

BUY:
TMUS

Current Price:
\$123.28

Target Price:
\$172.00

Upside:
39.50%

T-Mobile (NASDAQ: TMUS)

Communication Services Sector

Sector Head: Vincent Huang

Senior Analyst: Adam Kawalek

Junior Analysts: Jacob Smith, Jack Schaffer, Thomas Vitale

Executive Summary



Investment Thesis and Key Statistics

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52 Wk Range: \$101.51-150.20

Market Cap: \$154.2 B

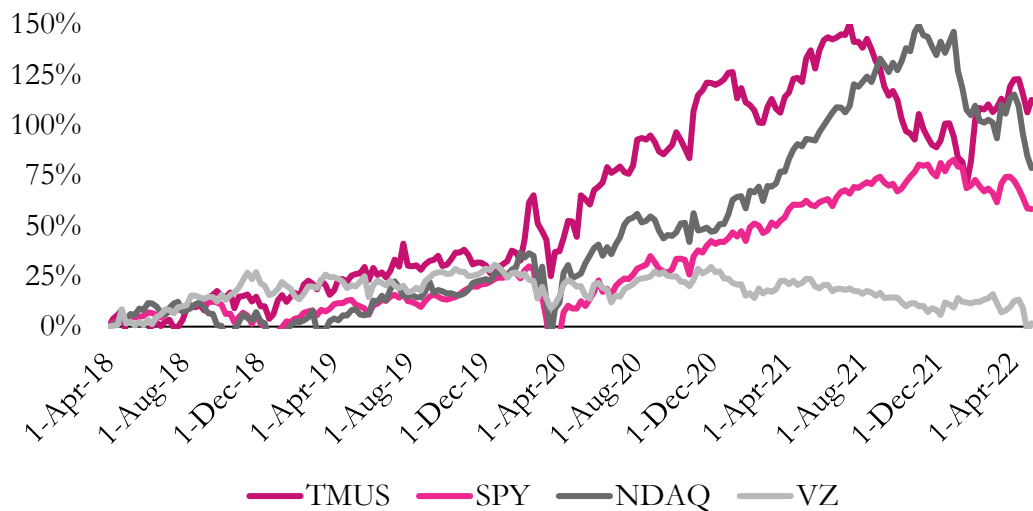
Revenue: \$20.12 B

EV: \$ 267.7 B

EBITDA: \$24.0 B

CEO: Mike Siervert

Historical Performance

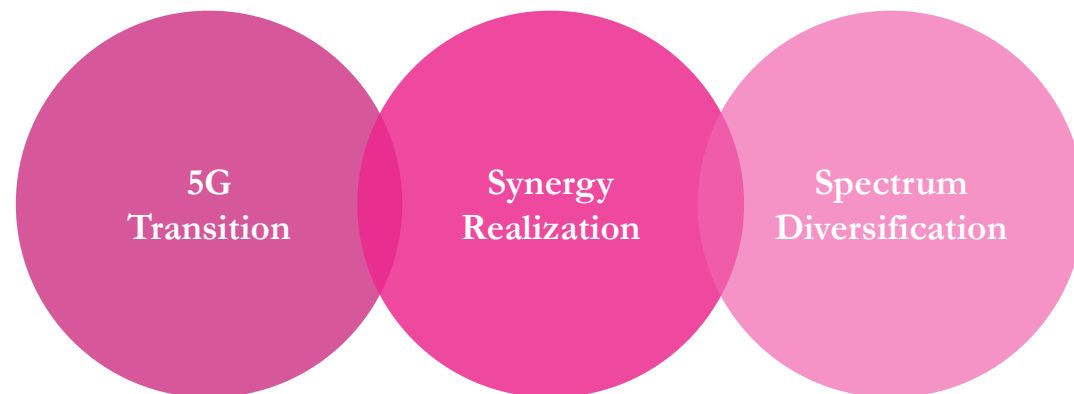


Overview

- T-Mobile is a wireless network operator which focuses on providing voice, messaging and data services to millions of customers
- T-Mobile owns Sprint Wireless, Metro PCS and is the second largest cellular provider in the domestic market

T-Mobile has downloads speeds that are almost double that of their competitors, and plan on covering 90% of rural America with 50 Mbps 5G speed and 99% of the U.S. population with 100 Mbps

Basis for Growth



Industry Overview



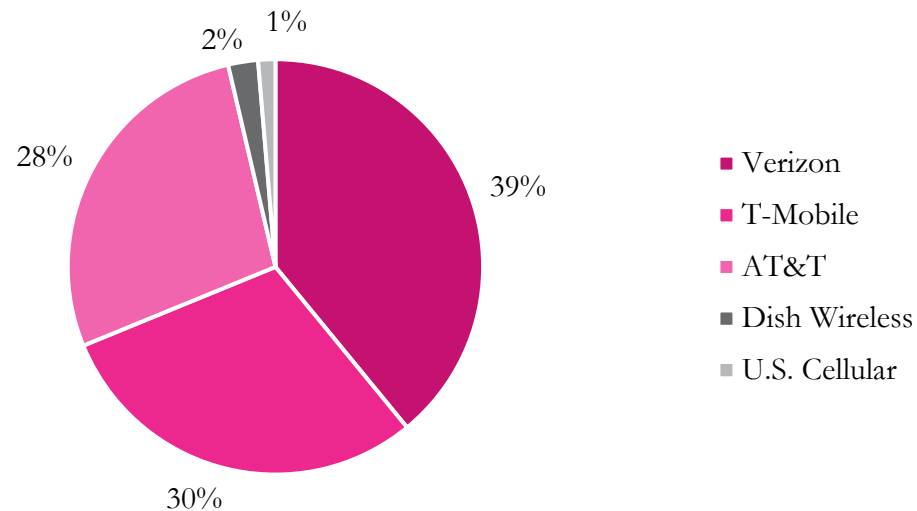
Significant Trends in Telecommunications

Rapidly Expanding Market 5G Capabilities

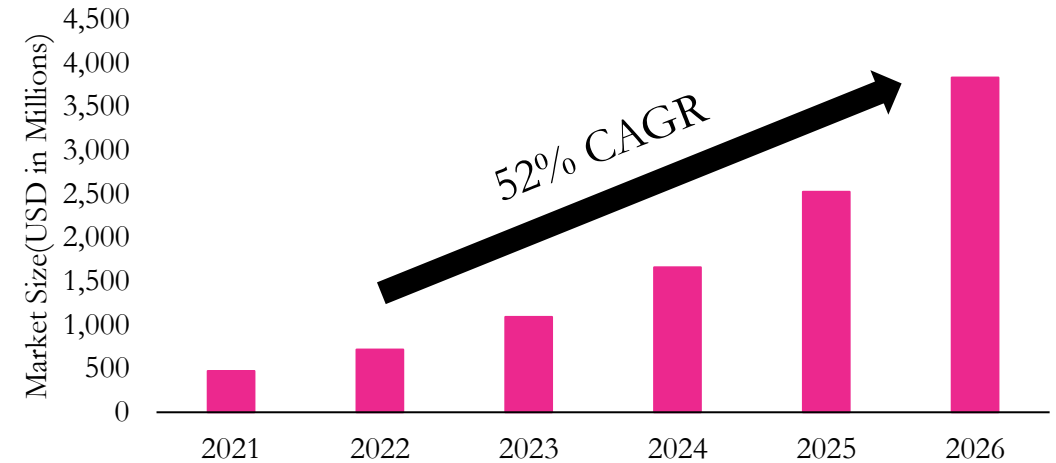
Government Infrastructure bill pledged 65 billion towards broadband Expansion

C-Band Auction in March 2020 led to Opportunities in Midband usage for all companies

Market Share of Cellular Providers by Subscriber Count



Expected Size of 5G Market



5G & Broadband

- Broadband relies more on telephone poles with cable boxes
- 5G is a faster, wireless technology that runs on a higher frequency
- Has less distance of coverage but doesn't require large cell towers like previously
- 5G has low-band, mid-band, and high-band frequencies, which all have different ranges strengths

Company Overview



Business Overview

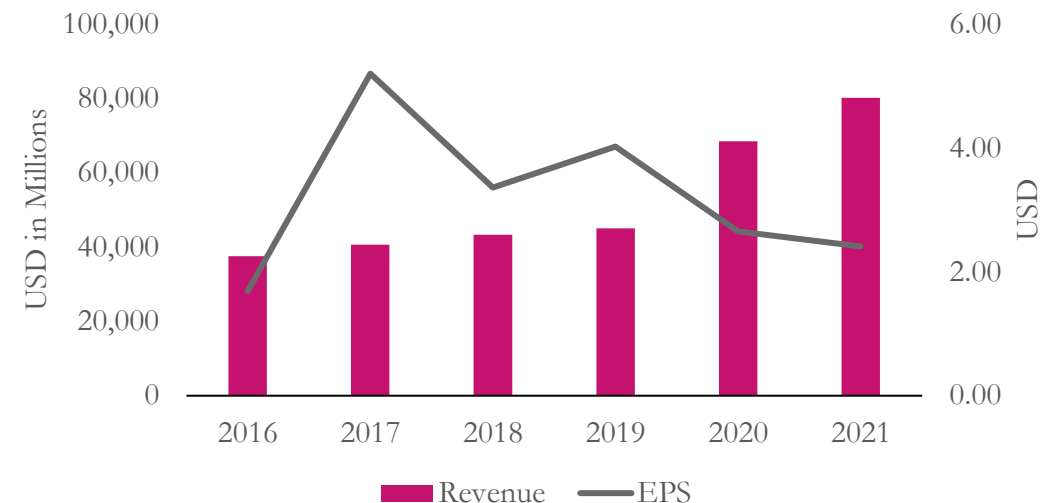
- VoiceStream Wireless Corporation was purchased by Deutsche Telekom on 31 May 2001, for \$35 billion
- Renamed T-Mobile USA, Inc. in July 2002
- September 17, 2007, T-Mobile expands past California and Nevada with acquisition of regional GSM carrier SunCom Wireless Holdings for \$2.4 billion
- On February 23, 2012, during the Q4 Earnings Call, T-Mobile laid out the future of their 4G upgrade path
- On October 3, 2012, MetroPCS Communications reached an agreement to merge with T-Mobile USA. MetroPCS shareholders would hold a 26% stake in the company formed after the merger, which retained the T-Mobile brand
- May 1, 2013, The former merged company went public under the ticker TMUS
- In 2017 T-Mobile also acquired a nationwide 600 MHz license

Product Offerings



T-Mobile earns revenue through the sale of prepaid & postpaid cellphone plans, wholesale internet data service leases to other carriers, and the transaction of devices direct to consumer through brick-and-mortar locations

Revenue and EPS



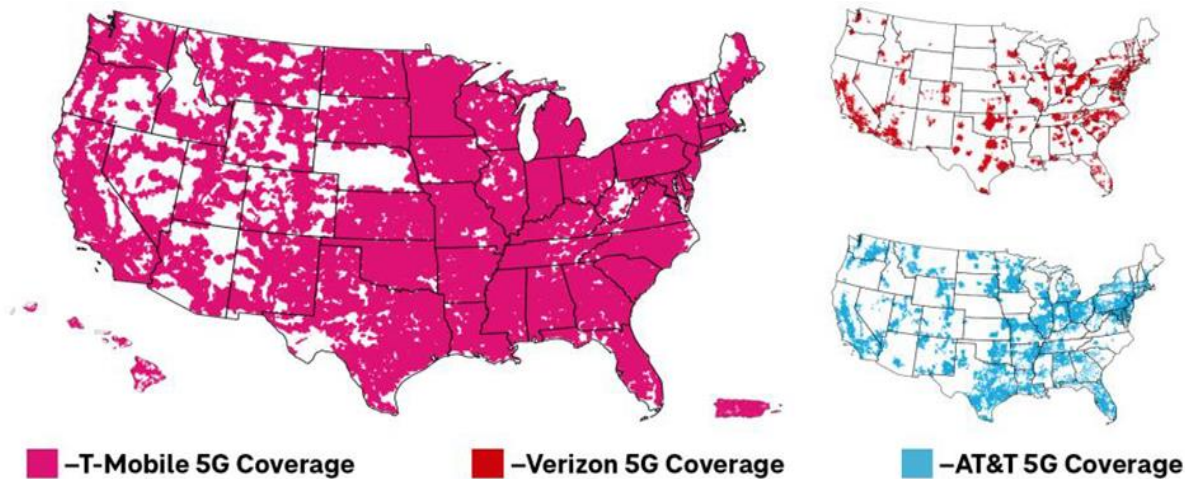
Better Positioned for 5G Transition



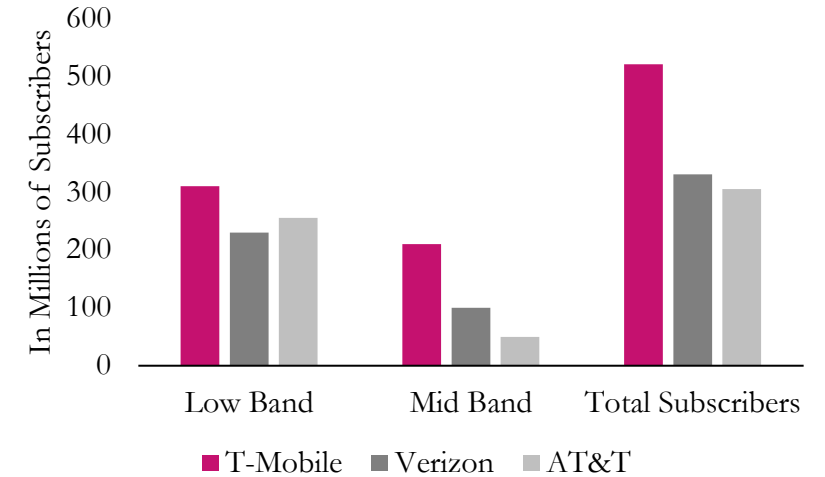
Bandwidth Race Between Current Providers

- T-Mobile acquired Sprint in 2020, the earliest company to roll out Midband, and synergies are still being realized
- C-Band Bidding War has led to T-Mobile becoming more profitable compared to Verizon and AT&T
- T-Mobile has 2.5GHz Midband capabilities, which can cover more area at an efficient speed while C-band has less coverage

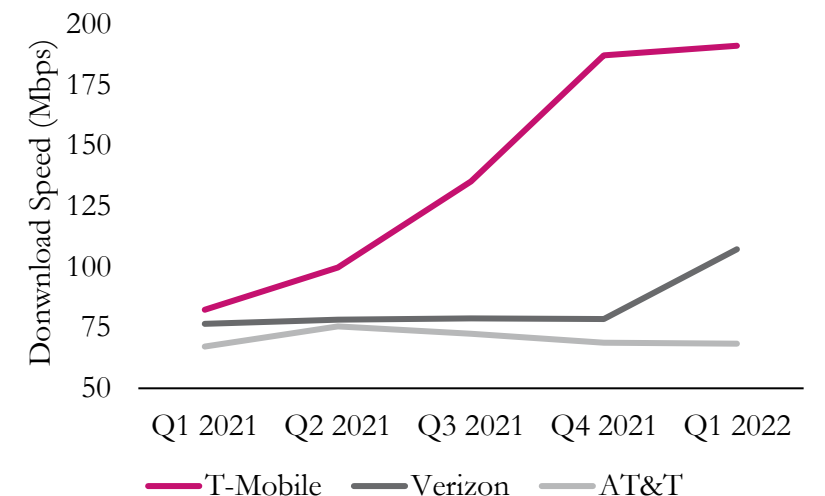
5G Coverage Compared to Peers



Low/Mid Band Subscriber Leader



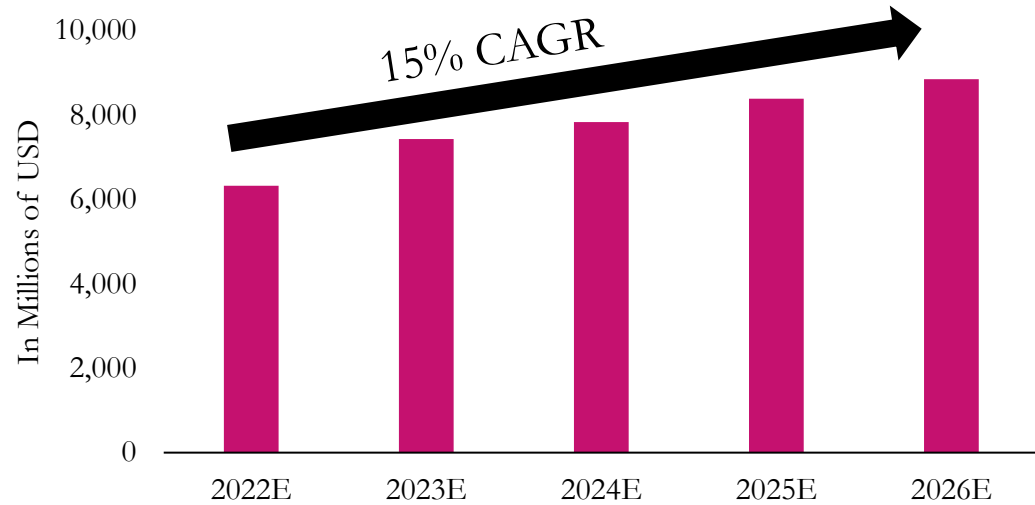
Distinguished Download Speeds



Consistently Beating Estimates



Improving Cash Flow Generation

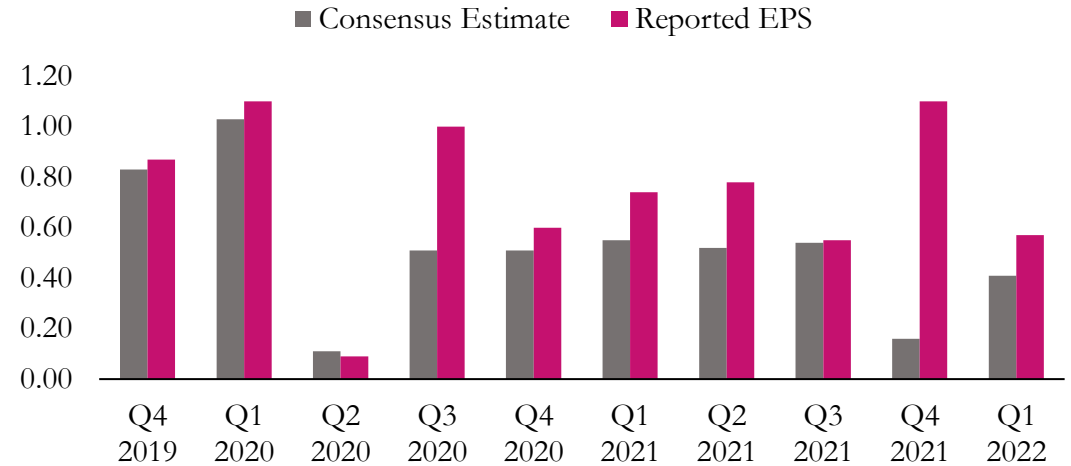


Aggressively Reducing Costs

“We’re delivering these synergies bigger and faster than expected to the benefit of our shareholders”

- On T-Mobile’s most recent earnings call, CEO Mike Sievert said that the company plans on transitioning all Sprint customers to the T-Mobile network in the next few months
- T-Mobile already closed 1/3 of its 35,000 targeted stores

EPS: Expected vs. Actual



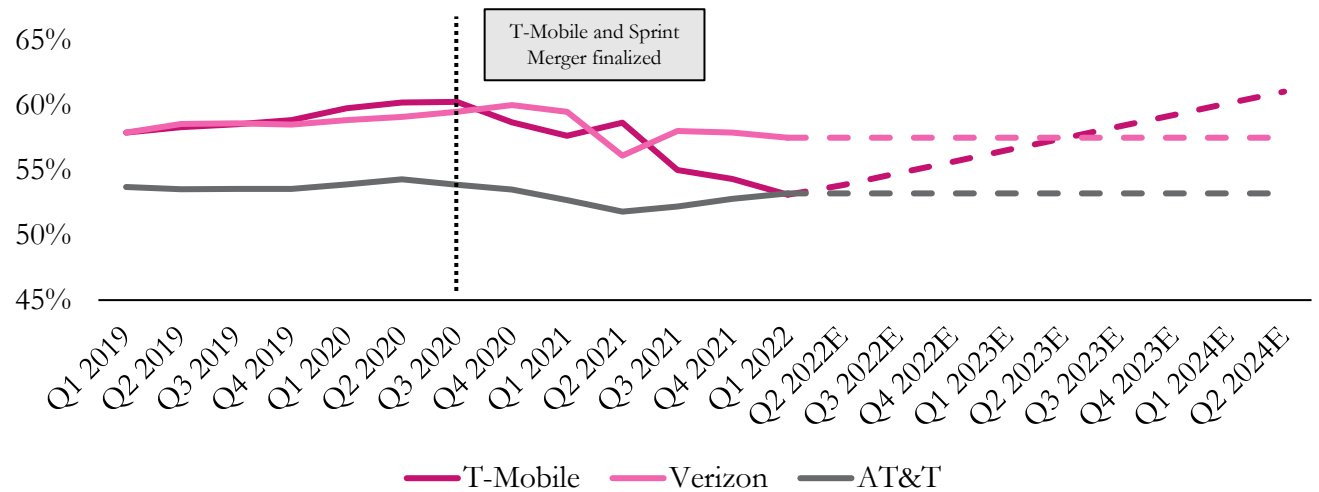
Beating Estimates

- Over the last Full Year, on average, analysts have underpredicted T-Mobile’s EPS by 170%
- Over the last ten quarters analysts have underpredicted T-Mobile’s EPS by 82%
- T-Mobile recently raised their full year 2022 guidance
- Management has said that the company is ahead of expectations on integrating its network with Sprint’s
- Q1 free cash flow of \$1.6 billion, up 26.5% from a year ago

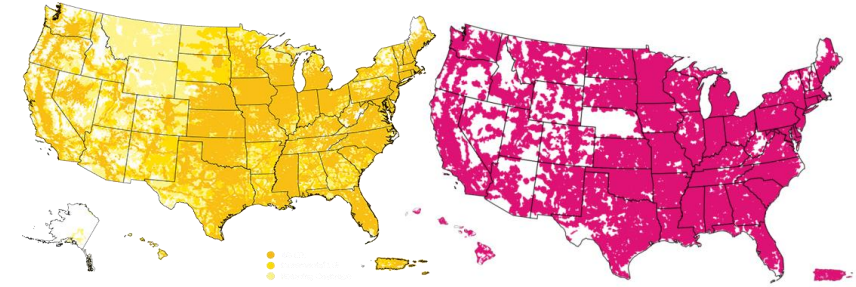
Diversification and Increased Cost Savings



Projected Margin Improvement

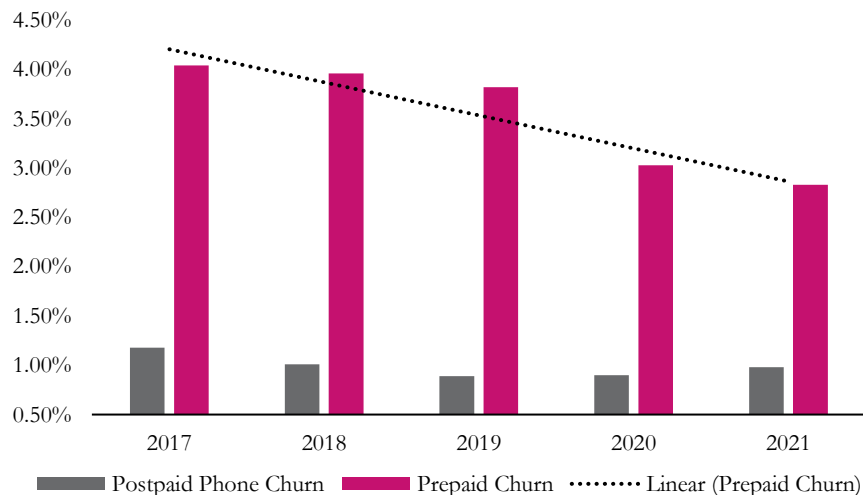


New Landscape



The pro-forma company addresses prior T-Mobile weaknesses in the low-band frequency and expand geographically

Improving Churn despite Sprint's higher rates



Churn- % of subscribers who leave or switch to another carrier

Began investing in low band-High speed cell towers, they now cover 4x more than Verizon and 2x more than AT&T

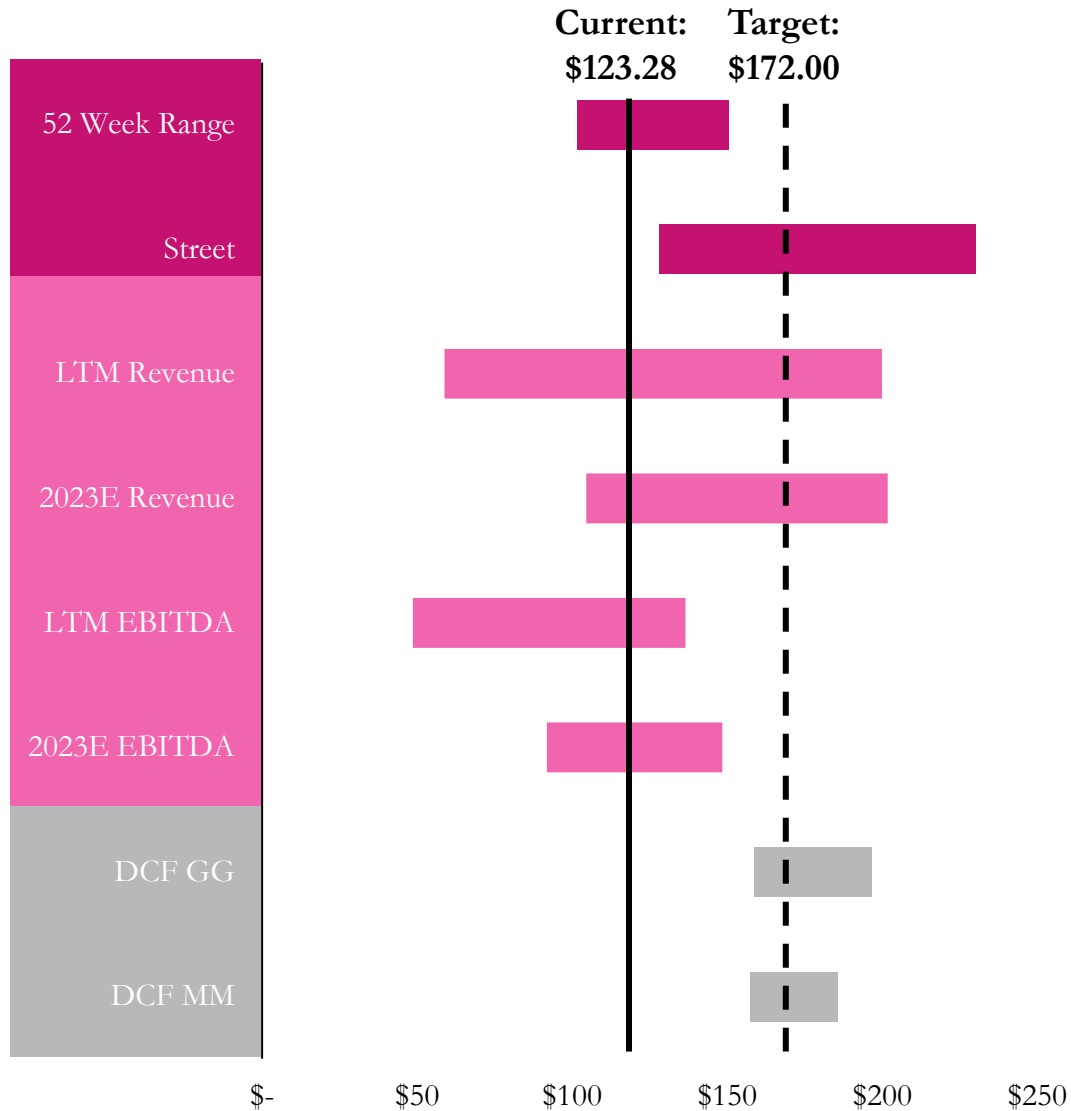
Growth Strategy

- The combination of Sprint's rural dominance due to low-band strengths pair with T-Mobile's mid and low-band allows for the ultimate carrier
- Increased phone sales will allow for economies of scale when purchasing new phones from manufacturers

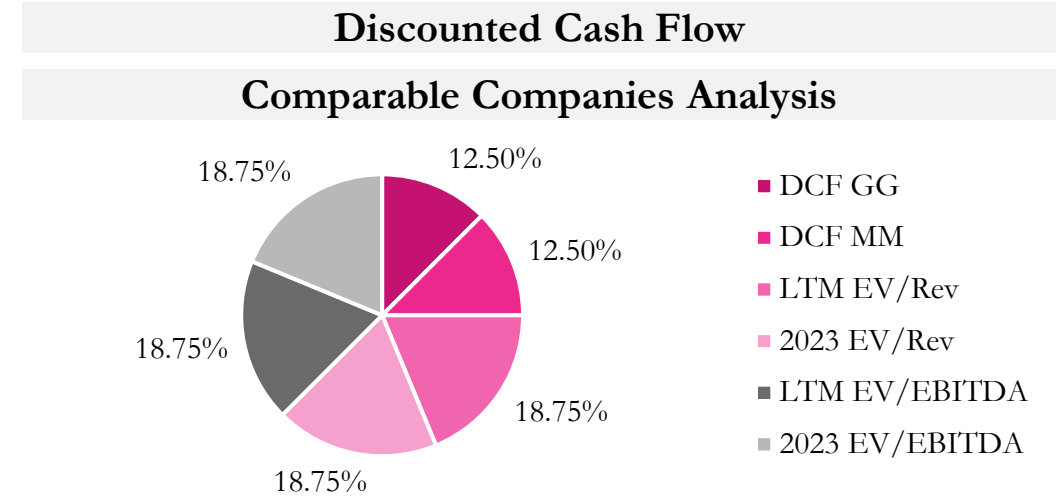
Valuation



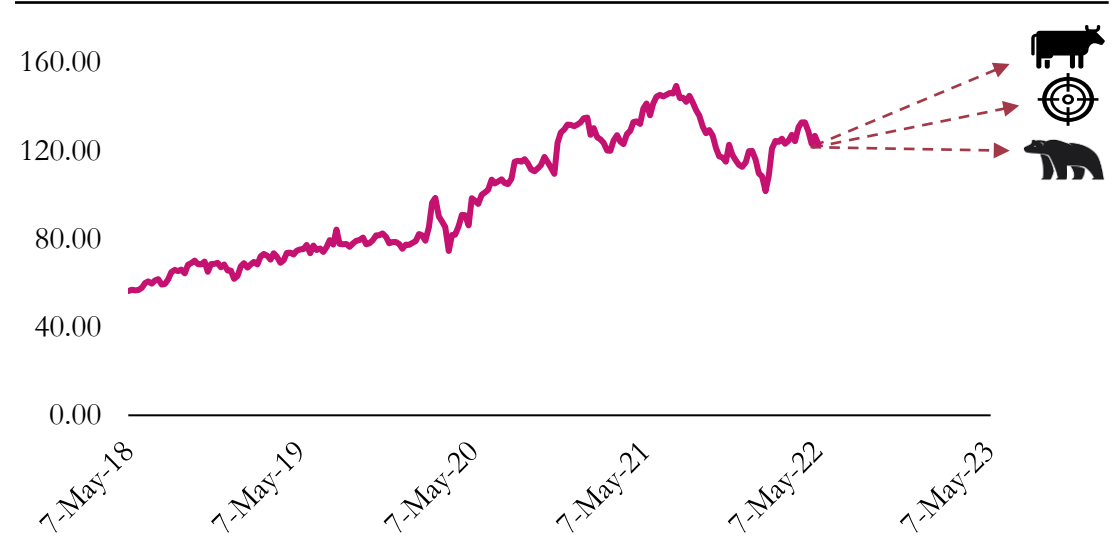
Football Field Analysis



Methodologies



Bull vs. Bear





T-Mobile recently experienced a criminal cyberattack and could in the future be further harmed by disruption, data loss or other security breaches, whether directly or indirectly through third parties



If T-Mobile is unable to take advantage of technological developments on a timely basis, it may experience a decline in demand for its services or face challenges in implementing or evolving our business strategy



T-Mobile's substantial leverage could adversely affect its business flexibility, ability to pay off their debts, and increase cost for future borrowing

Bear Case

- EV/2023E EBITDA: 8.16x (share price of \$106.69)
- The Sprint integration faces unexpected difficulties realizing full synergies
- High debt levels and raising rates limit flexibility

Base Case

- EV/2023E EBITDA: 10.91x (share price of \$172.00)
- Synergies are realized from the acquisition as more customers lead to lower input costs
- 5G rollout allows for expanded customer base

Bull Case

- EV/2023E EBITDA: 13.16x (share price of \$225.37)
- 5G rollout is seamless as more customers and greater flexibility lead to rapid growth
- Growth exceeds the street and beats estimates

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Thank You

Questions?