after tax), 2) +\$1.5bn from lower capex, the combination of which will be largely offset by 3) higher interest (approximately \$0.75mn), and 4) higher cash taxes (\$2.0bn) as a result of lower bonus depreciation and spectrum clearing cost deductions than the company enjoyed in 2023. VZ also sees working capital as a help to FCF in 2024. See our updated estimates below: [Exhibit 1](#).

Positive Consumer post-paid phone net adds in 2H24

The company is positive on Consumer post-paid phone volumes for 2024. Plan adjustments and the transition back to a regional sales structure are paying off with higher volumes and improved store performance. Seasonality and scheduled price increases will result in Consumer post-paid phone losses in 1H24, but growth in the back half of the year is expected to result in positive phone net adds for the year. The company is not setting any expectation that FWA will accelerate in '24 with deeper and broader C-band availability, but the bias is clearly to the upside of the 350k/qtr run-rate.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.18	4.72	4.58	4.51	4.58
GAAP EPS	4.94	2.65	4.46	4.39	4.46
EPS Change (YoY)	-4.1%	-8.9%	-3.0%	-1.5%	1.6%
Consensus EPS (Bloomberg)			4.58	4.67	4.79
DPS	2.59	2.64	2.69	2.74	2.80
Valuation (Dec)					
P/E	8.2x	8.9x	9.2x	9.4x	9.2x
GAAP P/E	8.5x	15.9x	9.5x	9.6x	9.5x
Dividend Yield	6.1%	6.3%	6.4%	6.5%	6.6%
EV / EBITDA*	7.6x	7.8x	7.4x	7.3x	7.1x
Free Cash Flow Yield*	7.9%	10.5%	10.7%	10.7%	10.7%

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

24 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	134,641.9	135,162.6
2025E Rev (m)	135,489.8	135,909.8
2026E Rev (m)	NA	136,948.7
2025E EPS	4.63	4.51
2026E EPS	NA	4.58

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Stock Data

Price	42.23 USD
Price Objective	41.00 USD
Date Established	22-Mar-2023
Investment Opinion	B-2-7
52-Week Range	30.14 USD - 42.25 USD
Mrkt Val (mn) / Shares Out (mn)	177,535 USD / 4,204.0
Free Float	92.0%
Average Daily Value (mn)	987.49 USD
BofA Ticker / Exchange	VZ / NYS
Bloomberg / Reuters	VZ US / VZ.N
ROE (2024E)	20.4%
Net Dbt to Eqty (Dec-2023A)	158.4%
ESGMeter TM	High

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Timestamp: 24 January 2024 04:30AM EST

iQprofileSM Verizon Communications Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.0%	6.0%	7.1%	7.2%	7.3%
Return on Equity	25.2%	21.7%	20.4%	18.9%	17.9%
Operating Margin	22.3%	21.4%	23.6%	23.9%	24.3%
Free Cash Flow	14,054	18,708	18,962	19,006	18,927

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%	23.2%	23.3%	23.2%
Net Debt-to-Equity Ratio	160.1%	158.4%	146.3%	129.4%	114.4%
Interest Cover	8.4x	5.2x	4.4x	4.4x	4.2x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	136,835	133,974	135,163	135,910	136,949
% Change	2.4%	-2.1%	0.9%	0.6%	0.8%
Gross Profit	77,702	79,087	80,753	81,766	82,895
% Change	0.5%	1.8%	2.1%	1.3%	1.4%
EBITDA	47,566	46,342	49,182	49,902	50,678
% Change	-2.2%	-2.6%	6.1%	1.5%	1.6%
Net Interest & Other Income	(2,240)	(11,678)	(5,990)	(7,049)	(7,428)
Net Income (Adjusted)	21,759	19,890	19,308	19,023	19,289
% Change	-2.8%	-8.6%	-2.9%	-1.5%	1.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	21,256	11,614	19,308	19,023	19,289
Depreciation & Amortization	17,099	17,624	17,351	17,380	17,429
Change in Working Capital	(456)	(267)	338	143	156
Deferred Taxation Charge	2,973	2,388	400	0	0
Other Adjustments, Net	(3,731)	6,116	(973)	78	(143)
Capital Expenditure	(23,087)	(18,767)	(17,461)	(17,618)	(17,804)
Free Cash Flow	14,054	18,708	18,962	19,006	18,927
% Change	-27.0%	33.1%	1.4%	0.2%	-0.4%
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	6,003	9,063	16,373
Trade Receivables	24,506	25,085	25,534	25,958	26,433
Other Current Assets	10,746	9,664	9,542	9,689	9,851
Property, Plant & Equipment	107,434	108,310	108,420	108,658	109,032
Other Non-Current Assets	234,389	235,131	235,131	235,131	235,131
Total Assets	379,680	380,255	384,630	388,500	396,821
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	40,208	40,250	40,933	41,665	42,478
Long-Term Debt	150,639	150,674	149,850	145,721	145,721
Other Non-Current Liabilities	96,370	95,532	95,532	95,532	95,532
Total Liabilities	287,217	286,456	286,316	282,919	283,731
Total Equity	92,463	93,799	98,314	105,581	113,090
Total Equity & Liabilities	379,680	380,255	384,630	388,500	396,821

* 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 23,383,536

Quarterly Earnings Estimates

	2023	2024
Q1	1.20A	1.15E
Q2	1.21A	1.16E
Q3	1.22A	1.19E
Q4	1.08A	1.08E

New vs Old estimates table

Exhibit 1: Our new 1Q24 and FY2024 estimates table

Our new vs old estimate changes following 4Q results

	New 1Q2024	Old 1Q2024	% Change	% Change	New 2024	Old 2024	% Change
Consolidated Revenue	33,049	33,036	0.0%	0.7%	135,163	134,642	0.4%
EBITDA	12,117	11,953	-1.4%	-0.9%	48,482	48,335	0.3%
EBITDA Margin	36.7%	36.2%	-1.3%	-1.6%	35.9%	35.9%	-0.1%
EPS	1.15	1.12	-1.9%	0.8%	4.58	4.58	0.0%
Capex	4,340	4,341	0.0%	-2.3%	17,461	17,562	-0.6%
Free cash flow	3,435	957	-72.1%	3.7%	18,962	18,361	3.3%
Consumer							
Revenue	25,037	25,007	-0.1%	1.1%	103,053	102,281	0.8%
Service revenue	18,992	18,982	-0.1%	-0.2%	76,486	77,021	-0.7%
EBITDA	10,792	10,690	-0.9%	0.0%	43,330	43,458	-0.3%
EBITDA Margin	43.1%	42.7%	-0.8%	-1.2%	42.0%	42.5%	-1.0%
Post-paid ARPA	135.26	133.96	-1.0%	0.3%	135.97	135.12	0.6%
Post-paid phone net adds	(240)	(223)	-7.1%	-58.5%	128	(158)	-181.1%
Post-paid phone churn	0.86%	0.84%	-2.3%	0.5%	0.84%	0.83%	0.5%
Post-paid net adds	378	385	1.8%	1.4%	2,223	2,275	-2.3%
Business							
Revenue	7,455	7,467	0.2%	-0.6%	29,886	30,103	-0.7%
EBITDA	1,624	1,612	-0.7%	-0.1%	6,505	6,417	1.4%
EBITDA Margin	21.8%	21.6%	-0.9%	0.6%	21.8%	21.3%	2.1%
Post-paid phone net adds	145	136	-5.6%	-3.4%	592	583	1.5%
Post-paid phone churn	1.11%	1.11%	0.0%	1.4%	1.08%	1.07%	1.0%
Wireless							
Service revenue	19,475	19,483	0.0%	-0.1%	78,837	79,320	-0.6%
Post-paid phone net adds	(95)	(86)	-9.2%	63.2%	720	425	69.6%
Post-paid phone churn	0.91%	0.89%	-1.8%	0.7%	0.89%	0.88%	0.6%
Post-paid net adds	879	869	-1.1%	-4.3%	3,646	3,927	-7.2%
Pre-paid net adds	(143)	(165)			(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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	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
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	BCE Inc.	BCE	BCE US	David W. Barden, CFA
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	SBA Communications Corporation	SBAC	SBAC US	David W. Barden, CFA
	Verizon Communications Inc.	VZ	VZ US	David W. Barden, CFA
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	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

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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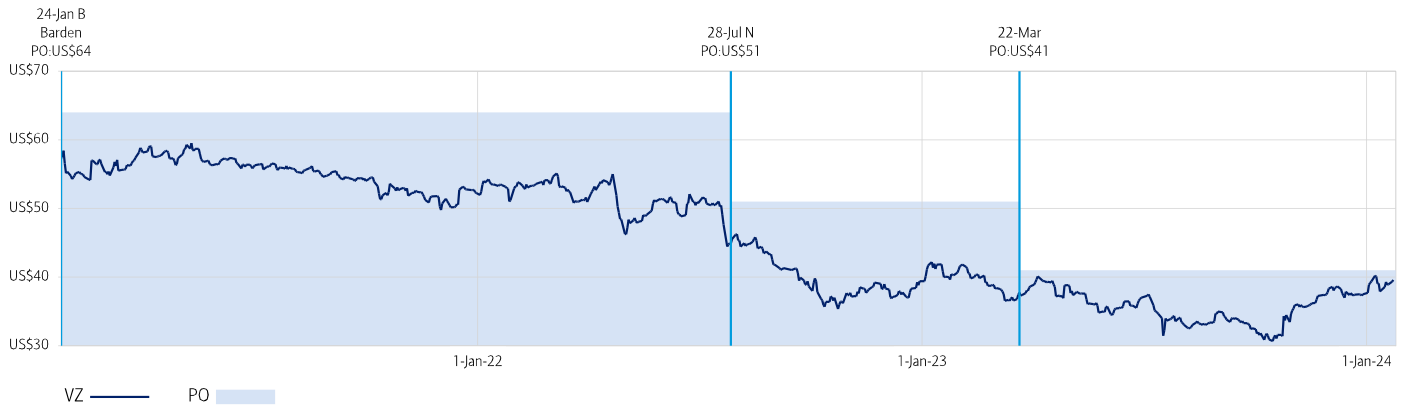
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Verizon Comm (VZ) Price Chart



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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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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