



# Telecommunication Sector



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Kevin Min  
03/28/2017



## Agenda

- Overview
- Business Analysis
- Economic Analysis
- Financial Analysis
- Valuation Analysis
- Recommendation

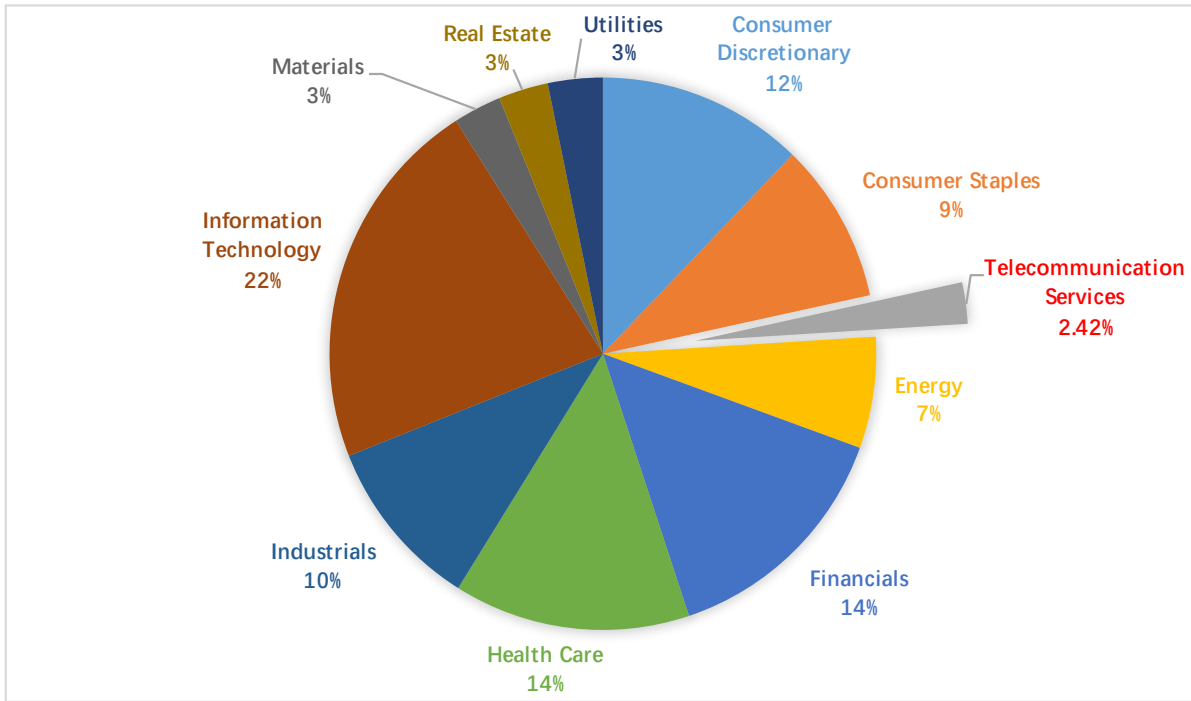


# Overview

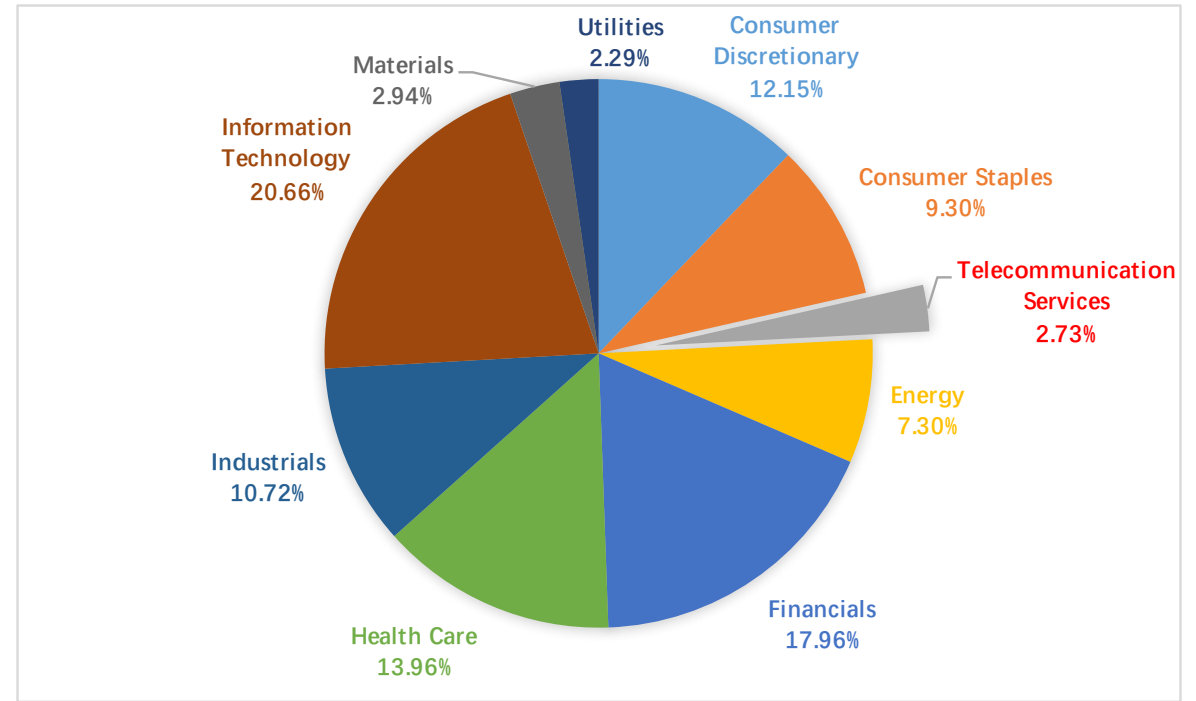




### S&P 500



### SIM



- **Telecom Sector Market Cap: 1.86 T (03/24/2017)**
- **S5TELS Market Cap: 489 B (03/24/2017)**
- **2.42% of S&P 500**

- **SIM Securities Value: \$10,733,155.78**
- **2.73% of SIM**

**Wireline  
Telecommunication  
Service**



**Wireless  
Telecommunications  
Service**



**Integrated  
Telecommunication  
Service**



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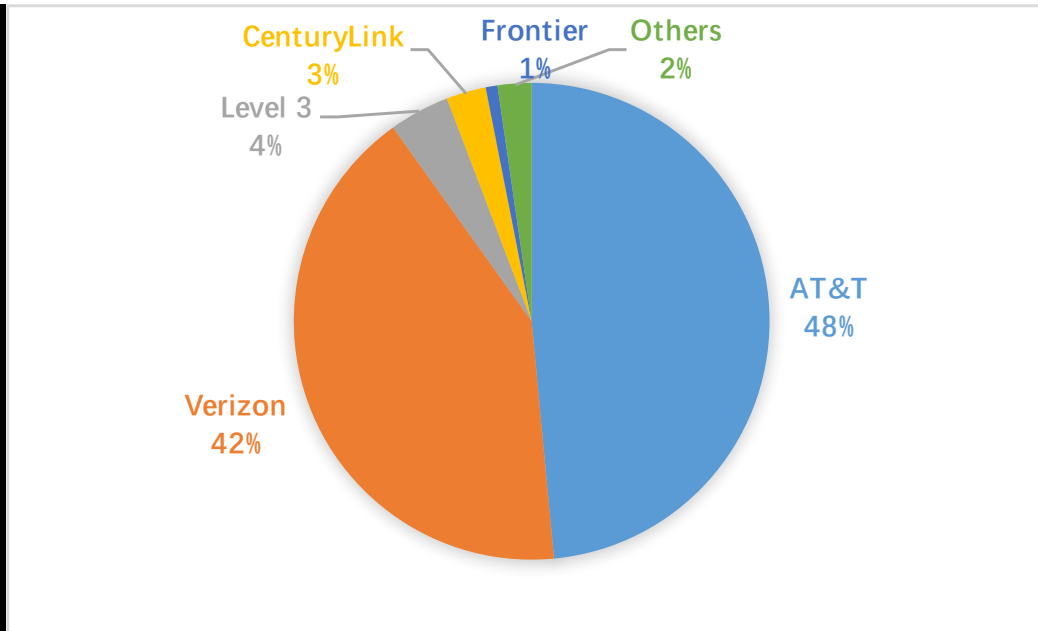
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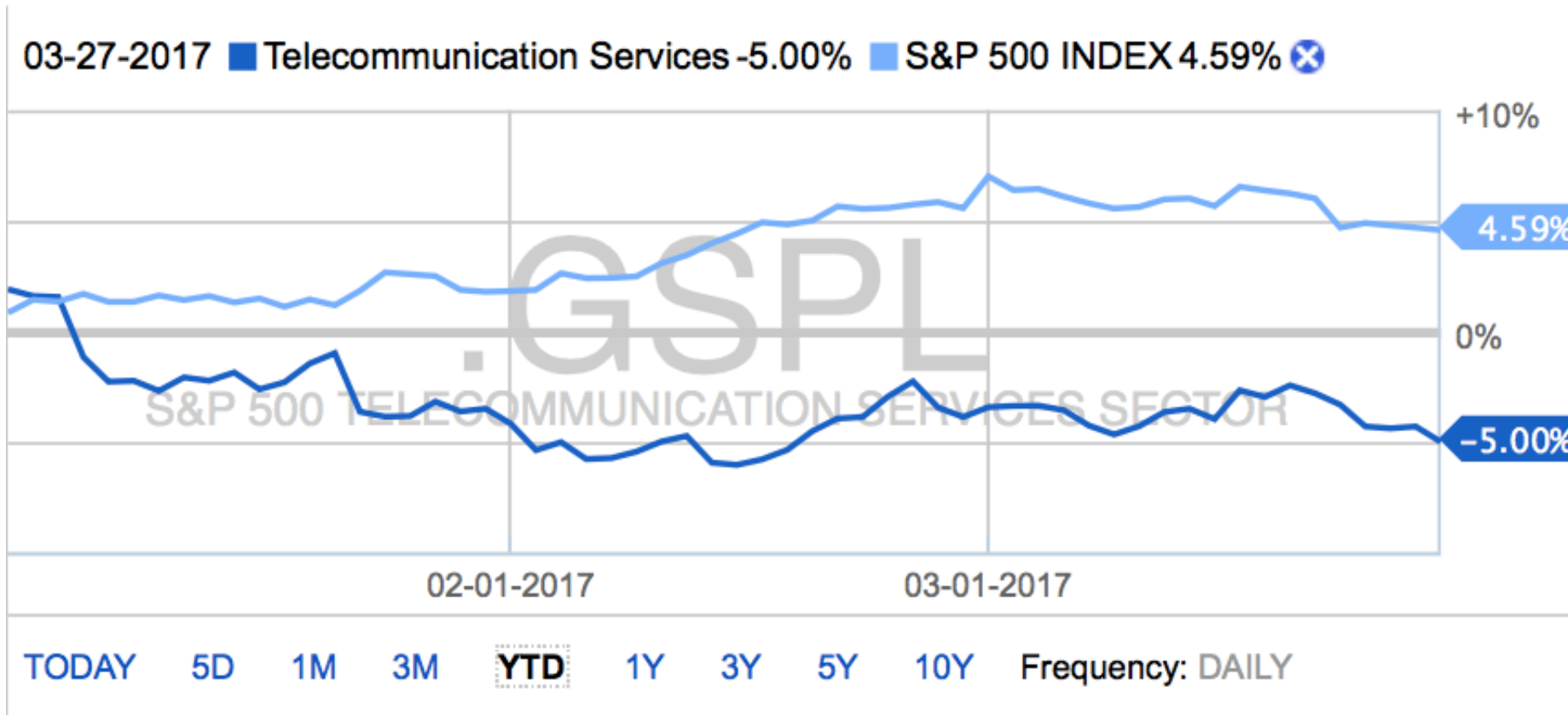


Company Name	Ticker Symbol	Market Cap (Billion)	Beta	Current Price(US\$)
AT&T	T	255.98	0.43	41.68
Verizon	VZ	202.53	0.59	49.68
T-Mobile	TMUS	53.04	0.21	64.17
Sprint	S	33.89	0.6	8.50
Level 3	LVLT	20.21	1.02	56.12
CenturyLink	CTL	12.44	0.83	22.76





• *Year-To-Date*



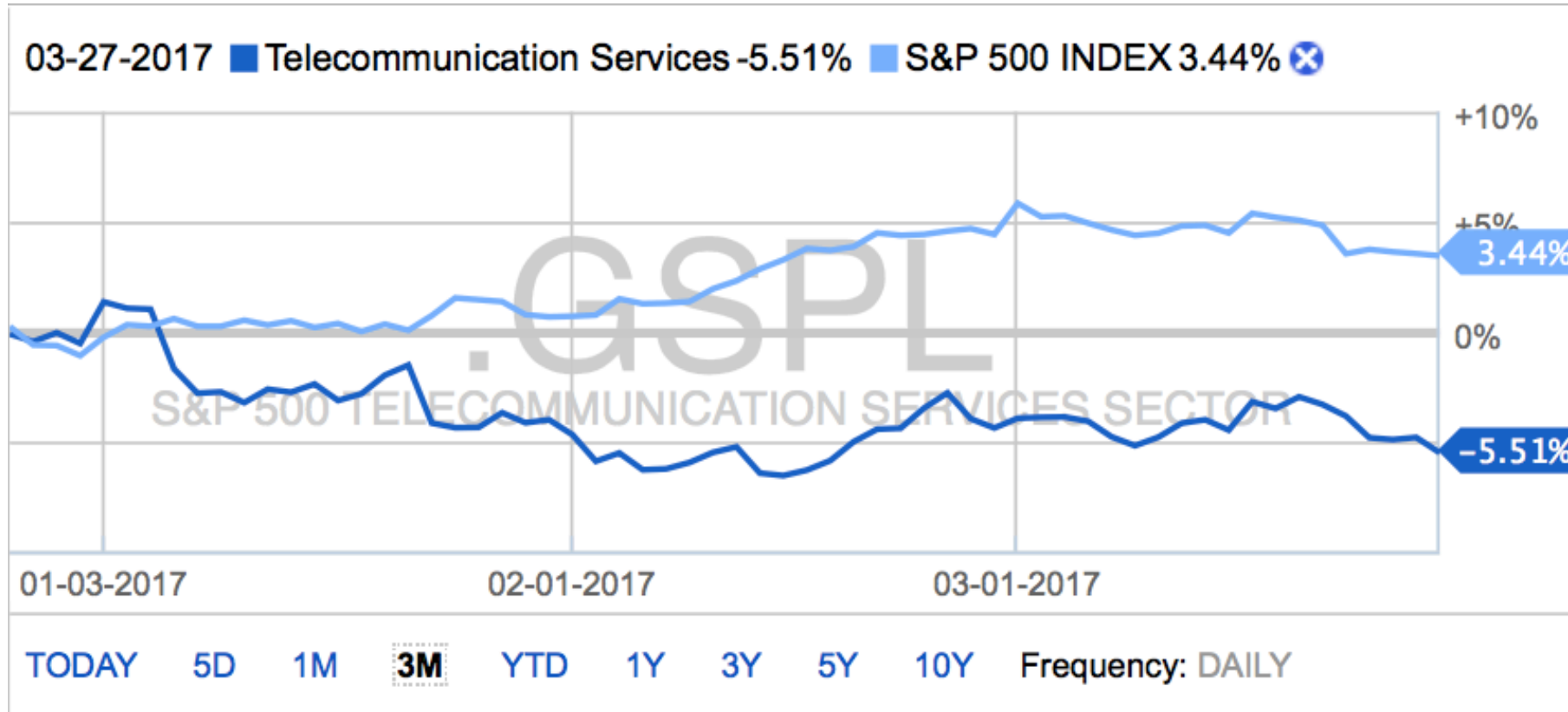
Telecom:  
 Dividend Yield:  
 4.3%  
 YTD: -5.00%

S&P 500  
 YTD: 4.59%

Underperformed



- *Quarter-To-Date*



Telecom:  
QTD: -5.51%

S&P 500  
YTD: 3.44%

Underperformed

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# Business Analysis

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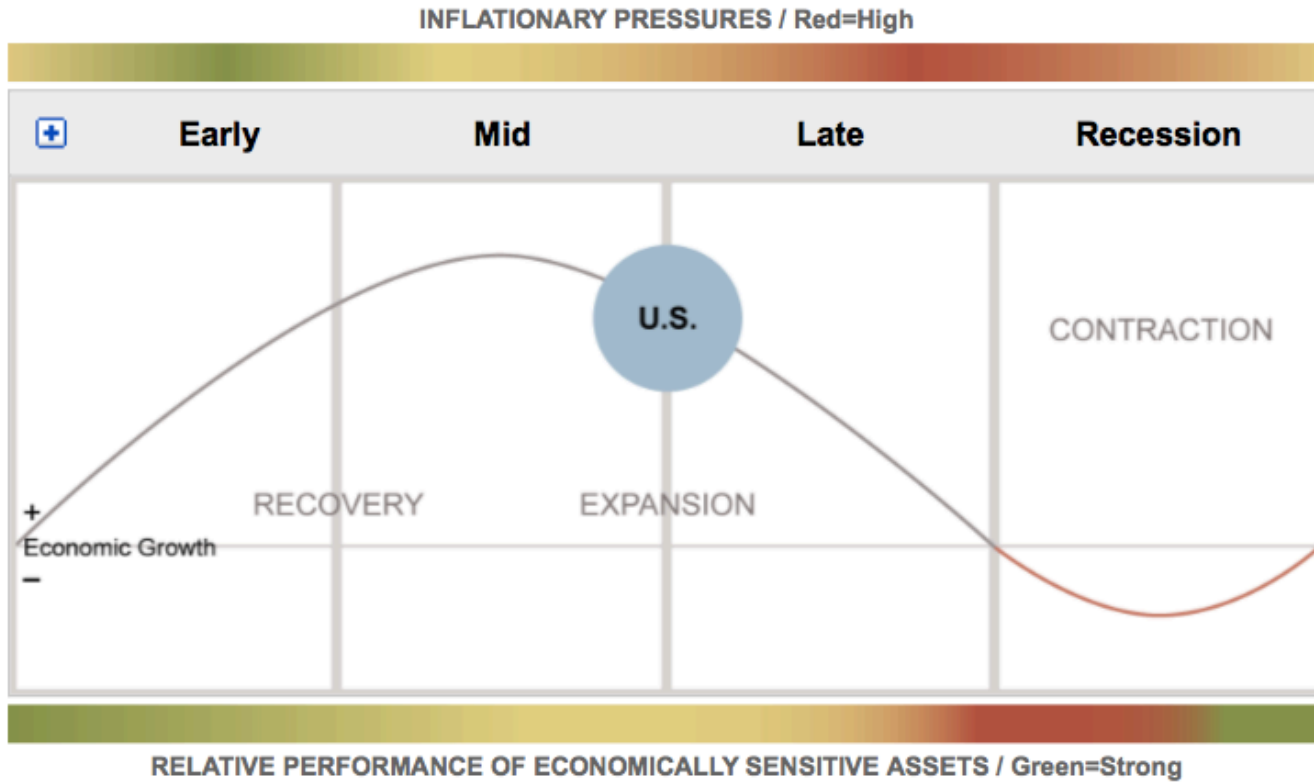
**Business Analysis**

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Sector Performance by Business Cycle Phase

Sector	Early	Mid	Late	Recession
Telecom	--			++

++ Consistently Overperform    -- Consistently Underperform    □ No Clear Pattern  
 + Overperform    - Underperform

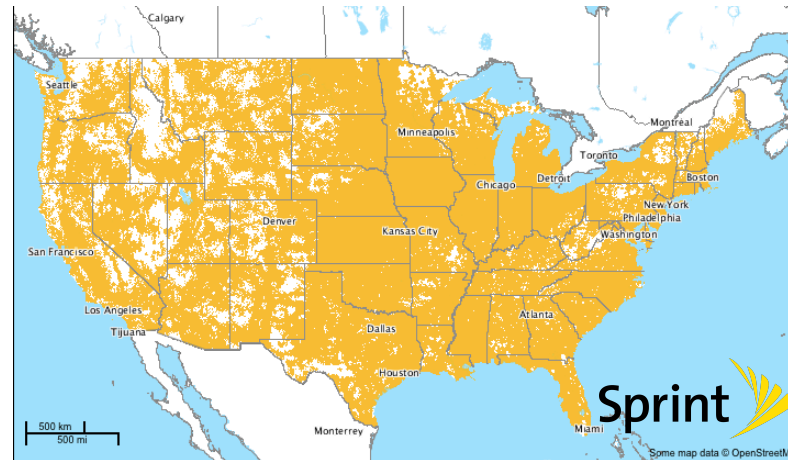
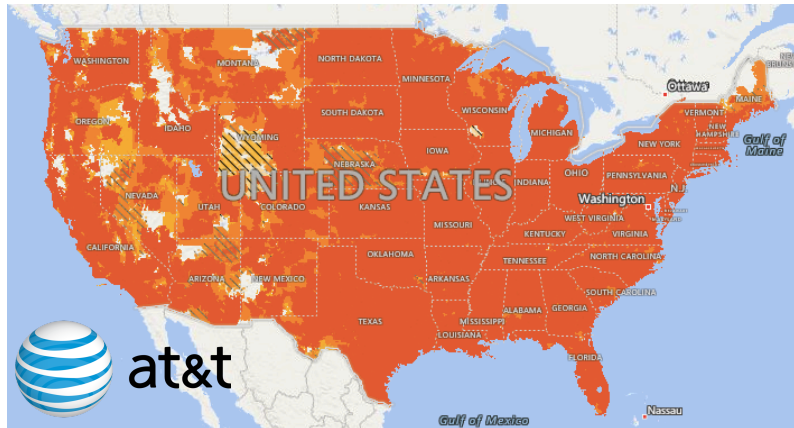
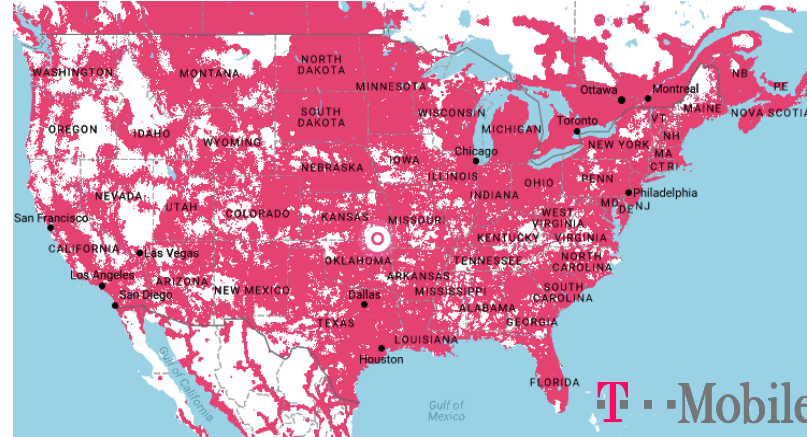
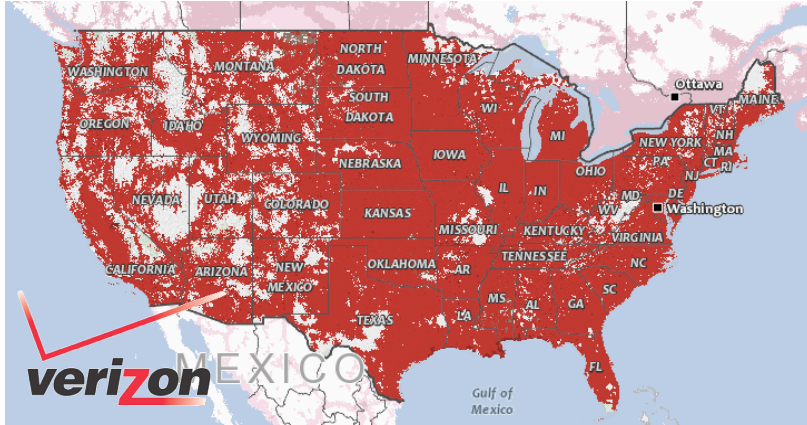
- **No clear pattern**
- **Comparably defensive**
- **High dividend yield**
- **Customers mainly domestic**

Source: Fidelity



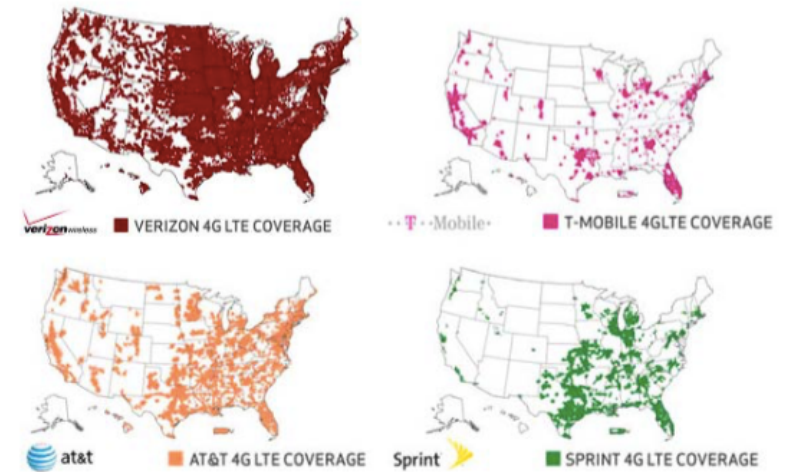


# Telecommunication Services



- **4G LTE Coverage Map 2017**

*(Picture Sources: company website)*



*Source: 2016 SIM Telecom Sector Presentation*

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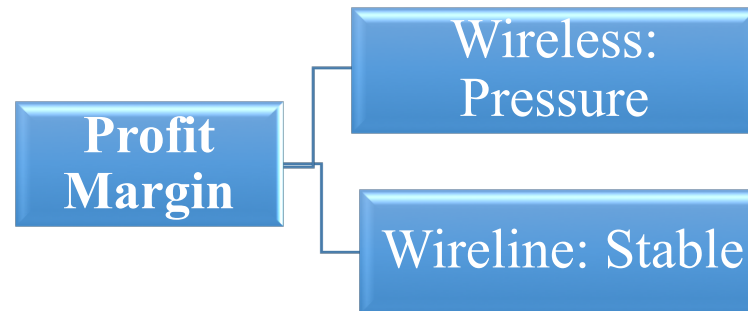
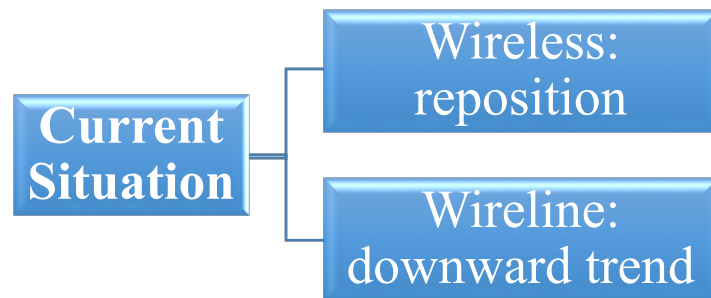
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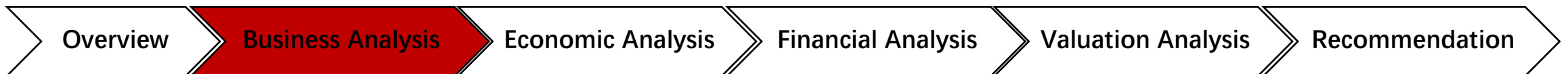


## *Industry Trend*

- Acquisition:  
AT&T with Time Warner. Sprint and T-Mobile
- Wireline and Wireless Industry:



- 5G Expansion





*Porter's Five Forces*





# Economic Analysis

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**Economic Analysis**

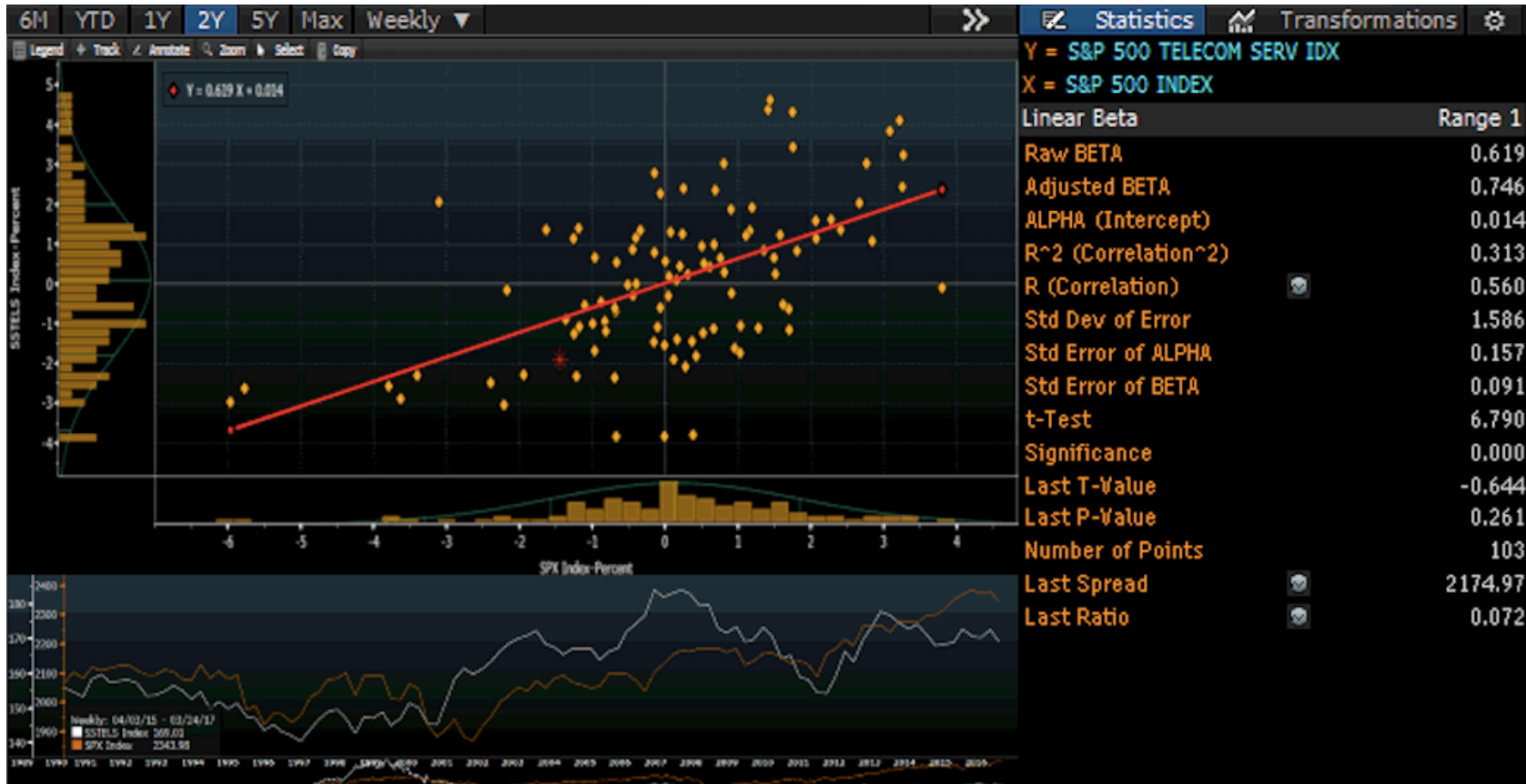
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- *SPX and S5TELS* (Source: Bloomberg)



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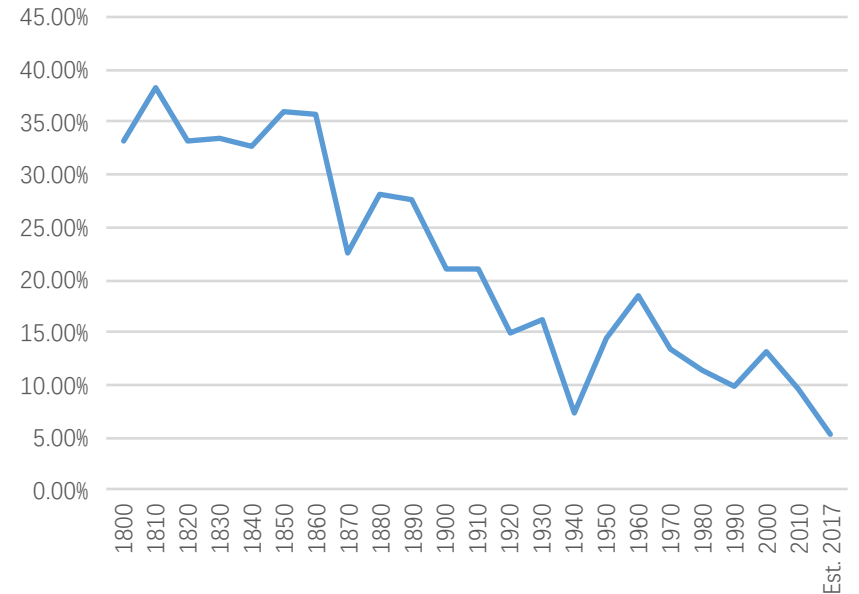
- *Interest rate*

**FRED** — Effective Federal Funds Rate  
— 10-Year Treasury Constant Maturity Rate



Source: United States Census Bureau

- *Demographics*







# Financial Analysis

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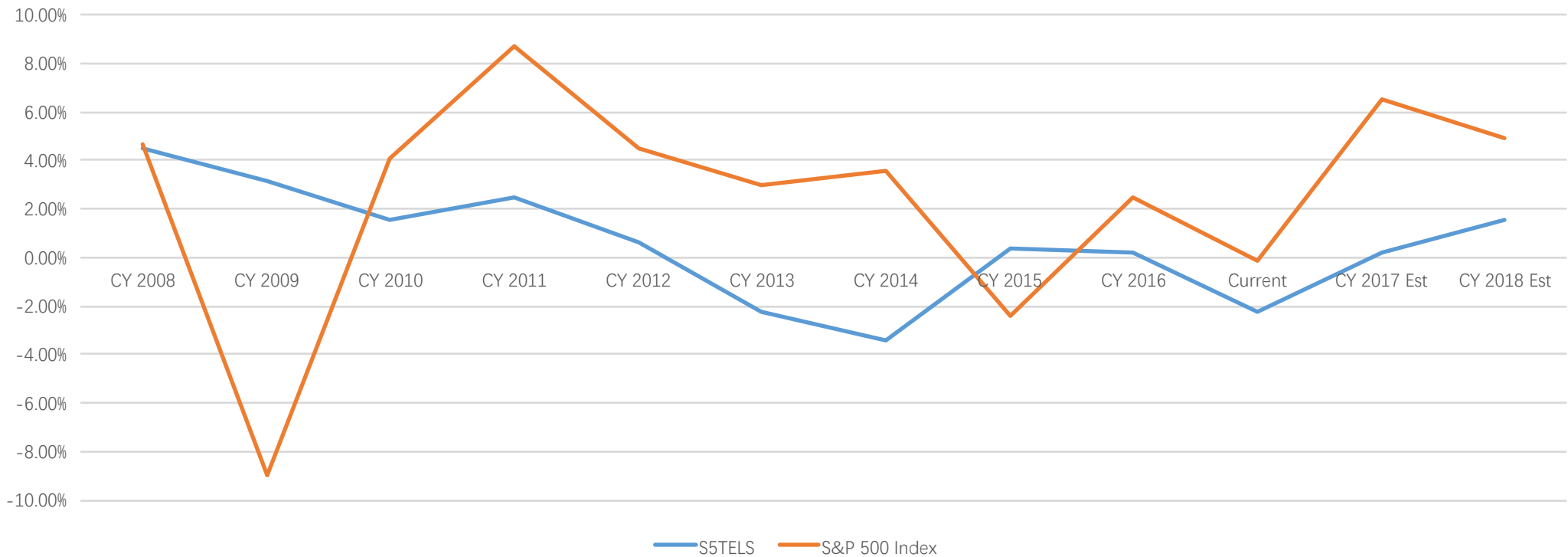
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- Sales Growth: Sector vs. S&P500***

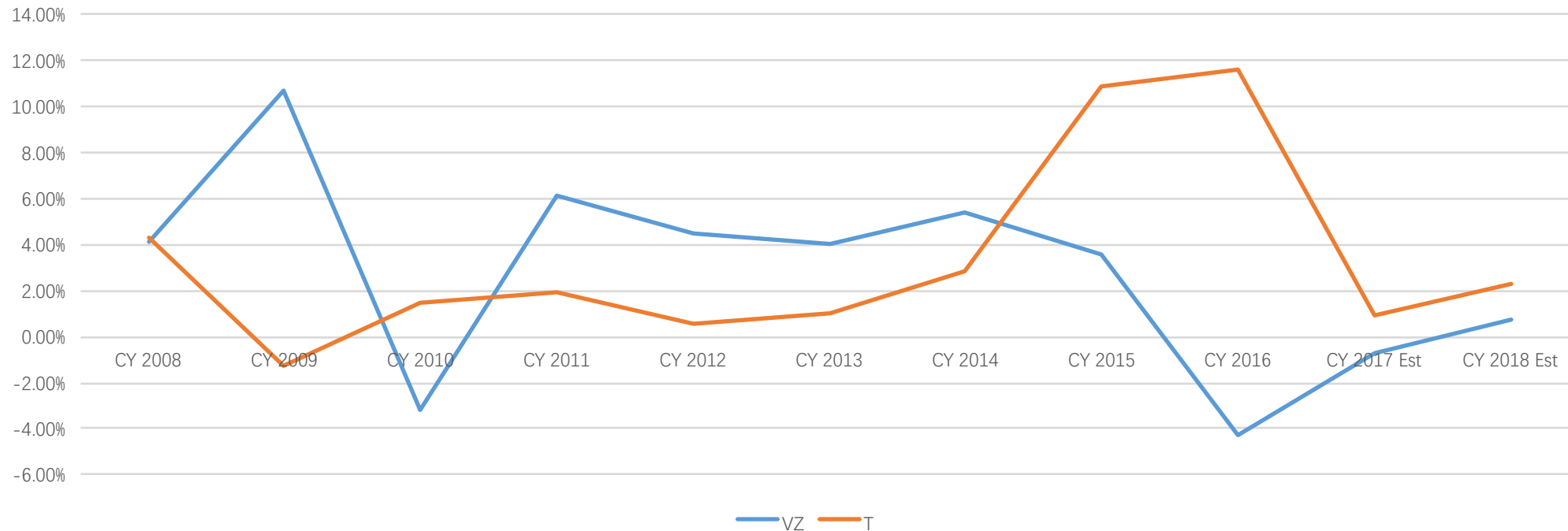
Sales Growth %: S5TELS vs SP500





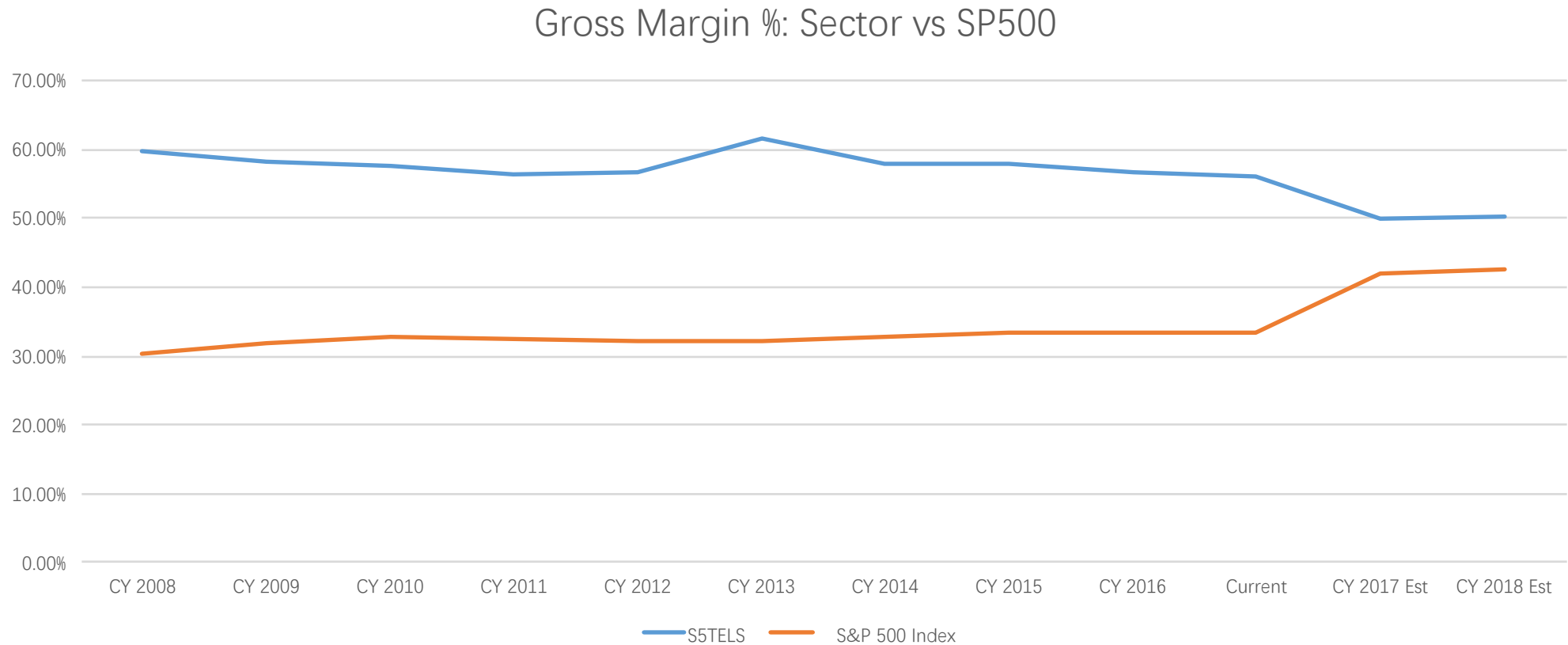
- Sales Growth: Key Firms (Verizon and AT&T)***

Sales Growth %: Key Firms



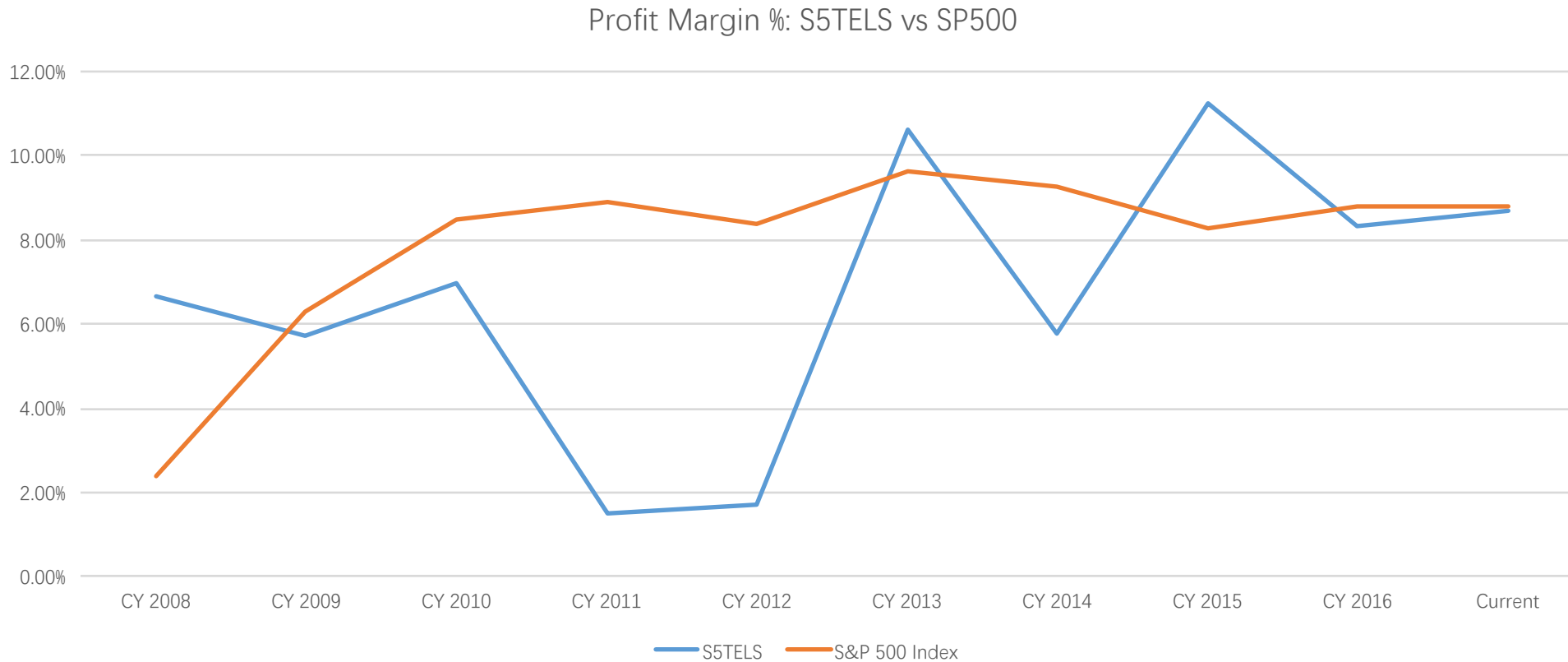


- Gross Margin: Sector vs. S&P 500***





- Profit Margin: Sector vs. S&P 500***



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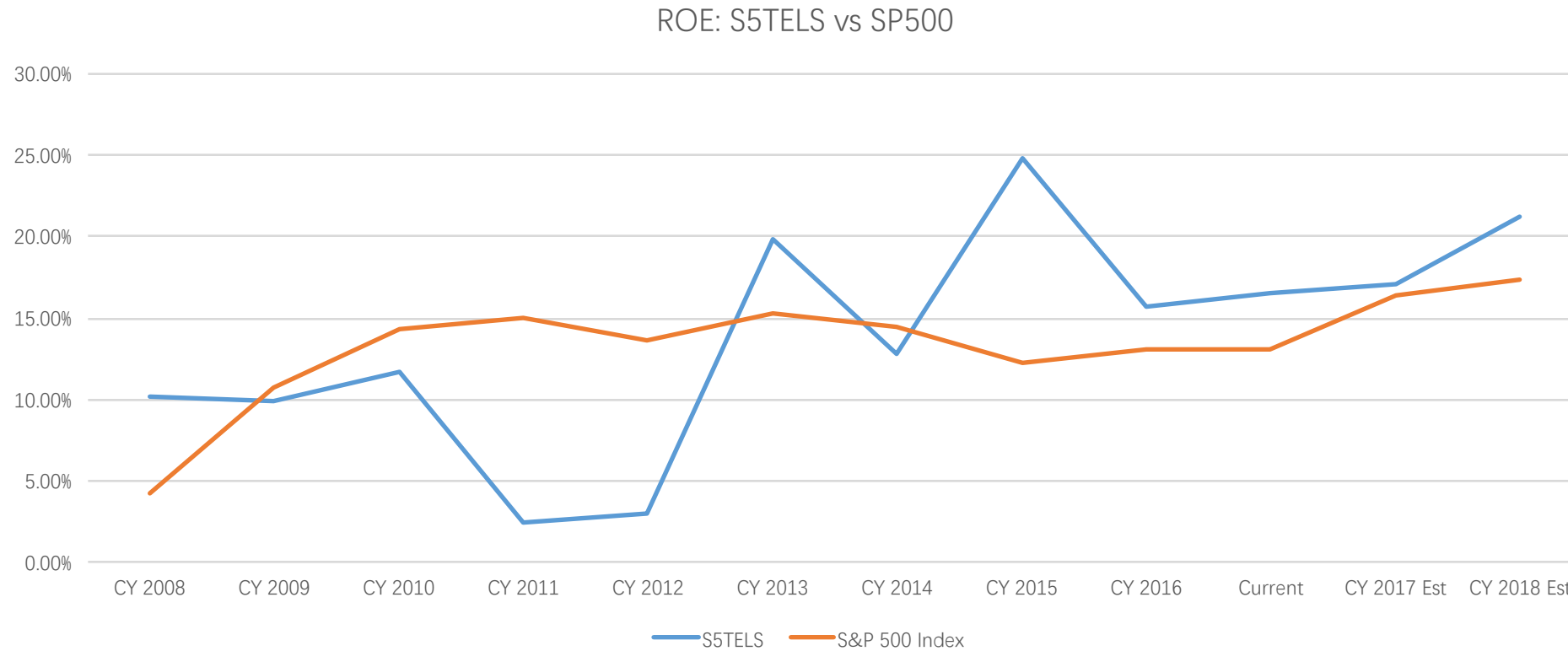
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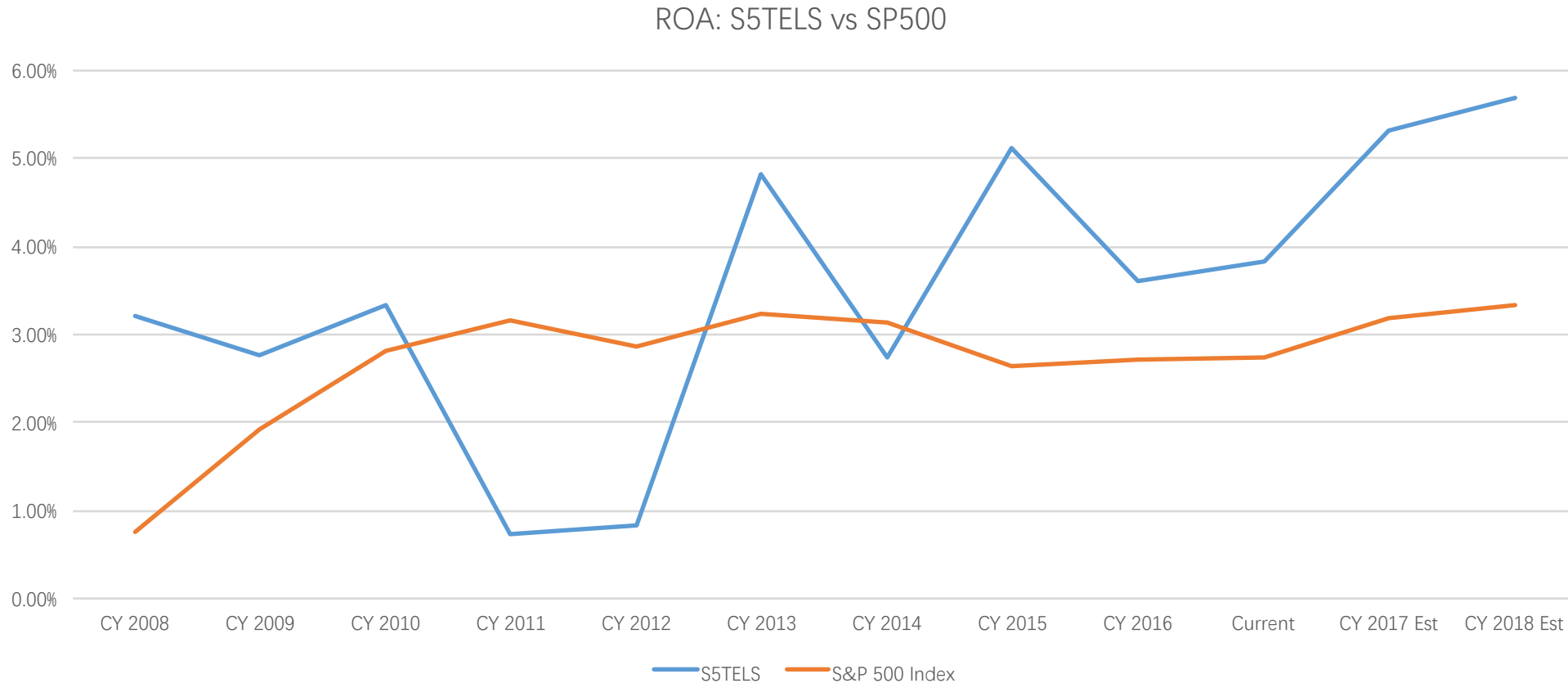


- Return on Equity: Sector vs. S&P500*

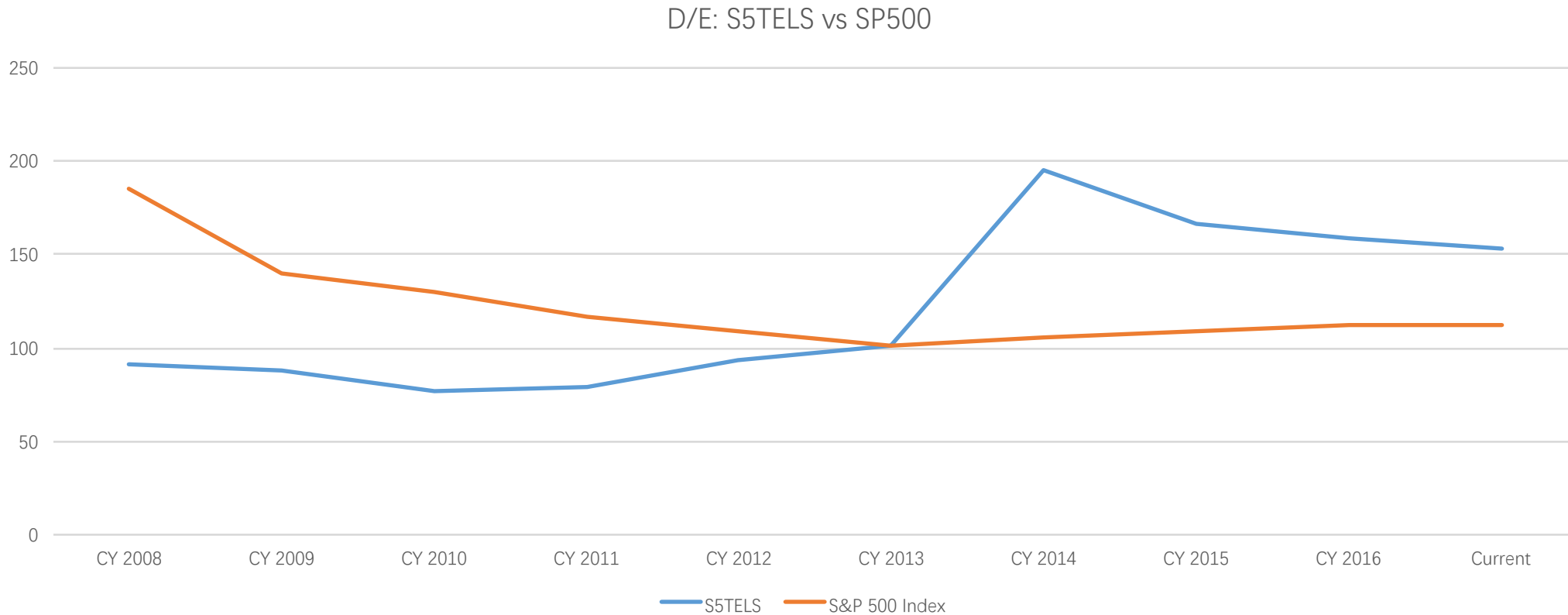




- Return on Assets: Sector vs. S&P500*



- Leverage (Debt to Equity): S5TELS vs. S&P 500***







# Valuation Analysis





- *Valuation Ratios*

Absolute Basis	High	Low	Median	Current
P/E	22.55	8.94	15.72	16.23
P/B	3.63	1.24	2.16	2.88
P/S	1.93	0.81	1.31	1.55
P/EBITDA	5.89	2.46	4.18	4.77

Relative to SP500	High	Low	Median	Current
P/E	1.48	0.53	0.90	0.75
P/B	1.32	0.69	0.89	0.93
P/S	1.23	0.70	0.85	0.75
P/EBITDA	0.81	0.34	0.52	0.42





- *P/E*



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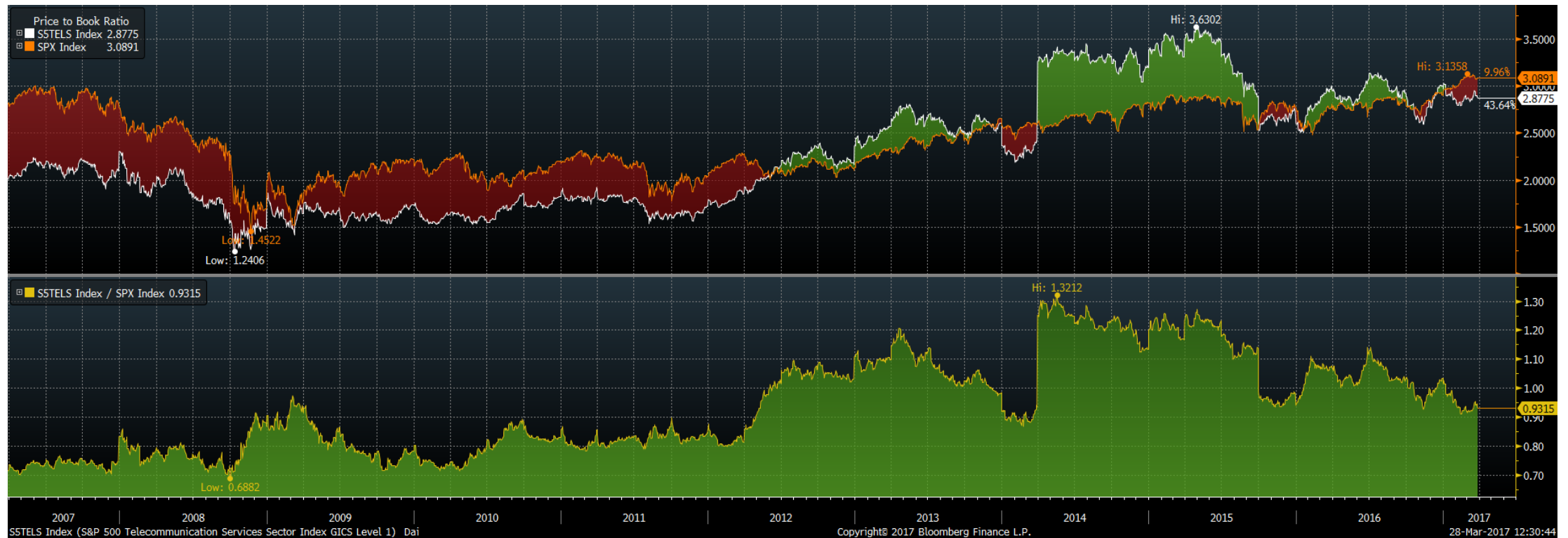
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- *P/B*



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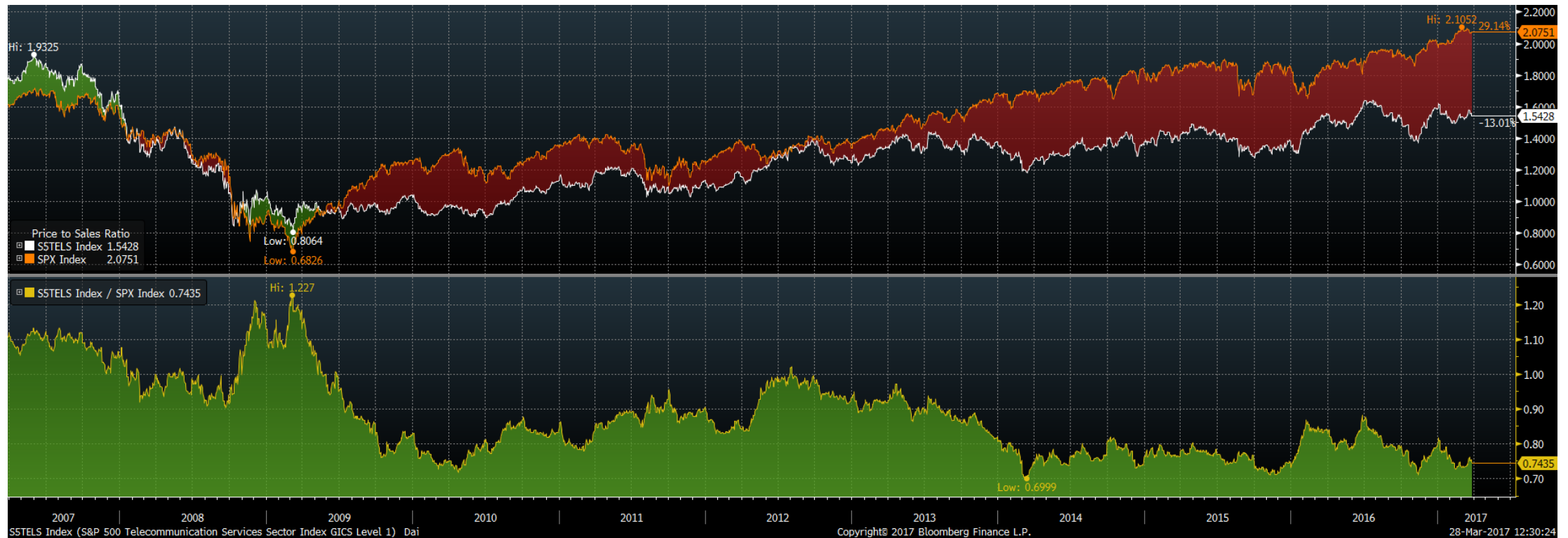
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- *P/S*



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- *P/EBITDA*



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- Bollinger Bands*



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- Relative Strength Index*



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# Recommendation

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**Current weight 2.73% (0.22% above S&P 500)**

Securities Allocation			
Sector	S&P 500 Weight	SIM Weight	+/-
Information Technology	21.43%	20.66%	-0.77%
Financials	14.67%	17.96%	3.29%
Health Care	13.43%	13.96%	0.53%
Consumer Discretionary	12.27%	12.15%	-0.12%
Consumer Staples	9.23%	9.30%	0.07%
Industrials	10.33%	10.72%	0.39%
Energy	7.30%	7.30%	0.00%
Utilities	3.08%	2.29%	-0.79%
Materials	2.94%	2.94%	0.00%
Telecommunication Services	2.51%	2.73%	0.22%
Real Estate	2.81%	0.00%	-2.81%
Total	100.00%	100.00%	0.00%



## HOLD recommendation

- Stay overweight
- Hedge against potential market downturn
- Potential for growth given FCC changes
- Relatively cheap

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