

# Disnat GPS Report

AT&T (T, US\$42.35)



March 10, 2017

## Company Description

AT&T has over 100 million subscribers (individuals and companies) who use its various services (telephony, cellular, Internet, television, etc.), making it one of the dominant companies in the telecommunications sector in the United States.

For some time, AT&T has been particularly active in acquisitions.

Lately the company purchased DirecTV. As well as adding 20 million subscribers to its satellite television services, this acquisition has enabled AT&T to ensure its presence in Latin America.

With the goal of pursuing growth and diversification outside the United States, the company also acquired two Mexican telecommunications companies last year.

More recently, AT&T announced plans to acquire Time Warner, the telecommunications giant that owns numerous television stations, including CNN and HBO.

## Disnat GPS Portfolio Strategist Comments

Saying that AT&T is a large company is an understatement. With a market capitalization of approximately \$230 billion, this company is worth more than the entire Canadian telecommunications industry put together!

The DirecTV acquisition and the more recent launch of *DirecTV Now* (live TV streamed over the Internet) are, in our opinion, great accomplishments for the company.

The Mexican acquisitions and, above all, AT&T's interest in Time Warner attest to the company's desire to diversify by geography and by sector.

The addition of a sector with stronger potential complements the traditionally stable but low-growth portfolio of telephony and wireless products and services.

While companies in transition are risky investments, we believe that the new AT&T offers stability and growth opportunities that make it a particularly attractive option.

Other Disnat GPS reports available: Apple, Disney, Nike, Cisco and Microsoft.

## Financial Health

Fiscal Year	2014	2015	2016
Long term debt (in billions of dollars)	76	119	114
Debt/equity ratio	0.88	0.97	0.92

AT&T's financial health appears to us to be particularly strong under the present circumstances.

The increase in debt in recent years is directly related to the company's past and future acquisitions. This riskier strategy requires us to allow some time to pass before we can reach a definitive conclusion.

However, with AT&T increasing its debt in order to acquire companies that are already profitable, the risk of error is present but very limited with regard to bankruptcy or financial difficulties.

Obviously, we will monitor the financial situation of the company closely.

Part of the reasoning; that this debt is not too large, is based on the fact that AT&T's debt was rather low. This is no longer the case today!

We believe that AT&T is in a particularly strong financial position and that the recent increase in debt does not appear to be of real concern at this time.

## Growth

Compound Yield	1 year	3 years	5 years	10 years
Revenue	11%	8%	5%	10%
Earnings per share	-11%	-15%	26%	1%

AT&T's revenue growth has been relatively stable over one, three, five and 10 years.

The Time Warner acquisition would significantly increase revenues.

However, over the past 10 years, earnings per share (EPS) growth has been much weaker and erratic.

This is understandable given the competition and enormous changes that this industry has undergone. Such shocks will continue and will hamper the performance and stability of earnings per share.

While this situation and the slow growth in its traditional business (telephony, Internet, etc.) is a cause for concern, we believe that AT&T appears to have avoided the worst of it by choosing to diversify into higher growth sectors.

We believe that the Time Warner acquisition could enable AT&T to pursue diversification and development while enjoying a stable and strong foundation for its traditional activities.

## Valuation

Key Ratios	AT&T	Microsoft (5 yr avg)	S&P 500
Price/earnings	20.2	27	20.6
Forward price/earnings	14.4	n.a.	18.7
Dividend yield	4.6%	n.a.	2.2%

AT&T's current evaluation, including its generous dividend of 4.6%, seems particularly attractive to us in a market that is hitting new highs and where bargains are scarce.

In terms of price/earnings and forward price/earnings ratios, AT&T stock is currently trading at a discount from its past five-year average.

In addition to trading at a discount to its own average, it is also trading at a discount compared to the S&P 500 (especially with regard to forward price/earnings).

The market currently places less value on one dollar of AT&T profit than on a dollar of profit from an average S&P 500 company.

We do not agree with the view that more than 250 companies in the S&P 500 have a more promising future than AT&T.

At Disnat GPS, we believe the market is pricing AT&T slightly below its fair value. We are therefore very pleased to receive a 4.6% dividend while holding an exceptional company at a fair price!

## Governance

Fiscal Year	2012	2013	2014	2015	2016
Earnings per share (\$)	1.25	3.42	1.24	2.37	2.10
Dividend (\$)	1.77	1.81	1.85	1.89	1.93
Number of shares (millions)	5,821	5,385	5,221	5,646	6,189

AT&T pays a dividend that has increased each year for 33 years! We are confident that it will continue to do so for many years to come.

AT&T repurchased company shares between 2012 and 2014 but prudently ceased this practice as it is currently in acquisition mode. This is why the recent increase in the number of outstanding shares seems very acceptable.

In terms of investments, we believe that the company must continue to diversify geographically (especially in Mexico), as telecommunications services will eventually become continental (Canada, the United States and Mexico).

In addition, we believe that the Time Warner acquisition and the launch of *DirectTV Now* represent excellent means to meet future market demands.

This solid, stable company with good growth potential pays a dividend which is more than double the average dividend of the S&P 500. These are all good reasons to hold AT&T in our US equity portfolio!

## Explanatory Notes

Disnat GPS reports contain five separate sections, each followed by comments from the Disnat GPS Portfolio Strategist regarding the following:

1. Company Description
2. Financial Health
3. Growth
4. Valuation
5. Governance

At Disnat GPS, we believe that the topics, ratios and other financial figures presented here are particularly important.

However, for reasons of space, we can not publish all available data. We therefore invite you to read the additional financial information on the Disnat website.

Furthermore, this report is an analysis of the condition of a company today, with a medium to long term view. It is in no way an adequate tracking of daily activities of the stock market in general or of this particular company.

For a more regular monitoring of this and other securities held in one of our portfolios, please to subscribe to Disnat GPS now.

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