

AT&T Inc.

Cleaning up the network outage; guidance reiterated

Maintain Rating: BUY | PO: 20.00 USD | Price: 16.60 USD

National network outage was front page news

On Thursday, February 22, AT&T users experienced a wireless network outage for as much as ~12-15 hours. Customers were temporarily unable to use voice and data services on the AT&T network leading to speculation about the cause. The network appears to have gone down at approximately 3:00am ET though by 6:00AM ET ~75% of affected customers were able to access the network in time to start their workday. The AT&T team was able to restore all systems by the mid to late afternoon. AT&T confirmed the network outage was not due to a cyber-attack, easing concern of a broader network infrastructure security issue, rather that it was an inadvertent network software update malfunction. The company describes it as a “highly improbable” event. We maintain our Buy rating as we think AT&T represents the best combination of growth, valuation, and yield in the sector at present.

We estimate one-time 1.3% 1Q24 EBITDA impact

AT&T has announced it will proactively apply a \$5 per ‘affected’ account credit, excluding Business, AT&T Prepaid and Cricket. There are no more details. At the end of 4Q23, AT&T reported 71.3mn post-paid phone subscribers. We assume 80% are consumers (VZ reports 81% consumer), one-third are single line accounts, and the remaining two-thirds are multi-line accounts that average 2.1 lines per account (VZ reports 2.84 ‘devices’). Given the outage began at 3AM ET but largely resolved by 6AM ET, we assume ~50% of accounts will qualify as ‘affected’ and receive the proactive credit. This results in an estimated credit of \$92mn. We believe some pre-paid subscribers could contact AT&T for a discount, and receive it, and we understand AT&T plans to deal with Enterprise customers on a bespoke basis. We assume pre-paid and Enterprise could add an additional \$50mn in credits for a total \$142mn. The full amount of the credit is to be accrued in 1Q24 results though the cash effect will likely bleed into 2Q. This represents 0.9% of wireless service revenue, lowering 1Q24E post-paid ARPU by \$0.54 from \$49.99.

A seasonally slower period should mitigate side effects

The outage could have secondary effects on AT&T’s other wireless metrics. The outage could negatively impact wireless gross additions and increase wireless churn. This said, the outage occurred during the middle of the first quarter which is traditionally a much slower time of year for the wireless market after the very active holiday season. With fewer subscribers shopping for wireless in a seasonally slow time of year, the impact on churn will likely be lower than if the outage happened during an active holiday period. The promise of a credit for those affected should also help to reduce churn as customers must remain with AT&T to receive the credit. In our view, the temporary outage, the credit, and any churn or gross add impacts will be relatively minor and do not change our big picture AT&T stock view.

26 February 2024

Equity

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Stock Data

Price	16.60 USD
Price Objective	20.00 USD
Date Established	31-Aug-2023
Investment Opinion	B-1-7
52-Week Range	13.43 USD - 19.99 USD
Mrkt Val (mn) / Shares Out (mn)	118,690 USD / 7,150.0
Free Float	99.9%
Average Daily Value (mn)	704.70 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™	High

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12664049

Timestamp: 26 February 2024 03:48PM EST

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.

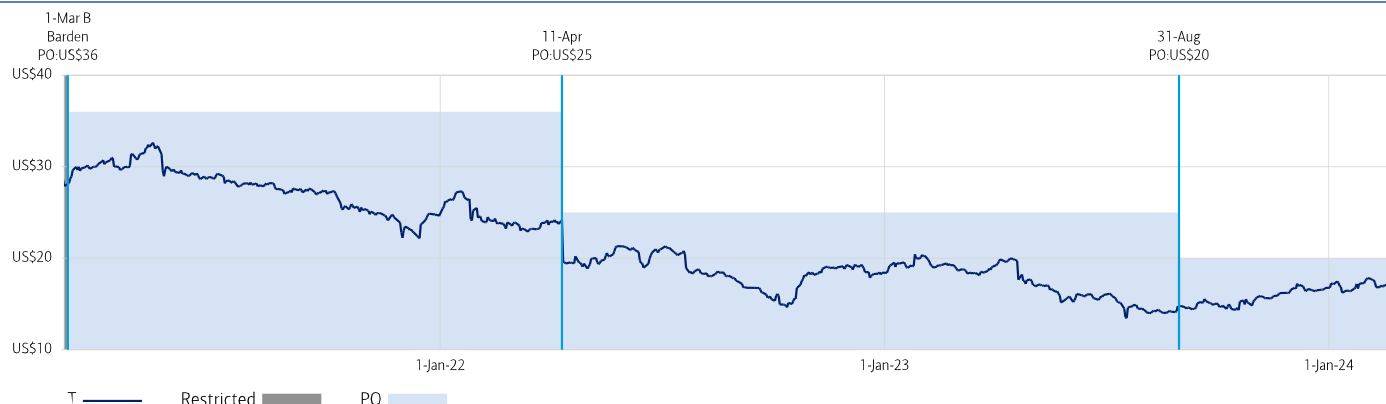
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AT&T (T) Price Chart



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

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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)

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

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