

Verizon Communications Inc.

4Q23 First Look: Stronger than expected post-paid phone growth a positive sign

Maintain Rating: NEUTRAL | PO: 41.00 USD | Price: 39.58 USD

Verizon 4Q23 adj. EPS of \$1.08 in-line

VZ reported financial results that were generally in-line with expectations and better than expected post-paid phone net additions. Wireless post-paid phone net adds of 449k beat our estimate 260k and the Street's 239k. We maintain our Neutral rating as the Consumer turnaround continues.

Looking for FCF color from management

Verizon shared 2024E financial guidance. VZ sees wireless service revenue growth of 2.0-3.5% y/y (vs. BofAe @ 3.3%, Street @ 2.7%), adjusted EBITDA growth of 1.0-3.0% (BofAe @ 1.1%, Street @ 1.9%), adjusted EPS of \$4.50 - \$4.70 (BofAe and the Street @ \$4.58) and capex of \$17.0 - \$17.5bn (BofAe @ \$17.6bn, Street @ \$17.4bn). We expect VZ to discuss the main FCF puts and takes it sees in 2024. Cash taxes and interest costs will be headwinds while lower capex will be a tailwind.

What we are looking for on the conference call

We expect VZ to share the wireless market growth outlook it used to shape the 2024 guide. Below the line, we will look for VZ to discuss its outlook for interest expense, taxes, and depreciation in 2024. We expect to hear an update on VZ's FWA business outlook and the planned balance between subscriber growth and pricing.

Exhibit 1: Verizon 4Q23 results

Post-paid phone net adds stronger than expected

	4Q23A	4Q23E	Consensus	Act/Cons	A/E %	A/C %
Consolidated Revenue	35,130	34,681	34,656	474	1%	1%
EBITDA	11,678	11,626	11,761	-83	0%	-1%
EBITDA Margin	35.7%	33.5%	33.9%	1.8%	6%	5%
EPS	1.08	1.05	1.08	0.00	3%	0%
Capex	4,603	5,044	4,866	-263	-9%	-5%
Consumer						
Service revenue	18,927	19,020	16,055	2,872	0%	18%
EBITDA	10,379	10,314	10,397	-18	1%	0%
Post-paid phone net adds	318	124	107	211	156%	197%
Post-paid phone churn	0.88%	0.89%	0.87%	0.01%	-1%	1%
Business						
Revenue	7,618	7,782	7,731	-113	-2%	-1%
EBITDA	1,607	1,615	1,609	-2	0%	0%
Post-paid phone net adds	131	136	133	-2	-3%	-2%
Wireless						
Service revenue	19,398	19,436	19,449	-51	0%	0%
Post-paid phone net adds	449	260	239	210	73%	88%

Source: BofA Global Research estimates, Visible Alpha

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Conference call details

Verizon will host a conference call at 8:30AM ET. Dial-in: 888-455-3018. PIN: Verizon

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Equity

David W. Barden, CFA

Research Analyst

BofAS

+1 646 855 1320

david.w.barden@bofa.com

Matthew Griffiths, CFA >>

Research Analyst

Merrill Lynch (Canada)

+1 416 369 8492

matthew.griffiths1@bofa.com

Shipra Pandey

Research Analyst

BofAS

shipra.pandey2@bofa.com

Stock Data

Price	39.58 USD
Price Objective	41.00 USD
Date Established	22-Mar-2023
Investment Opinion	B-2-7
52-Week Range	30.14 USD - 42.00 USD
Mrkt Val (mn) / Shares Out (mn)	166,513 USD / 4,207.0
Free Float	100.0%
Average Daily Value (mn)	872.34 USD
BofA Ticker / Exchange	VZ / NYS
Bloomberg / Reuters	VZ US / VZ.N
ROE (2023E)	21.3%
Net Dbt to Eqty (Dec-2022A)	160.1%
ESGMeter™	High

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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

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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

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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%
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Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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