BUSINESS: Verizon Communications was created by the merger of Bell Atlantic and GTE in June of 2000. It is a diversified telecommunications company with a network that covers a population of about 298 million people. Verizon Communications’ operations in 19 countries. 2014 revenue breakdown: wireline (incl. fin. ser.) 38.4%, wireless (incl. telco & business) 33.4%, media (incl. AOL’s advertising business) 28.2%, and legacy operations (excl. all other) 0.04%. Verizon Wireless was responsible for a lion’s share of the impressive earnings growth, and a large part of margin improvement certainly didn’t go unnoticed. As is typically the case, Verizon continued to invest heavily in its wireless infrastructure, and next by $0.15 and $0.10, to $3.85 and $4.00 a share, respectively.

Verizon has been active on the acquisition trail. In early May, the company inked an agreement to acquire AOL Inc., a $1 billion global advertising industry. Finally, Verizon approached the $4.4 billion deal, which is in keeping with VZ’s desire to build digital and video advertising platforms. The transaction, which is subject to the typical regulatory approvals, ought to be consummated this summer.

Meanwhile, the company certainly set the scene for another record year. Notably, Verizon started the year on a high note, posting first-quarter earnings of $1.02 a share, which exceeded our estimate and the year-ago result, on a 3.8% top-line advance. As is typically the case, Verizon Wireless was responsible for a lion’s share of the impressive earnings growth, and a bit of margin improvement certainly didn’t hurt. During the quarter, VZ Wireless added 656,000 retail postpaid net subscribers, bringing its total number of retail connections to 108.6 million. And since the good times appear sustainable, we have upgraded our earnings estimates for this year and next by $0.15 and $0.10, to $3.85 and $4.00 a share, respectively.

Verizon is in enviable financial shape. VZ finished the first quarter with roughly $4.4 billion in cash on hand and long-term debt of $109 billion, down about $1 billion since the end of last year. We look for the board of directors to approve yet another dividend payout early in the third quarter. As seen in the array above, the company has established quite a track record of increasing the annual dividend, and we look for more of the same in 2015. Patient investors may find this an attractive entry point. Indeed, at the current quotation, Verizon stock’s appreciation potential through the latter years of this decade is almost double that of the average equity under our review. What’s more, income-seeking types are likely to find VZ’s dividend yield rather appealing, as it is currently more than twice that of the Value Line median.

Kenneth A. Nugent
J une 19, 2015

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VERIZON NYSE-VZ

Value Line's Investment Opinion

Flawed: VZ shares did not rally even though the company was attributed a solid 3 for growth and a 5 for value in Value Line’s investment opinion.

Institutional Decisions

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