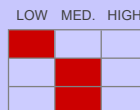


AT&T Inc.
 Latest Results: Q4 2013
 Country: USA
 Sector: Telecoms
 RIC (Ticker): T.N

Fundamental Valuation: --
Indigo View: --
Industry View: **Unattractive**
Company Rating: LOW MED. HIGH
 Risk
 Quality
 Valuation



N. Landell-Mills CFA
 Indigo Equity Research Limited
 www.indigo-equity-research.com

30 Jan 2014

Snapshot of Q4 2013 - Downside risk

Good Q4 2013 Results - Margin improvement

Indigo's independent, buy-side, fundamental equity research reports are provided in three formats (of varying length & detail):

- Snapshot (c. 6 pages)
- Overview (c. 20 pages)
- Company Profile (53 pages)

Indigo Reports can be accessed via the Independent Research Services at Marex Spectron: (www.marexspectron.com)
 Contact: Edward Blad (EBlad@marexspectron.com)

Or Indigo reports can be purchased via subscription or a pay-per-view basis, from the Indigo website: www.indigo-equity-research.com

Significant recent events

- See the full report
-

Investment thesis - In a tight corner; low growth & margin pressure

See the full report

SWOT analysis

Strengths

- Large size (economies of scale).
- #2 in an oligopolistic US wireless market.
- High div. yield; but high pay-out ratio.

Opportunities

- Shift to usage based pricing.
- Project Velocity IP, network upgrades.
- Connected homes & cars?

Weaknesses

- Mature US telecoms market.
- Becoming a "dumb pipe".
- Outperformed by Verizon Wireless.

Threats

- Increased wireless competition.
- Margin pressure. Pension deficit.
- Cable taking most broadband adds.



Fundamental Valuation

	Bear	Base	Bull
Forecast Share Price	See the full report		
Return (incl. Div.)			

Capital Structure	Per Share (\$)	Total (\$ Bn)
Current Share Price	\$33.3	
Number of Shares (bn)		5.3
Market Capitalization		176.0
Net Cash / (Debt)	-13.5	-71.4
Enterprise Value (EV)	46.7	246.9
Main Shareholder:		--

Consensus Estimates

Financial Results	2013	2014e	2015e
y/e 31 Dec	(\$ Bn)	(\$ Bn)	(\$ Bn)
Revenue	128.8	131.4	133.3
EBIT*	23.2	24.0	25.2
Net Income*	13.8	14.0	14.6
Share Capital	91.0	95.3	100.3
Total Assets	277.8	282.5	287.6
FCF	13.9	11.4	12.0
EPS* (\$)	2.55	2.63	2.76
DPS (\$)	1.80	1.85	1.89
BV per share (\$)	16.90	17.95	18.97

Efficiency Analysis	2013	2014e	2015e
EBIT* Margin	18.0 %	18.3 %	18.9 %
Net Income* Margin	10.7 %	10.6 %	11.0 %
Asset Turnover	46 %	47 %	46 %
Total Assets / Equity	305 %	296 %	287 %
ROE*	15.1 %	14.7 %	14.6 %

Growth Analysis	2013	2014e	2015e
Revenue	1.0 %	2.0 %	1.5 %
EBIT*	0.8 %	3.8 %	4.7 %
Net Income*	1.9 %	1.7 %	4.4 %
EPS*	10.2 %	3.2 %	4.9 %

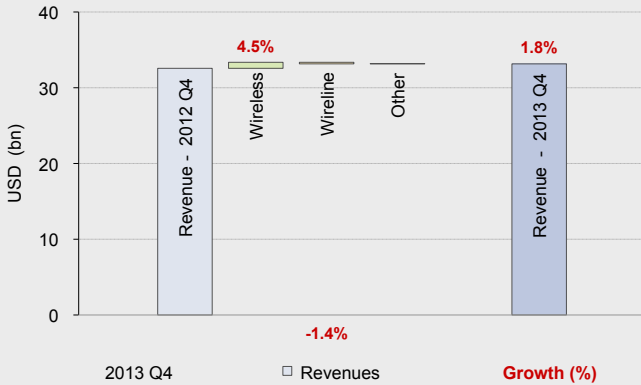
Valuation Ratios	2013	2014e	2015e
P / Sales	1.4	1.3	1.3
EV / EBITDA	5.9	5.8	5.6
P / EBIT*	7.6	7.3	7.0
PE*	13.0	12.6	12.1
PEG*	1.3	4.0	2.5
P / BV	2.0	1.9	1.8
P / FCF	12.7	15.4	14.7
Dividend Yield	5.4 %	5.6 %	5.7 %
Pay-Out Ratio	53.1 %	70.2 %	68.4 %
Net Debt / EBITDA	1.7	1.6	1.5

Valuation Ratios are based on the current share price.

* = Excluding Unusual Items

Q4 2013 Results - Changes In Revenue Since Last Year (YoY)

YoY Change in Revenue by Division



Note: Prior year Unusual Items are not shown in these graphs.

Revenues by Division - Q4 2013

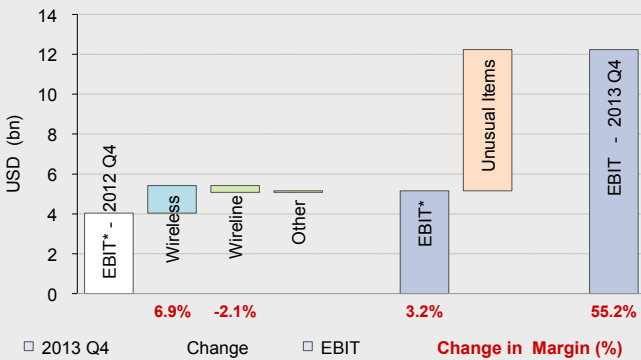
- Wireless Revenue rose \$0.8 bn (+5%) to \$18.4 bn.
- Wireline Revenue fell \$0.2 bn (-1%) to \$14.7 bn.
- Other Revenue fell \$4 m (-29%) to \$10 m.
- Q4 Total Revenue rose \$0.6 bn (+1.8%) to \$33.2 bn.

Revenues by Product

- Total Data Revenues rose \$0.4 bn (+2.0%) to \$18.5 bn.
- Total Voice Revenues rose \$0.2 bn (+2.2%) to \$10.6 bn.
- Total Other Revenues was flat at \$4.1 bn.

** = Estimated Growth excluding major M&A activities.

YoY Change in EBIT* and Margins (%)



* = excludes Unusual Items.

EBIT by Division - Q4 2013

- Wireless EBIT rose \$1.4 bn (+54%) to \$3.9 bn. Margin rose 6.9% to 21.4%.
- Wireline EBIT fell \$0.3 bn (-19%) to \$1.5 bn. Margin fell 2.1% to 9.9%.
- Other EBIT improved \$77 m to -\$245 m.
- Total* EBIT rose \$5.2 bn (+27.7%) to \$5.2 bn. Margin rose 3.2% to 15.5%.
- \$7.1 bn Unusual Items arose at the EBIT level. -\$10.0 bn arose in Q4 last year.
- Q4 Total EBIT improved \$18.2 bn to \$12.2 bn. Margin rose 55.2% to 36.9%.

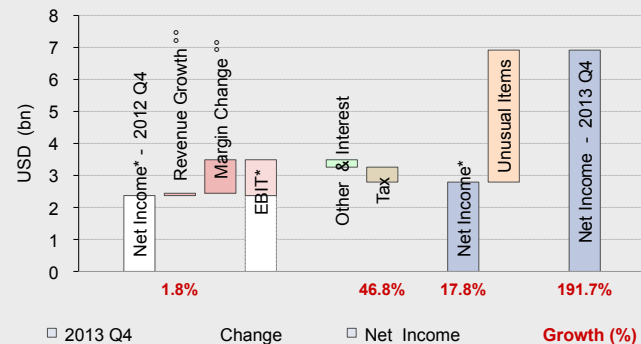
Notes - Unusual Items arising this Q and the prior year Q.

	2012 Q4	2013 Q4
At the EBIT level: (\$ bn)	-10.0	7.1
At the Net Income level: (\$ bn)	-6.2	4.1

- Unusual Items are detailed in the full (Company Profile) equity report.
- Growth rates and changes in margins are stated on a YoY basis.

Shares = Share Repurchase / (Issues)

YoY Change in Net Income



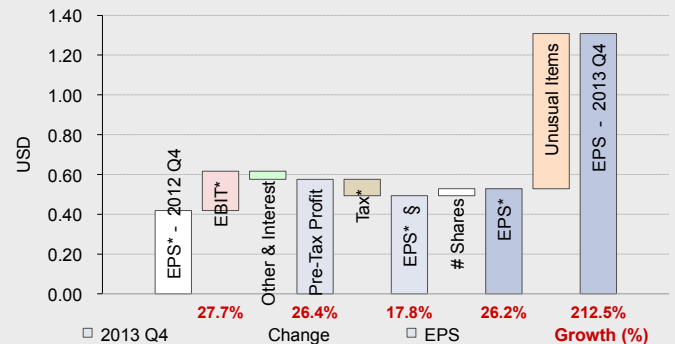
** = Impact on EBIT

"Other" = Other Income & Expenses

"Other Items" includes non-cash charges.

Net CAPEX = Depreciation - CAPEX

YoY Change in EPS



Data is stated on a per share basis.

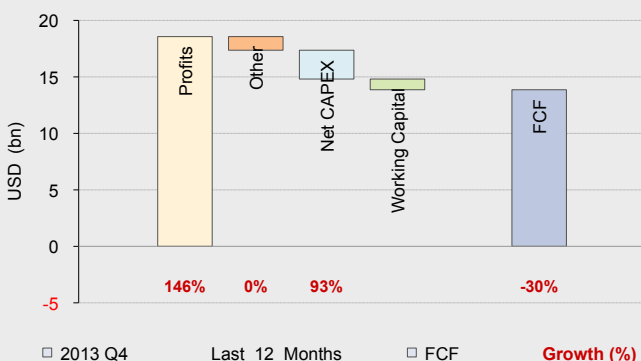
§ = EPS before share repurchases

"Other" = Other Income & Expenses

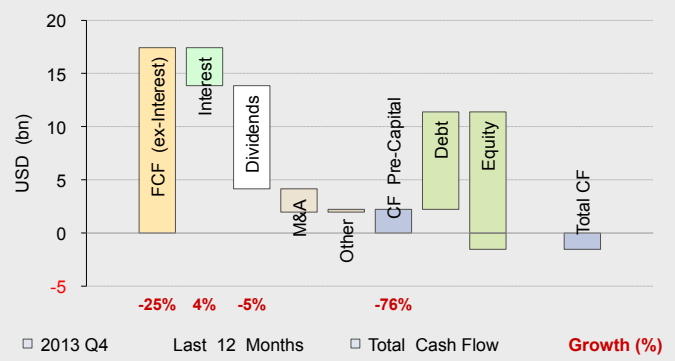
Equity = Share Issues / (Repurchases)

CF = Cash Flow

Free Cash Flows (FCF) - Last 12 Months

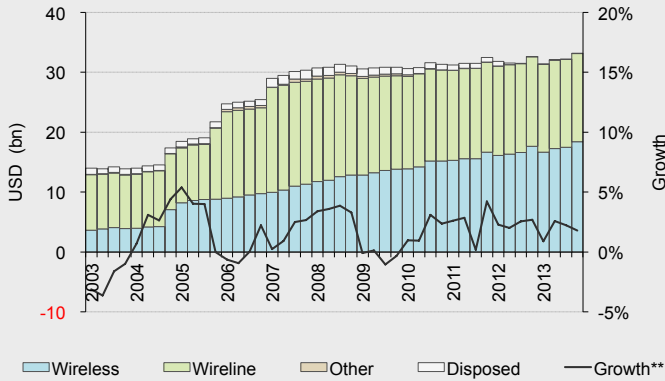


Total Cash Flows - Last 12 Months



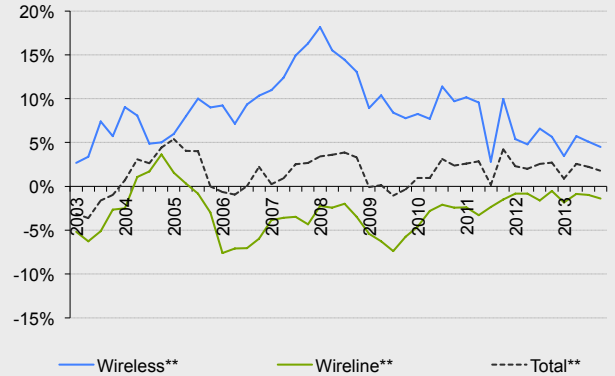
Historical Financial Results - Quarterly Analysis since 2003

Revenue by Division

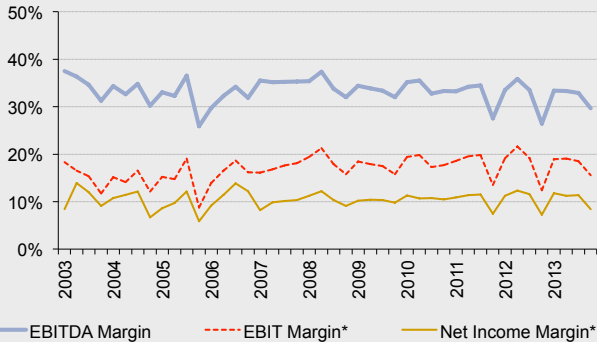


Growth** = Estimated revenue growth excluding major M&A.

Revenue Growth by Division

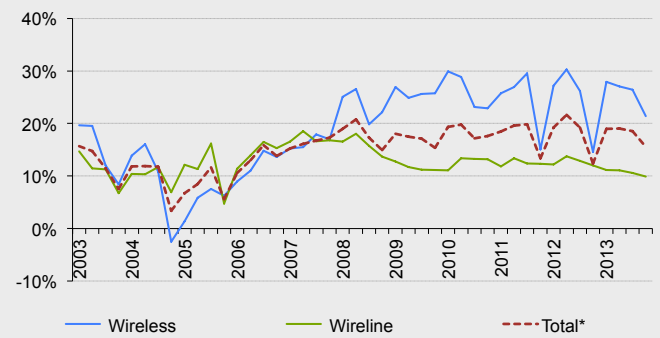


Profit Margins



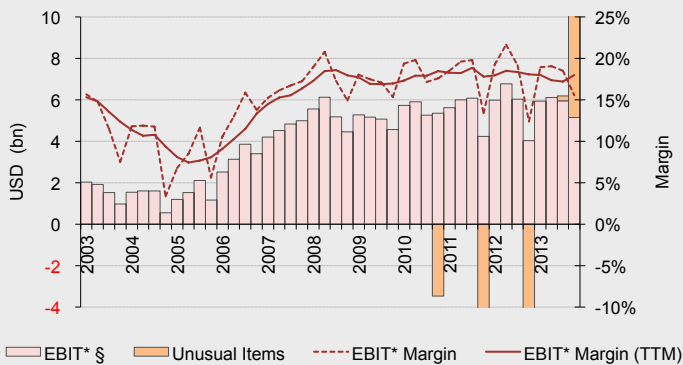
* = Excluding Unusual Items

EBIT Margins by Division



* = excludes Unusual Items.

EBIT* & EBIT* Margin



TTM = Trailing 12 Months

* = Excluding Unusual Items

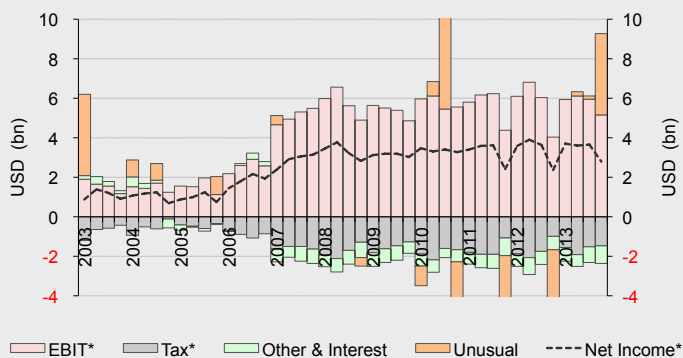
Key recent Unusual Items:

- 1) Q4 2013 includes a net \$4.1 bn, mostly from a pre-tax \$7.6 bn actuarial gain on retirement benefits.
- 2) Q3 2013, a \$231 m gain was made on the transfer of spectrum.
- 3) Q2 2013, a small gain was made on the sale of América Móvil shares.
- 4) Q4 2011, includes \$13.4 bn (pre-tax) charges for asset impairment of the directories business, pension charges & failed T-Mobile acquisition.
- 5) 2010, includes large pensions & severance costs, tax settlement (benefit), and losses on asset sales.

Notes

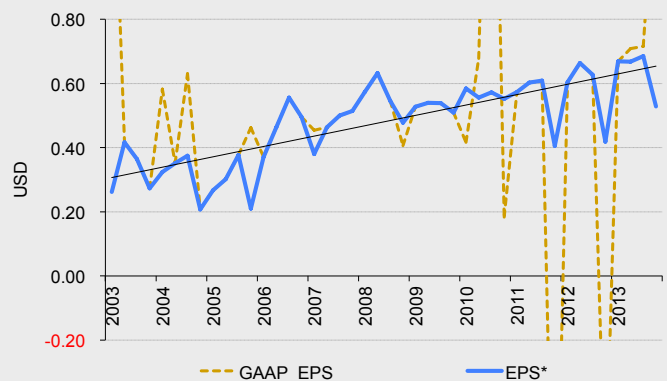
"Unusual" includes one-off, exceptional and extraordinary items. Most Unusual Items relate to acquisitions, disposals or restructurings. See the full report for more details of Unusual Items.

Net Income Analysis



"Other" includes non-operating items (eg. income from associates).

EPS* & GAAP EPS



Key Fundamental Drivers

Key long-term, fundamental share price drivers:

(Graph)

- i, ii Share price performance is driven primarily by the PE* ratio and dividends; and secondly by EPS* growth. Which is contrast to normal dynamics.
- iii - v EPS* depends primarily on y EBIT* growth. Since 2011, EPS has been boosted slightly by share repurchases & lower tax rates.
- vi See the full report.

PE
↓
Share
Price

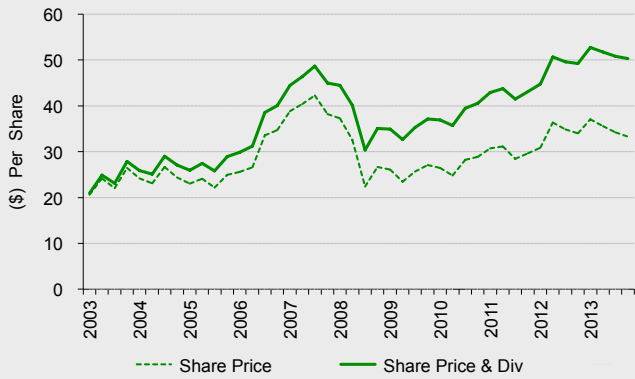
Analysis of fundamentals & EPS drivers:

- See the full report.
- See the full report.
- See the full report.

(see also analysis on next page)

* = Excludes Unusual Items

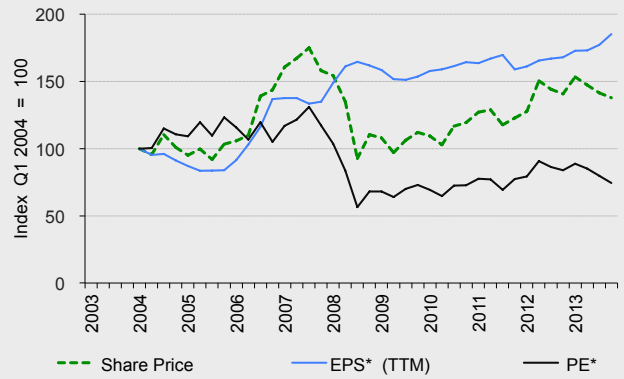
i Share Price & Dividend



§ = On a constant per share basis from Q1 2007.

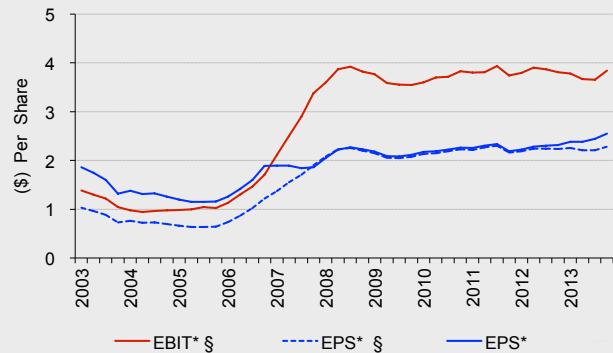
* = Excludes Unusual Items

ii Share Price, EPS & PE

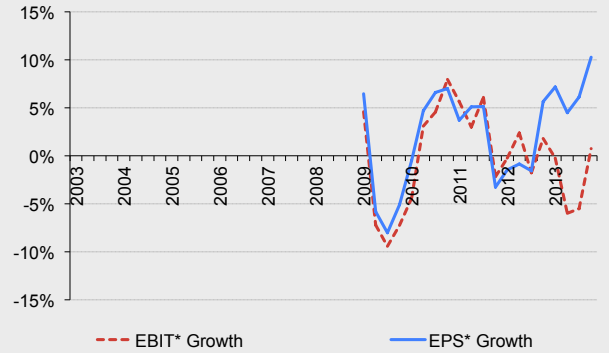


TTM = Trailing 12 months

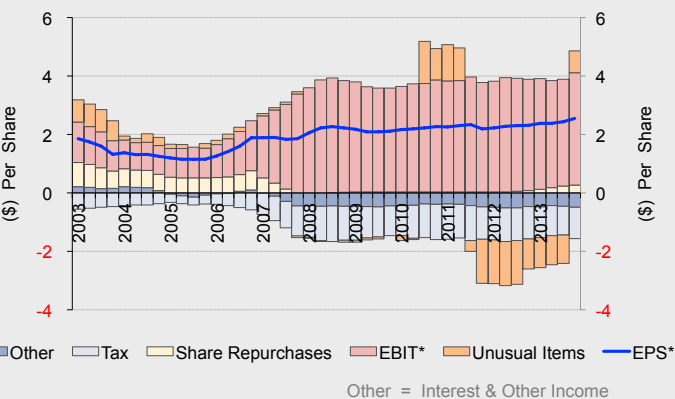
iii EBIT* & EPS* (TTM)



iv EBIT* & EPS* (TTM) Growth

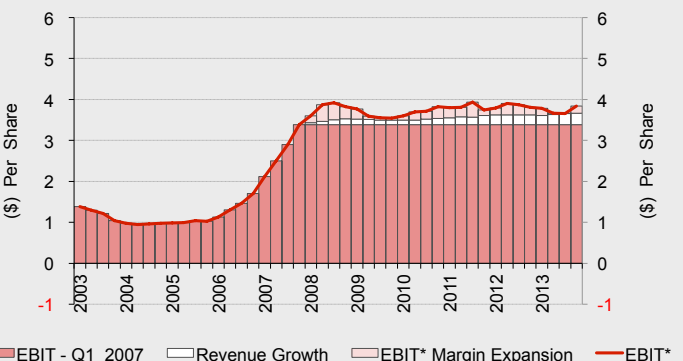


v EPS* \$ (TTM) Drivers



Other = Interest & Other Income

vi EBIT* \$ (TTM) Drivers



Key EBIT drivers since Q1 2007.

Valuation

Fundamental Valuation

See the full report.

Fundamental Valuation

§ = Estimates for next 12 Months

	Last 12 Months	Base Case §	Change (%)
Share Price (\$)	See the full report.		
Dividends Per Share (\$)	See the full report.		
Return (incl. div.)	See the full report.		
Key Forecasts:			
Revenue Growth	1.0%	1.5%	0.5%
EBIT* Margin	18.0%	17.5%	-0.5%
Tax Rate*	31.5%	31.5%	0.0%
EPS*	2.55	2.61	2.5%
P / Sales	See the full report.		
P / EBIT*	See the full report.		
PE*	See the full report.		

* = Excluding Unusual Items

Note: See the full Indigo report for a more detailed description of the fundamental valuation.

Fundamental Valuation Methodology

The potential returns under the three scenarios (Bear, Base, Bull Cases) of the Fundamental Valuation above is a calculation based on an estimated change in share price and dividends received. The share price is calculated by multiplying the forecast PE and EPS. In turn, the EPS is calculated based on forecast changes in revenue, EBIT margin, net interest, other income & tax rates, and adjusting for share repurchases. This approach is summarized by the formula:

$$\text{Return} = \text{Dividends} + \Delta \text{Share Price}$$

$$\text{Return} = \text{DPS} + (\Delta \text{PE} * \Delta \text{EPS})$$

$$\Delta \text{EPS} = (((\Delta \text{EBIT} + \Delta \text{Interest} + \Delta \text{Other Income}) * \Delta \text{Tax Rate \%}) / \text{Shares}) * \Delta \text{Shares}$$

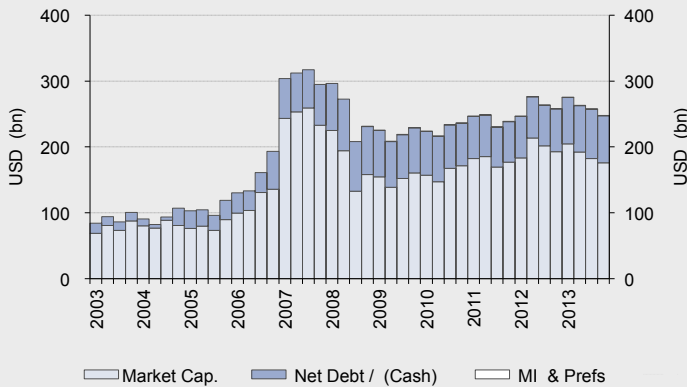
DPS = Dividends Per Share

Δ = Change in a variable

ie. Δ PE = Change in PE ratio

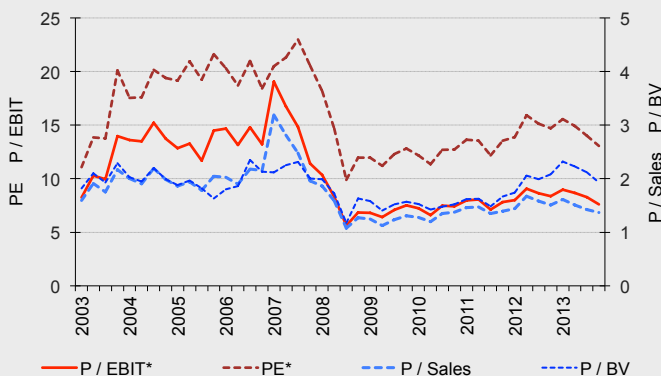
DISCLAIMER: The valuations and return calculations only illustrate the potential returns under the hypothetical conditions described and should not be relied upon for any investment decision. This is not an estimate of what we believe may occur, nor a price target nor a recommendation to buy or sell an investment.

Historical Enterprise Value (EV)



* = Excludes Unusual Items

Historical Valuation Multiples



DCF Valuation

Current Share Price (\$)	33.3
WACC	6.4%
→ DCF Valuation (\$)	See the full report.

Reality check:

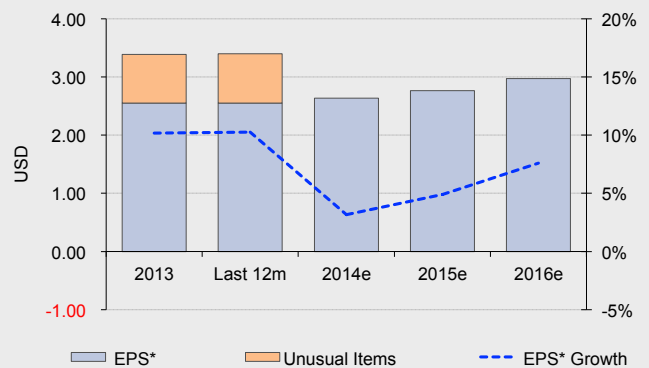
The current share price of \$33.31 and FCF in year 1 of \$2.36 imply the following ranges for FCF growth into perpetuity and WACC:

WACC	See the full report.
FCF Growth into perpetuity	See the full report.

DCF Formula: $PV = FCF / (WACC - g)$

Disclaimer: DCF valuation is only an illustration of potential valuation.

Consensus Forecasts - EPS



Contents of the Full "Company Profile" Equity Research Report

The full (53 page) Company Profile equity research report can be purchased from our website.
www.indigo-equity-research.com

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Explanations

Brief business description - AT&T

AT&T is one of the largest US integrated telecoms operator by revenues and a member of the S&P 500 index. Its major business lines include: wireline (fixed line) and wireless (mobile telephony), internet & IT services. The corporate headquarters are in Texas and AT&T mobility is based in Atlanta. It has c. 250,000 employees.

Explanation of Company Ratings used by Indigo Equity Research Ltd:

Industry View: ATTRACTIVE

Industry View = This is an assessment from an investor's perspective of the potential for the industry as a whole to generate profits in the future based on criteria such as: market structure (eg. number of competitors and industry concentration), growth prospects, maturity (stage of the industry life cycle), regulations, technology, disruptive forces, expected changes and speed of any changes.

Company Rating:

	LOW	MED.	HIGH
Risk			
Quality			
Valuation			

Risk = The risk of earnings disappointment & volatility as well as the risk of a change in the valuation ratios that impact the company's share price. This depends on items such as revenue growth, profit margin volatility, investor sentiment towards the company etc..... But this does not include the market risk of these elements changing.

Quality = The quality of the company reflects its ability to maintain or increase earnings from its competitive advantages, strategy, brand, management, market position, pricing power, services etc.....

Valuation = This is an absolute measure of valuation multiples of the company, based on a range of metrics (multiples) such as: P/Sales, PE, PEG, P/BV, P/FCF, EV/EBITDA, EV/Sales, Div Yield

Comment on Ratings: These qualitative assessments of "Company Ratings" are made for each company on a relative basis compared to other companies with large capitalizations; but are nonetheless subjective and dependent on the analyst's individual opinion & analysis of the company.

Financial definitions & abbreviations:

FCF = Free Cash Flow

Op FCF = Operating Free Cash Flow

EBIT = Earnings Before Interest & Tax

EBITDA = Earnings Before Interest, Tax, Depreciation & Amortisation

TTM = Trailing 12 Months

Last 12m = Last 12 months

y/e = (financial) year end

EV = Enterprise Value

P = (Share) Price

PE = Price / Earnings

PEG = PE / Growth

BV = Book Value

Div. = Dividend

EPS = Earnings Per Share

DPS = Dividends Per Share

Explanation of what constitutes an unusual or significant item: Indigo Equity Research determined what constituted "Unusual items" in this report on the basis of assessing what items were significantly or materially separate or different to the Company's core business and activities. This is a highly subjective assessment made by the analyst on a case-by-case basis.

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