

AT&T Inc. (NYSE: T)

Sector: Telecommunications



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$44.05	\$33.68	\$43.03	\$33.33	15.83	\$206.8B	5.82%	0.55

Business Description

AT&T Inc. is a leading telecommunications company in the United States. AT&T is wireless service and entertainment provider. It is split into four business segments: Business Solutions, Entertainment Group, Consumer Mobility and International. The Business Solutions segment supports business customers through wireless services, legacy voice and data services and fixed strategic services, including ethernet, dedicated Internet and VPN. The Entertainment Group provides video entertainment through DirecTV and AT&T U-Verse and high-speed Internet. The Consumer Mobility arm serves retail customers and includes tablet and handset sales. Consumers can prepay for their service or buy a contract. The International division covers all of the business that AT&T does outside of the U.S. Major geographic markets include Argentina, Mexico, Peru and more.

Investment Thesis

AT&T is undervalued and well positioned for future success for the following reasons:

- AT&T is uniquely positioned compared to other major telecom providers due to their investment in TV service and their global reach
- AT&T has a history of strong free cash flow, allowing them to provide a large and stable dividend
- The telecom sector is attractive because the consumers will continue to rely on devices that depend on data networks

Valuation Assumptions

WACC: 9.00% | Perpetuity Growth: 3.00% | Terminal Year: 2021

Industry Trends

AT&T competes in the telecom industry as well as the cable industry. The telecom industry is facing a number of mixed long-term trends that promise to have a lasting impact on the major players. The first trend is the development of the Internet of Things (IoT). The IoT promises an explosion in the number of connected devices, which will all need to be connected through telecom networks. The next trend is the saturation of the consumer mobility market. This is leaving AT&T and competitors searching for growth in new mobile devices and geographical regions. Finally, competitive pressures in the industry are pushing driving aggressive M&A campaigns. This trend is causing large players to buy up smaller companies to integrate new technology, and it is forcing laggards to consider the option of merging or selling themselves.

The cable industry is also in a period of great change. Consumers are "cutting the cord" at a faster rate than ever before, creating great uncertainty in the cable industry. Current industry players are looking to transition to the new era by offering the same services via the web, while maintaining as large of a traditional cable base for as long as possible. The biggest threat to established cable providers are the online content providers such as Netflix or Hulu. In the value chain, the content creators are cutting out product deliverers, and are finding ways to ally themselves with service providers to gain a competitive advantage.

Competitive Analysis

The telecom industry is very competitive right now. However, AT&T is expected to maintain its position as an industry leader. Verizon has the best network by a slim margin, and the rest of the industry is quickly converging as Verizon reaches the limit for network improvements. Verizon is looking to expand their business by launching a new advertising arm, aiming to capitalize on the large amount of consumer data the company holds. AT&T has expanded by purchasing DirecTV, and is looking to move farther up the value chain by acquiring Time Warner Cable this year. T-Mobile is disrupting the industry by changing the traditional phone service contracts used in the industry. Finally, although Sprint is a laggard, their network is not far behind Verizon's. Additionally, Sprint is looking to cut its losses on the 4G network, and roll out their 5G network as soon as possible to regain their competitive edge.

5-Year Stock Performance



Growth Analysis

AT&T's growth in the coming years will come from the development of the IoT, and their ability to capitalize on the changing cable industry. The IoT offers an incredible source of growth for AT&T, because the consumer market is so highly saturated. The IoT will be an important growth vehicle because the traffic on it will be exponentially higher than the consumer mobile network, and the contracts with customers will provide great revenue visibility. Content distribution will also be an important growth vehicle for AT&T. The cable industry is slimming down in favor of content creators and service providers. If AT&T can successfully acquire Time Warner, it will be important for them to quickly integrate the services that each of their three business lines offer in order to attract new customers.

Risks

The biggest risks that AT&T faces are tough competitive pressure, and rapidly changing technology. The competition in the industry has the capacity to cause consolidation among competitors, or significantly shift the market structure in favor of a profound disruptor. Additionally, the company's main service faces commoditization risk as networks become increasingly similar. AT&T must also manage the risk of missing out on a new and disruptive technology. Such a development could leave AT&T as the industry laggard if their response is poorly timed or if the new technology made their expensive acquisitions obsolete.

Report Prepared By:

Alex Barriga & Josh Weist on 10/26/2017

Sources: Bloomberg, Yahoo! Finance