

## T-Mobile US

# 4Q23 Wrap: Results & guide in-line; Industry-leading FCF growth on track

Reiterate Rating: BUY | PO: 175.00 USD | Price: 162.56 USD

## Results in-line with Street expectations

T-Mobile (TMUS) reported 4Q results in-line with guidance and generally in-line with the Street expectations. Post-paid phone net additions of 934k were ahead of our estimate of 879k and the Street at 877k, service revenue of \$16.0bn was in-line with our forecast and the Street and core adj. EBITDA of \$7.2bn was slightly below our estimate and the Street at \$7.3bn. We reiterate our Buy rating as TMUS continues to expand into new markets and delivers the highest FCF per share growth in the group. Our \$175 PO is unchanged, rolling forward our valuation to 2024E with a 9x target EV/EBITDA multiple.

## FCF guide includes merger/cogent/severance one-offs

TMUS shared 2024 guidance that was in-line with our forecast. TMUS expects 5.0-5.5mn post-paid net customer additions (BofA @ 5.3mn), core adj. EBITDA of \$31.3-\$31.9bn (BofA @ \$31.5bn), net cash from operating activities of \$21.5bn - \$22.3bn (BofA @ \$22bn), capex of \$8.6 - \$9.4bn (BofA @ \$9.2bn), and free cash flow of \$16.3 - \$16.9bn (BofA @ \$16.5bn). Phone net adds should make up ~50% of total net additions. The FCF guide includes merger integration outflows of \$0.6-\$0.7bn, cash severance, settlement payments, and payments to Cogent related to the fiber business sale that are 1H weighted. As a result, TMUS expect ~20% of full year FCF in 1Q24. Capex will be heavily weighted to 1Q24 at 30% of the full year spend. Please see [Exhibit 1](#) for our updated estimates given 4Q results.

## Takeaways from the conference call

Fixed wireless access (FWA) growth remained strong at 541k net additions and ended the year at 4.8mn. TMUS remains confident hitting its 7-8mn subscribers target by YE2025. TMUS removed promotional pricing and expects FWA net adds of approximately 400k/q down from ~500k/q on a go-forward basis. Management was asked about exposure to the Affordable Connectivity Program (ACP) which could expire this April. TMUS told investors the full range of outcomes for the program are included in the full year guide. No material ACP customers are in any of the reported subscriber numbers. For the full year, TMUS is guiding to 2.0% ARPA growth and flat ARPU in 2024.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.89	6.94	9.09	12.77	15.85
GAAP EPS	2.01	7.09	9.47	13.36	16.64
EPS Change (YoY)	-21.6%	267.2%	31.0%	40.5%	24.1%
Consensus EPS (Bloomberg)			9.91	12.18	14.32
DPS	0	0	0.63	0	0
Valuation (Dec)					
P/E	86.0x	23.4x	17.9x	12.7x	10.3x
GAAP P/E	80.9x	22.9x	17.2x	12.2x	9.8x
Dividend Yield	0%	0%	0.4%	0%	0%
EV / EBITDA*	11.1x	10.5x	9.7x	9.2x	8.6x
Free Cash Flow Yield*	1.4%	4.3%	6.3%	7.3%	7.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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26 January 2024

## Equity

### Key Changes

(US\$)	Previous	Current
2024E Rev (m)	79,347.8	80,015.2
2025E Rev (m)	80,293.8	81,136.7
2026E Rev (m)	81,347.1	82,527.5
2024E EPS	10.62	9.09
2025E EPS	13.16	12.77
2026E EPS	16.51	15.85
2024E DPS	2.57	0.63

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## Stock Data

Price	162.56 USD
Price Objective	175.00 USD
Date Established	9-Sep-2022
Investment Opinion	B-1-9
52-Week Range	124.92 USD - 165.95 USD
Mrkt Val (mn) / Shares Out (mn)	202,693 USD / 1,246.9
Free Float	698.8%
Average Daily Value (mn)	739.13 USD
BofA Ticker / Exchange	TMUS / NAS
Bloomberg / Reuters	TMUS US / TMUS.OQ
ROE (2024E)	16.8%
Net Dbt to Eqty (Dec-2023A)	117.7%
ESGMeter™	High

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# iQprofile<sup>SM</sup> T-Mobile US

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	3.0%	5.6%	6.8%	8.6%	9.6%
Return on Equity	3.4%	12.4%	16.8%	22.9%	23.6%
Operating Margin	9.6%	18.1%	21.8%	26.6%	29.6%
Free Cash Flow	2,811	8,758	12,801	14,832	14,766

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	7.1x	2.2x	2.1x	1.8x	1.5x
Asset Replacement Ratio	1.0x	0.8x	0.7x	0.8x	0.9x
Tax Rate	24.8%	24.4%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	106.1%	117.7%	114.9%	115.9%	62.6%
Interest Cover	2.3x	4.3x	5.3x	6.8x	7.9x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	79,571	78,558	80,015	81,137	82,528
% Change	-0.7%	-1.3%	1.9%	1.4%	1.7%
Gross Profit	43,365	48,370	51,642	53,525	55,890
% Change	-0.3%	11.5%	6.8%	3.6%	4.4%
EBITDA	27,826	29,428	31,674	33,485	35,852
% Change	3.4%	5.8%	7.6%	5.7%	7.1%
Net Interest & Other Income	(4,484)	(3,242)	(3,269)	(3,164)	(3,100)
<b>Net Income (Adjusted)</b>	<b>2,366</b>	<b>8,317</b>	<b>10,640</b>	<b>13,813</b>	<b>15,996</b>
<b>% Change</b>	<b>-21.8%</b>	<b>251.5%</b>	<b>27.9%</b>	<b>29.8%</b>	<b>15.8%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,366	8,317	10,640	13,813	15,996
Depreciation & Amortization	13,651	12,818	13,563	11,247	10,768
Change in Working Capital	1,379	(1,695)	781	880	914
Deferred Taxation Charge	492	2,600	3,476	2,681	640
Other Adjustments, Net	(1,107)	(3,481)	(6,459)	(4,344)	(4,344)
Capital Expenditure	(13,970)	(9,801)	(9,200)	(9,445)	(9,208)
<b>Free Cash Flow</b>	<b>2,811</b>	<b>8,758</b>	<b>12,801</b>	<b>14,832</b>	<b>14,766</b>
<b>% Change</b>	<b>76.7%</b>	<b>211.6%</b>	<b>46.2%</b>	<b>15.9%</b>	<b>-0.4%</b>
Share / Issue Repurchase	(3,000)	(13,074)	(15,250)	(22,000)	(1,676)
Cost of Dividends Paid	0	0	(750)	0	0
Change in Debt	(3,081)	2,168	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	4,507	5,135	6,577	2,552	18,790
Trade Receivables	9,568	9,148	8,218	7,140	6,003
Other Current Assets	4,992	4,732	4,708	4,685	4,662
Property, Plant & Equipment	45,343	43,702	39,397	37,668	36,188
Other Non-Current Assets	146,928	144,965	148,441	148,389	148,312
<b>Total Assets</b>	<b>211,338</b>	<b>207,682</b>	<b>207,341</b>	<b>200,434</b>	<b>213,955</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	18,417	16,049	15,894	15,682	15,446
Long-Term Debt	78,425	81,291	77,478	70,859	66,559
Other Non-Current Liabilities	44,840	45,627	52,261	54,942	55,581
<b>Total Liabilities</b>	<b>141,682</b>	<b>142,967</b>	<b>145,632</b>	<b>141,482</b>	<b>137,587</b>
<b>Total Equity</b>	<b>69,656</b>	<b>64,715</b>	<b>61,709</b>	<b>58,951</b>	<b>76,369</b>
<b>Total Equity &amp; Liabilities</b>	<b>211,338</b>	<b>207,682</b>	<b>207,341</b>	<b>200,434</b>	<b>213,955</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Telecom Services-Wireless/Cellular

## Company Description

T-Mobile is the 3rd largest wireless carrier in the US. T-Mobile US is the result of the merger between MetroPCS and the former Deutsche Telekom subsidiary, T-Mobile USA, completed on May 1, 2013. T-Mobile closed its merger with Sprint on April 1, 2020.

## Investment Rationale

We believe the New T-Mobile plan for rapid integration, expedited network deployment, and aggressive customer-centric marketing will yield continued solid share gains fueling premium revenue, EBITDA, and FCF growth. The company should be able to de-lever quickly which could fuel additional shareholder friendly actions in coming years.

## Stock Data

Average Daily Volume 4,546,821

## Quarterly Earnings Estimates

	2023	2024
Q1	1.58A	2.18E
Q2	1.86A	2.35E
Q3	1.82A	2.33E
Q4	1.67A	2.22E

## New vs Old Estimates Table

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

We update our estimates following 4Q results

	1Q24	1Q24	%	2024	2024	%
	New	Old	change	New	Old	Change
<b>Post-Paid (branded)</b>						
Phone net adds	454	456	-0.4%	2,759	2,714	1.6%
Phone churn	0.88%	0.88%	0.0%	0.86%	0.85%	0.9%
Phone ARPU	48.96	48.83	0.3%	48.95	48.81	0.3%
<b>Pre-Paid (branded)</b>						
Net adds	(39)	(32)	23.7%	46	(21)	-321.6%
Churn	2.76%	2.76%	0.0%	2.76%	2.78%	-0.8%
ARPU	37.55	38.58	-2.7%	37.53	38.69	-3.0%
<b>Financials</b>						
Total service Revenue	16,240	16,332	-0.6%	65,721	66,098	-0.6%
Total Revenue	20,010	20,036	-0.1%	80,015	79,348	0.8%
Core Adj. EBITDA	7,923	7,814	1.4%	31,511	31,643	-0.4%
Core Adj. EBITDA margin (svc)	48.8%	47.8%	2.0%	47.9%	47.9%	0.2%
Capex	2,684	2,290	17.2%	9,258	9,148	1.2%
FCF	3,355	3,910	-14.2%	16,543	16,791	-1.5%

Source: BofA Global Research

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## Price objective basis & risk

### T-Mobile US (TMUS)

Our PO of \$175 applies a 9x EV/EBITDA multiple to our '24 EBITDA estimate, a premium to other wireless companies. Our 9x multiple is a discount to Charter due to integration risk and less FCF generation and capital returns but a premium to AT&T/Verizon due to faster growth.

Downside risks to our price objective are greater-than-expected competition, Sprint/T-Mobile integration issues, and potential threat of new competition from DISH.

## 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.

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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
<b>NEUTRAL</b>				
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	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
<b>UNDERPERFORM</b>				
	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

## iQmethod<sup>SM</sup> 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 &amp; 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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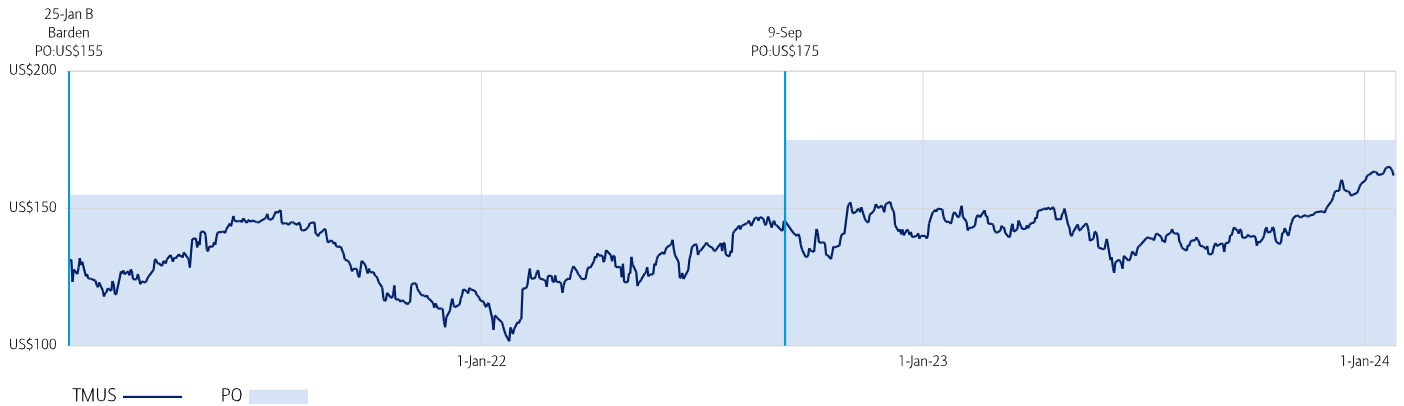
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### T-Mobile US (TMUS) Price Chart



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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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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