

T-Mobile US Inc. (NASDAQ: TMUS)

Sector: Wireless Telecommunication Services



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$74.70	\$58.62	\$68.88	\$54.60	26.45x	\$49.65 B	N/A	1.05

Business Description

T-Mobile US, Inc. provides mobile communication services under the T-Mobile and MetroPCS brands in the US, Puerto Rico, and the U.S. Virgin Islands. The company's largest operating segments are Postpaid Wireless, Prepaid Wireless, and Equipment Services from which they derive 48%, 23%, and 23% of their revenue, respectively. T-Mobile operates as a low-cost industry disruptor offering low-prices, great service, free bonuses, and simplicity as they strive to redefine wireless as "The Un-carrier." T-Mobile grows their user base by offering plans with superior value to those of their competitors while leveraging the capabilities of their nationwide wireless network.

Industry Trends

The wireless industry has seen a more aggressive behavior by the major players as competing offerings have continually resulted in lower consumer wireless prices, as many plans and practices are being simplified for the consumer. Growth in smartphone sales have continued to encourage users to compare wireless providers and the recent iPhone releases have ushered in an upgrade "supercycle". The highest growth demographics include those 45-54 and 55+. Additionally, the growth of wearables and IOT devices has been an area of growth in the industry. The emergence of 5G coverage is expected to be complete by 2020 as firms such as T-Mobile have been heavily investing in these next-generation networks for years.

Investment Thesis

We believe that the company will continue to deliver value to shareholders as their distribution begins catching up to their network capabilities. Their network has growth to be truly national although they have lacked a physical presence in about 33% of the country which translates into about 40MM individuals. As they continue to rollout new stores, the carrier will be able to reach consumers who previously were unable to choose T-Mobile as a provider. Additionally, given their best-in-class offerings, they have seen the best customer growth in the industry, having added over 1MM net subscribers in the last 18 quarters, the longest such streak. As the upgrade "supercycle" continues, they will continue to see increased additions. T-Mobile's exclusive focus on the wireless market allows them to act quicker and continue to improve on their already best in class mobile experience.

Valuation Assumptions

WACC: 7.07%

Terminal Growth: 2.0%

Upside: 28.50%

Sources: Bloomberg, Charles Schwab, Annual reports

Key Financials

Current stock price: \$58.62

Intrinsic Value: \$74.70

Corporate Social Responsibility

Government Disclosure Score: 51.79 (Industry Average: 50.71)

Independent Directors: 5 (Industry Average: 5)

Ethisphere Institute's 2017 World's Most Ethical Company

5-Year Stock Performance



Competitive Analysis

Major competitors include Verizon, AT&T, and Sprint. The four major carriers compete for customers with AT&T and Verizon maintaining the largest subscriber bases. T-Mobile's strength can be seen through lower churn rates and leading porting ratios, both of which indicate their superior ability to acquire and keep customers relative to the other carriers.

Competitive Advantages

T-Mobile's competitive advantage lies in their simplified pricing of equipment and data plans. Due to this, they have seen more consumers switch to and stay with the carrier, leading to rising service revenue growth. Additionally, their recent acquisition of 600Mhz and 700Mhz spectrum provides stronger and faster network coverage than their competitors. They are currently the only growth company in the wireless space with major competitors currently attempting to diversify into new and unrelated business segments outside of their core competency.

Risks

Over 70% of T-Mobile's revenues come from services so maintaining and growing their customer base is imperative in the highly competitive telecommunications industry. Additionally, competitor offerings may reduce the perceived value in T-Mobile's own offerings. For example, Verizon and Sprint have introduced unlimited data plans and their integrated offerings place pressure on T-Mobile. The FCC has a lot of governing power in the telecommunications industry and increased regulation may have adverse effects on the company.

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