

WIRELESS TELECOMMUNICATION

SERVICES INDUSTRY

EQUITY ANALYSIS



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MA candidate 2015

INDUSTRY OVERVIEW

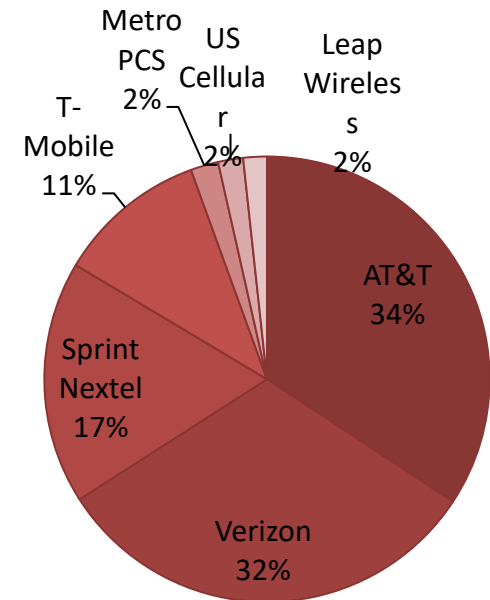
OPPORTUNITIES

➤ Growth is slowing but still solid

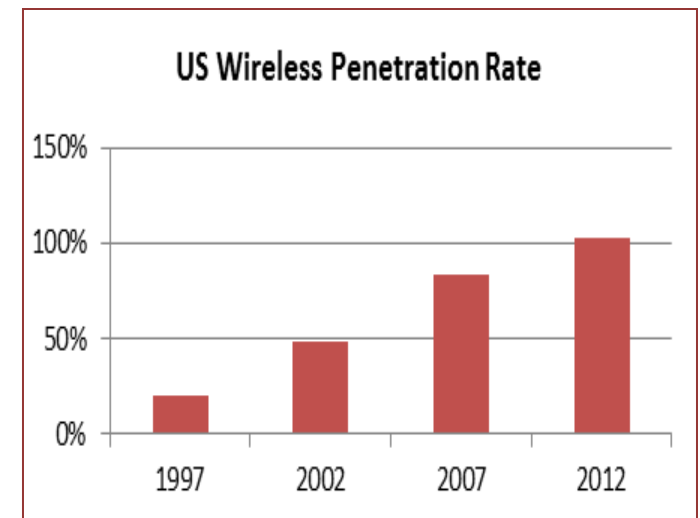
- ✓ Penetration rate
- ✓ Improved 4G network with packages and plans

➤ Increasing penetration rate offsets the slowing growth of customers

- ✓ Penetration rate exceeds 100%
- ✓ Large growth potential



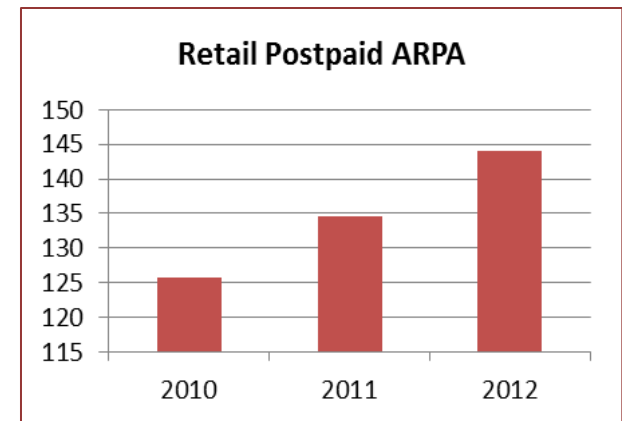
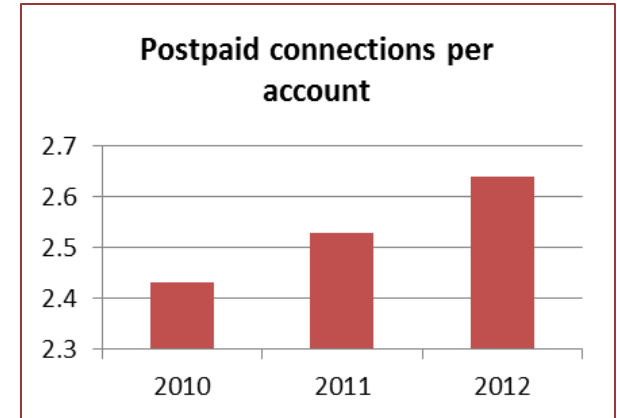
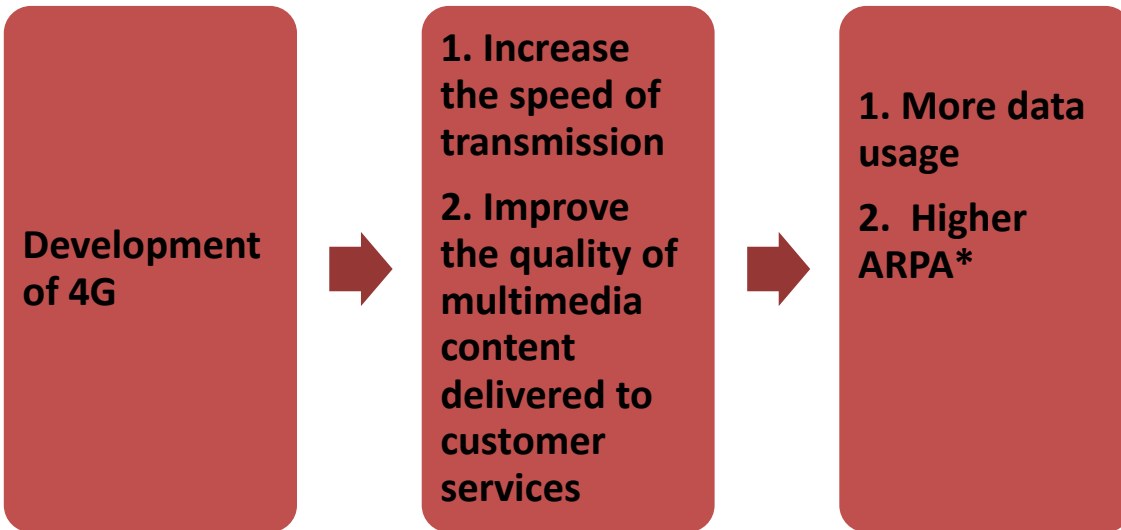
US wireless market share



INDUSTRY OVERVIEW

OPPORTUNITIES

- Popularization of the 4G network brings more data usage & higher ARPA



*ARPA= Average revenue per account

INDUSTRY OVERVIEW

THREATS

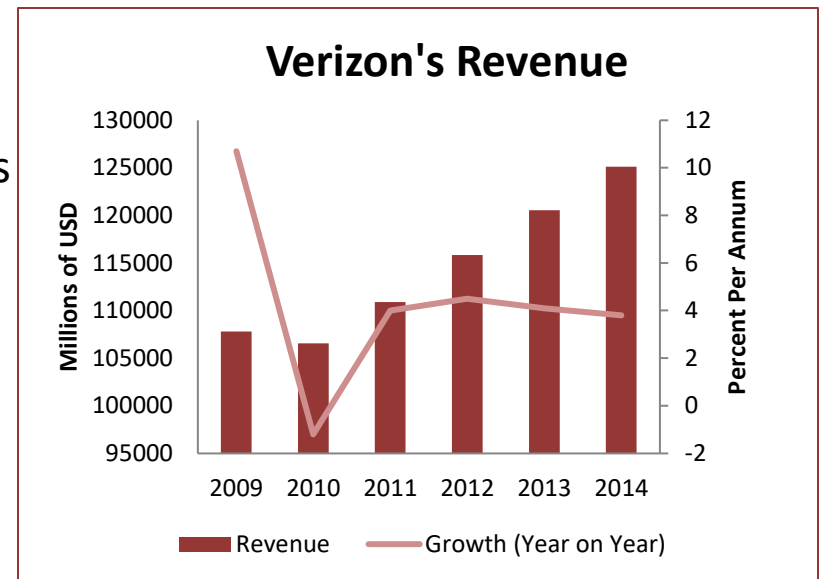
- ✓ **Macro risks:** Low demand for high end products
- ✓ **Competition:** Increasing competition through mergers, acquisitions and joint ventures
- ✓ **Cost Concern:** Scarcity and cost of additional Wireless Spectrum
- ✓ **Legislation:** Wireless licenses are subject to renewal and maybe revoked in case of violation
- ✓ **New Technologies:** Modernizing of Wireless network is subject to many risks



WHY VERIZON?

➤ COMPETITIVE POSITIONING

- ✓ Largest coverage of 4G LTE services in the United States
- ✓ Stable growth in revenue for the last 5 years
- ✓ Lowest volatility with a Beta 0.02 as opposed to the industry average of 0.68
- ✓ Less reliance over third party equipment to provide services as compared to competitors



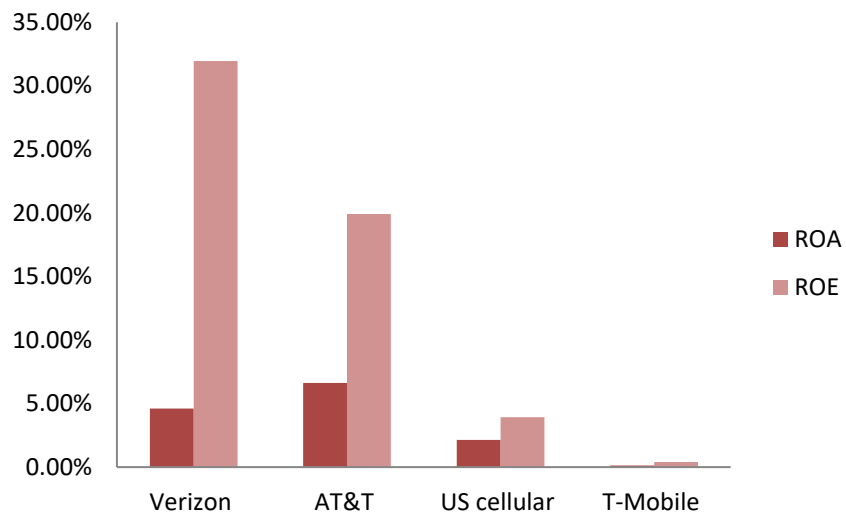


WHY VERIZON?

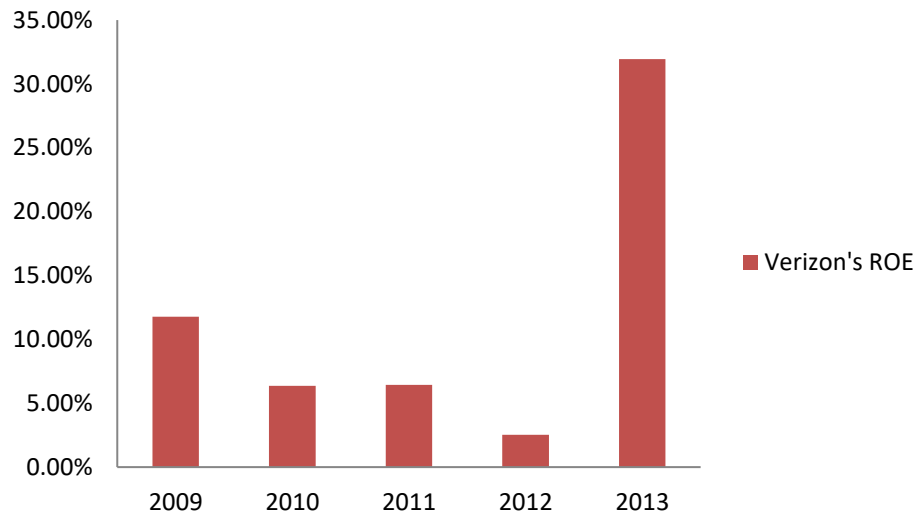
COMPETITIVE POSITIONING

✓ Stable ROE

ROA & ROE



Verizon's ROE



	Verizon	AT&T	US cellular	T-Mobile
ROA	4.61%	6.63%	2.15%	0.12%
ROE	31.94%	19.91%	3.93%	0.4%



MAJOR INVESTMENTS BY VERIZON

➤ ACQUISITION SYNERGIES

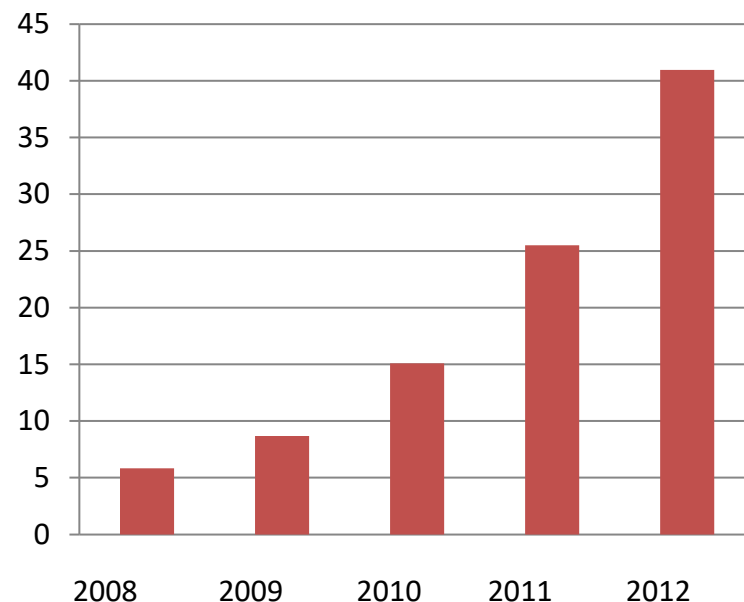
- ✓ Terremark: IT infrastructure and cloud services company
 - Hub for South America Market
 - Strategic Partner for US Government
- ✓ CloudSwitch: Cloud software technology provider
 - Advanced cloud technology
 - Experienced research teams
- ✓ Verizon: Network Infrastructures and data centers

**Advanced Technology
from M&A**

**Complete Infrastructures
from Verizon**



Value of Cloud Computing Market
(in billion USD)



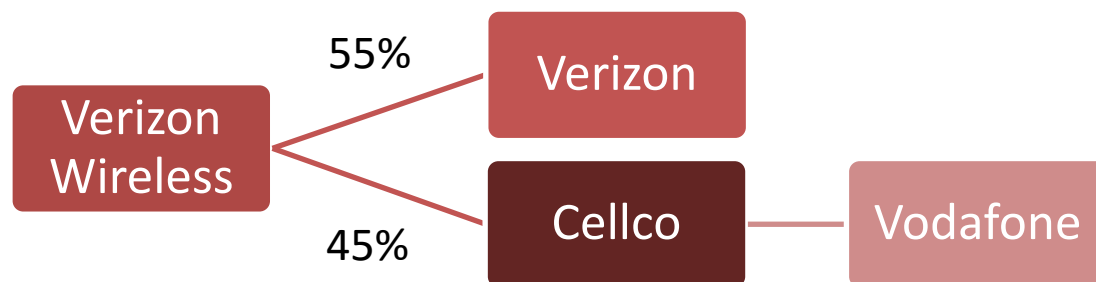
**Cloud Computing
Market**



MAJOR INVESTMENTS BY VERIZON

➤ ACQUISITION SYNERGIES

✓ Cellco Partnership, Inc.



130 Billion deal to get 100% shares of Cellco:

- \$58.9 billion in cash
- \$60.2 billion in Verizon stock
- \$11 billion from smaller transactions

\$60 billion financed by debt

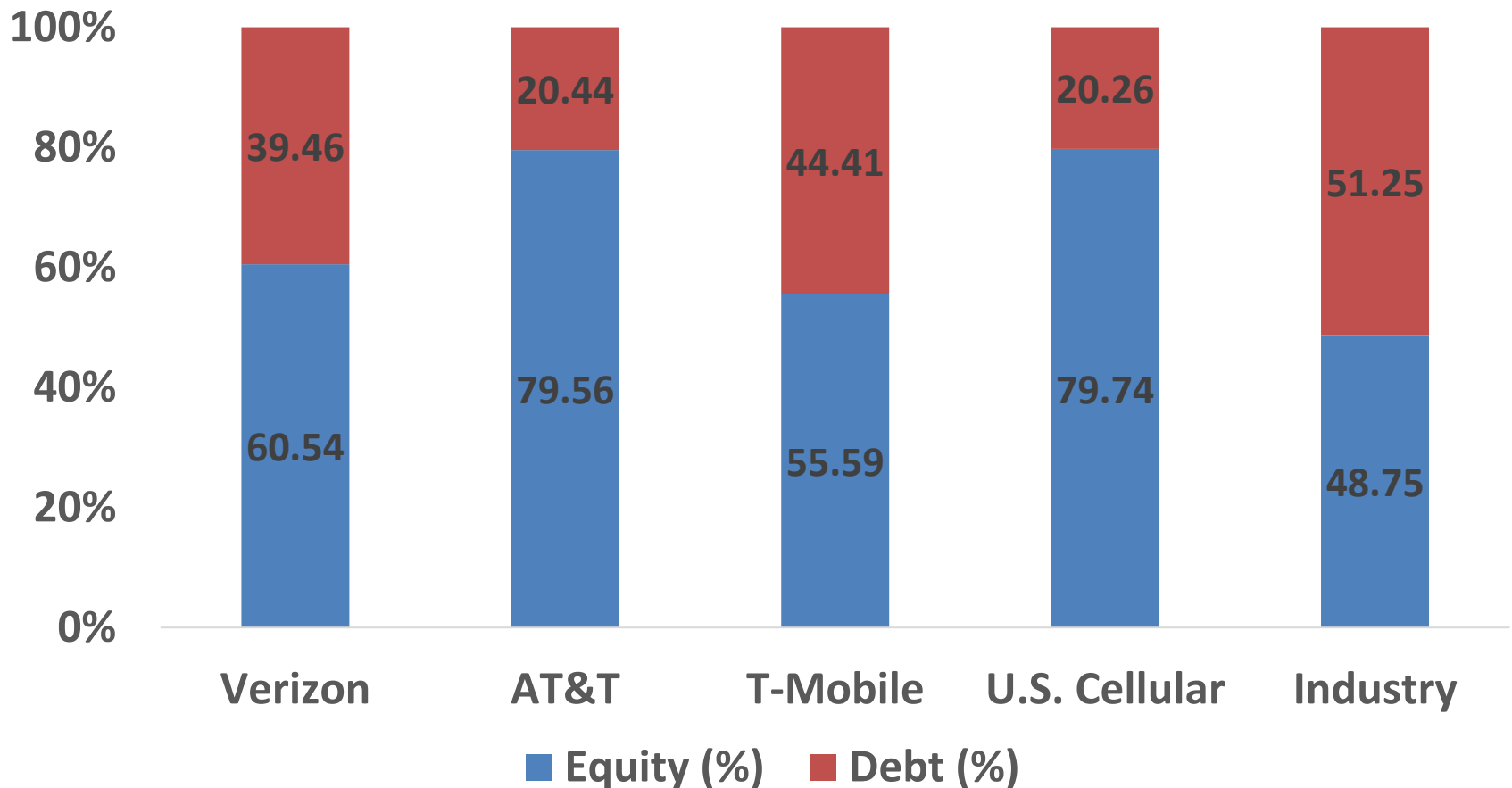
100% control of Verizon Wireless

Benefits:

- Bundle products of wireless segments
- Cost-efficient: less management cost
- Less negotiation cost with customers

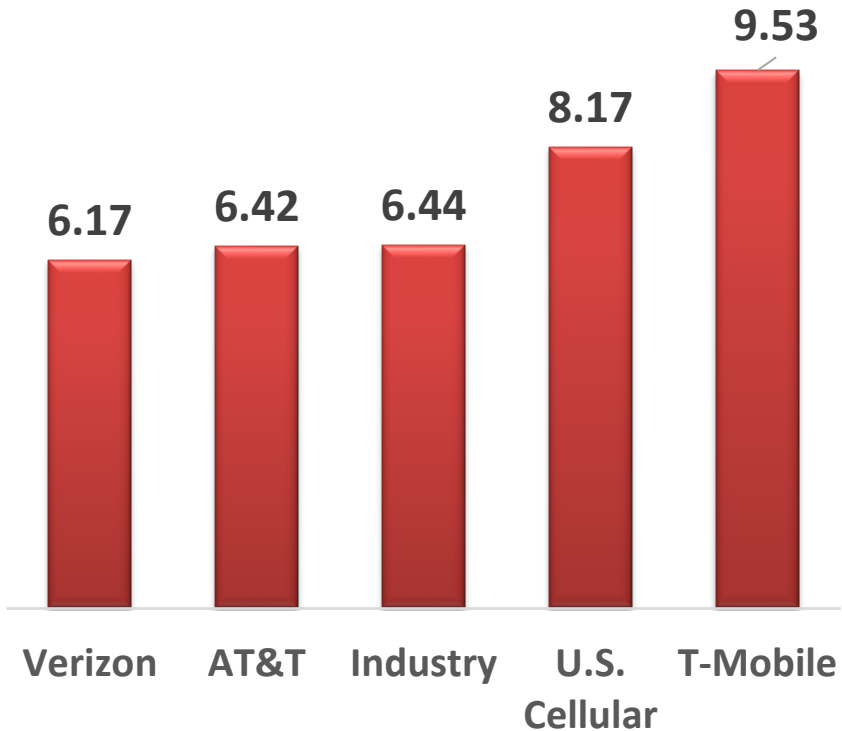
CAPITAL STRUCTURE

Equity & Debt Weights

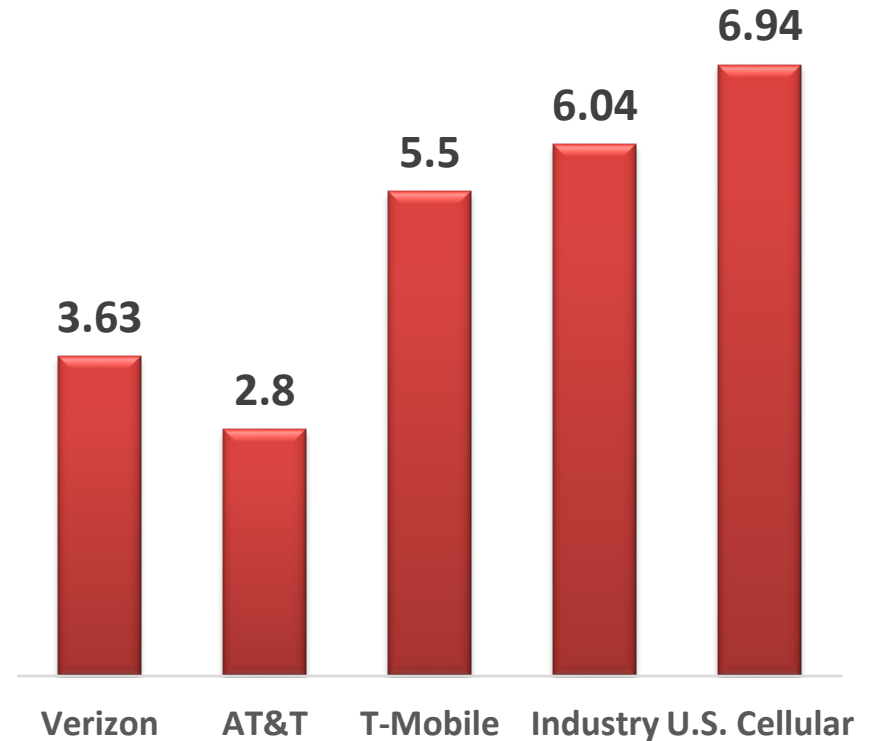


COST OF EQUITY – COST OF DEBT

COE (%)



COD (%)

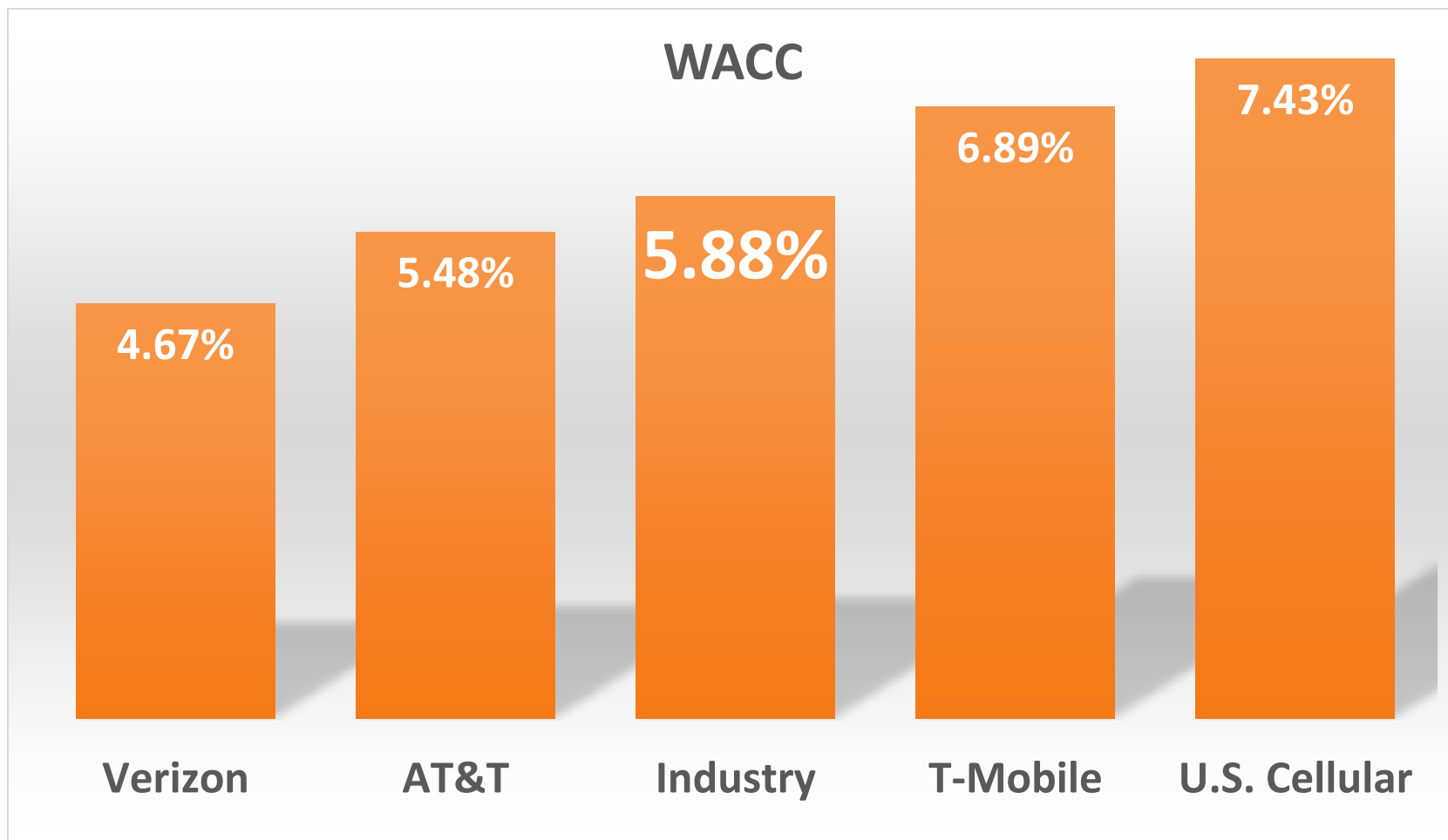


WACC INPUTS

- Tax rate = 35%

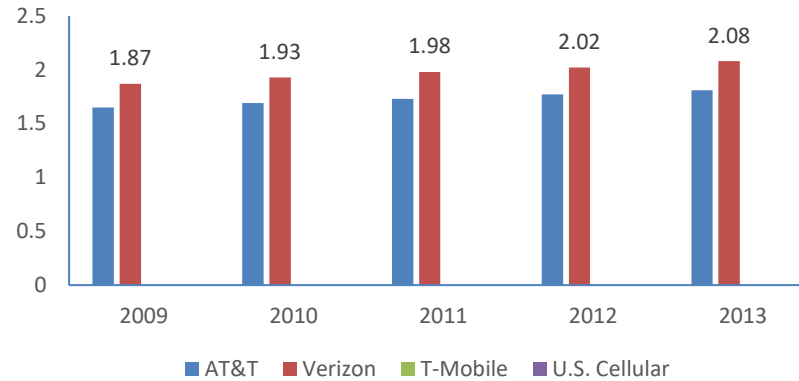
Company	Beta Calculated	Cost of Equity	Equity Weight	Cost of Debt	Debt Weight	WACC
Verizon	0.44	6.17%	60.54%	3.63%	39.46%	4.67%
AT&T	0.49	6.42%	79.56%	2.80%	20.44%	5.48%
Industry	0.68	6.44%	48.75%	6.04%	51.25%	5.88%
T-Mobile	1.06	9.53%	55.59%	5.50%	44.41%	6.89%
U.S. Cellular	0.81	8.17%	79.74%	6.94%	20.26%	7.43%

WACC COMPARISON

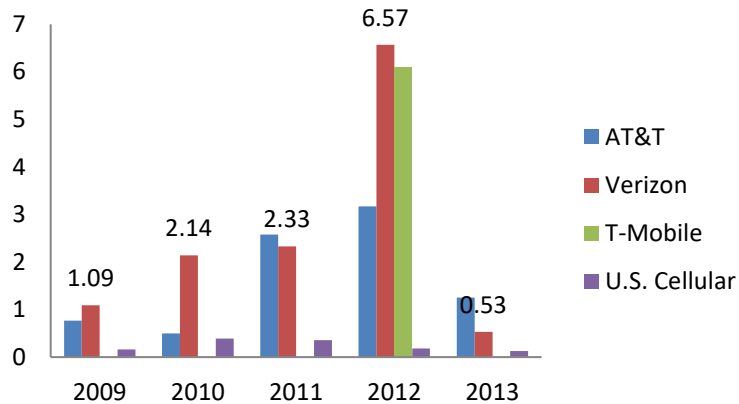


PAYOUT POLICY

Dividend Per Share (USD)



Payout Ratio

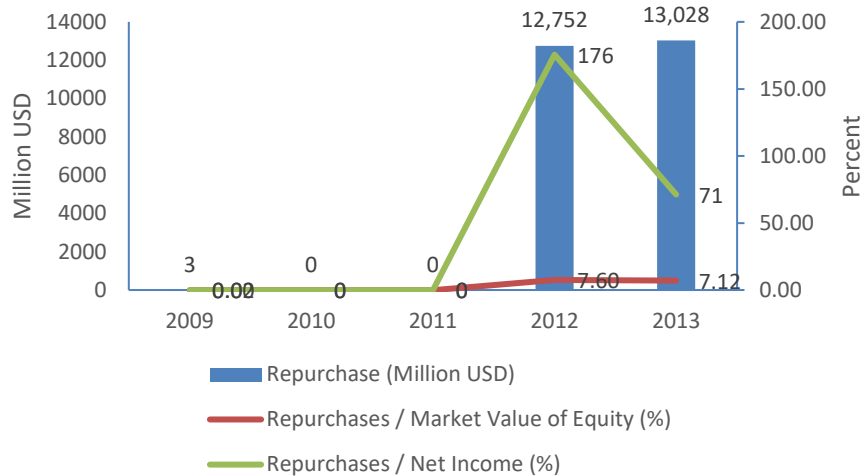


Dividend Payout Ratio

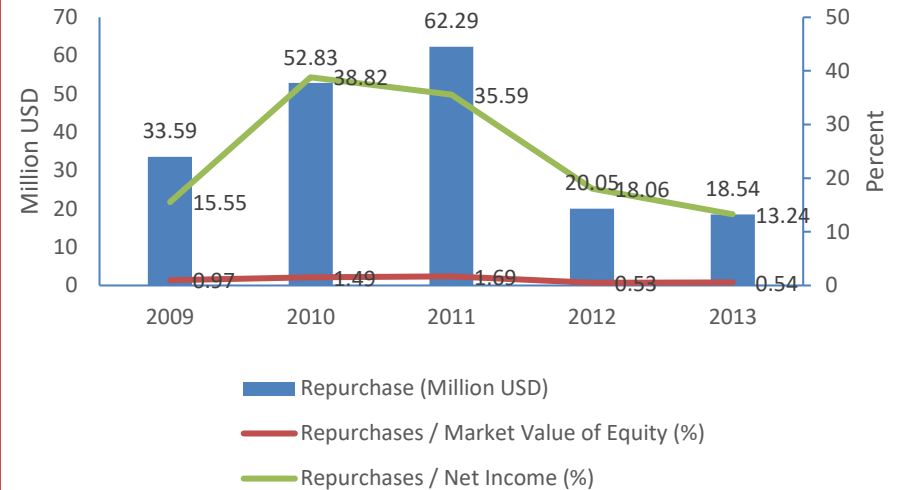


PAYOUT POLICY

AT&T Stock Repurchases Summary



U.S. Cellular Stock Repurchases Summary



Firm	Year Purchased	Amount (Million USD)	% of Market Value of Equity	% of Net Income
Verizon	2013	200	0.14	1.74
T-Mobile	2012	2,403	71.54	610

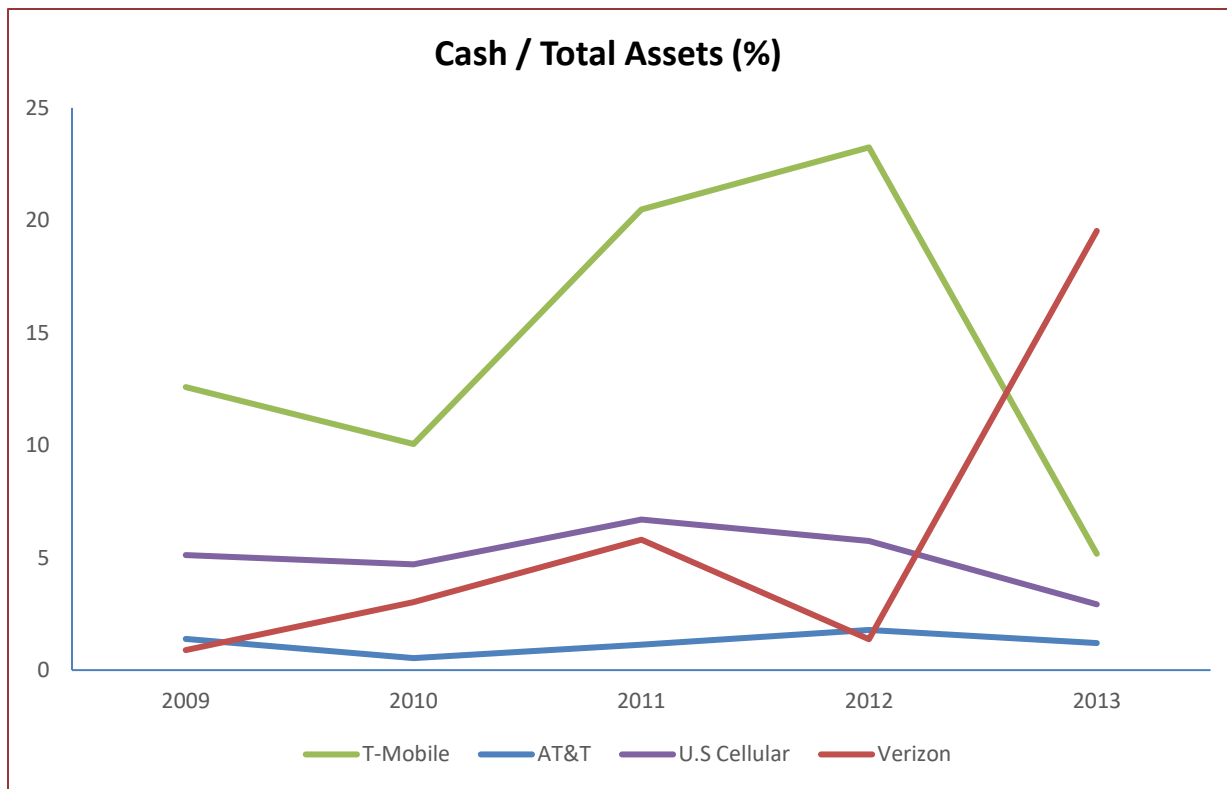


Company	2009	2010	2011	2012	2013
T-Mobile	15.26	25.26	17.36	19.88	25.44
AT&T	28.03	29.38	30.24	33.71	35.16
U.S Cellular	35.240	43.630	49.940	42.140	41.980
Verizon	30.95	35.78	40.12	43.27	49.14

Cumulative Change in Stock Price

- AT&T: 5.83%
- Verizon: 12.25%
- T-Mobile: 13.63%
- U.S. Cellular: 3.56%

PAYOUT POLICY



Company	2009	2010	2011	2012	2013
T-Mobile	12.58	10.06	20.49	23.24	5.17
AT&T	1.39	0.53	1.13	1.79	1.2
U.S Cellular	5.12	4.71	6.7	5.74	2.93
Verizon	0.89	3.03	5.8	1.37	19.53



SUMMARY

- ❖ Profitable industry
- ❖ Stable growth in revenue
- ❖ Lowest WACC and optimal capital structure
- ❖ Stable DPS and great payout policy
- ❖ Impressive growth in stock price