



Vodafone Group PLC (VOD)

Updated May 29th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$9.40	5 Year CAGR Estimate:	4.0%	Market Cap:	\$25 B
Fair Value Price:	\$4.00	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	06/07/24
% Fair Value:	235%	5 Year Valuation Multiple Estimate:	-15.7%	Dividend Payment Date:	08/02/24
Dividend Yield:	10.5%	5 Year Price Target	\$7	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Vodafone Group began operations in 1984 as an early provider of cell phone service in the UK. Today, the company is one of the world's largest mobile communications providers, serving more than 650 million customers in 26 countries. Its immense scale and reach are evident in its ~\$47 billion in annual revenue and \$24 billion market capitalization. Vodafone is listed in both London and New York; we'll be referring to the New York-listed ADR in this report and all financials will be presented in U.S. dollars.

Vodafone posted fourth quarter and full-year earnings on May 14th, 2024, and results were somewhat weak. The company posted adjusted earnings-per-share of eight cents for the fourth quarter, while full-year earnings came to 81 cents per share. Revenue was off 2.5% year-over-year to \$39.8 billion in Q4.

Adjusted free cash flow fell 37.2% to \$2.8 billion for the year, which fell from \$4.5 billion in fiscal 2023. Adjusted EBITDAaL, which is a pro forma profit measure Vodafone tracks, was up 2.2% on an organic basis as good service revenue progress was partially offset by higher energy costs.

Cash and equivalents were \$10.2 billion at the end of the quarter, down from almost double that a year ago. Vodafone noted it was selling units in Spain and Italy for proceeds of about \$13 billion in aggregate, which it intends to spend on buybacks of common stock in amounts up to ~\$6.5 billion in the coming quarters. Should these buybacks occur, that could be a significant tailwind to earnings-per-share.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$0.85	\$0.73	\$0.86	\$1.43	-\$3.21	\$0.70	\$0.99	\$1.14	\$1.16	\$0.81	\$0.40	\$0.70
DPS	\$1.82	\$1.71	\$1.53	\$1.77	\$1.77	\$0.96	\$1.08	\$1.04	\$0.98	\$0.99	\$0.99	\$0.81
Shares¹	2,651	2,656	2,662	2,668	2,668	2,668	2,649	2,869	2,699	2,708	2,700	2,700

Looking forward, we think Vodafone will struggle to grow given that its core markets are producing low single-digit revenue growth, as well as higher rates of profit growth. In addition, it has significant operations in growth areas, which has helped drive rest of world revenue growth in recent years. While the easy gains have been made, management commentary suggests there is more margin expansion coming, further enhancing its earnings-per-share growth profile. The cost savings program the company has in place has the potential to boost margins and free cash flow generation as well. This will likely be used to deleverage further in the coming years. The company's portfolio transformation efforts are well underway, which is creating lumpy results. We note the buyback has the chance to see a massive tailwind to earnings-per-share, but it's just an idea at this point given the reliance upon divestitures.

Vodafone's somewhat irregular dividend policy has, at times, caused shareholders to wonder what the next payout will be. That is still the case, with the fiscal 2020 dividend cut heightening the volatility in the payout, as well as reducing investor confidence. We see the dividend as potentially declining in the coming years from the current level of \$0.99 per share annually, but Vodafone's payout has proven quite unpredictable. It is also declared in euro and paid in US dollars for US investors, so there is an element of currency risk as well.

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	40.3	46.3	33.4	20.4	---	26.1	16.1	14.6	9.5	10.9	23.5	10.0
Avg. Yld.	5.3%	5.1%	5.3%	6.1%	7.9%	5.2%	6.8%	6.3%	8.9%	11.3%	10.5%	11.5%

Vodafone's price-to-earnings multiple has moved around a lot due to changes in its business, but we see fair value at 10 times earnings. As the stock is currently trading for 23.5 times earnings for this year, we expect a strong headwind to total returns from the valuation. The yield has declined slightly since our last report and stands at 10.5%, which is high both for Vodafone, and against the broader market.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	---	---	124%	---	137%	109%	91%	84%	82%	248%	115%

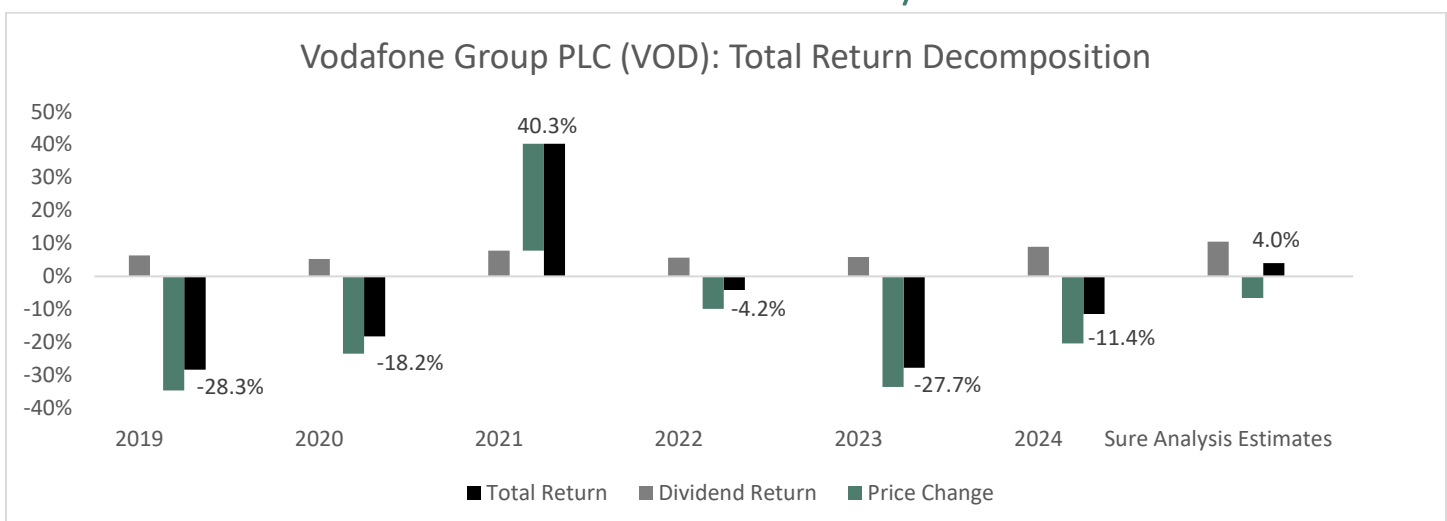
Vodafone's dividend is a source of great interest from investors. Earnings are not expected to cover the payout this year, so dividend safety remains at the forefront. We note that Vodafone has other sources of liquidity to pay the dividend other than earnings, but cannot help but think a cut will be necessary. We forecast the dividend to be lower for the foreseeable future as management is choosing instead to tackle some of its debt issues, but we note that the lower earnings estimates have us doubting the safety of the current payout.

Vodafone's competitive advantage is in its enormous global scale and willingness to take risks to grow via bold acquisitions; the strategy has worked in the past and we think it will continue to work. Vodafone is not immune to recessions but being a utility provider, it does offer some safety from economic downturns. We see the company's resilience in a very challenging environment this year as attractive from a safety perspective.

Final Thoughts & Recommendation

Overall, Vodafone could be a reasonable choice for high-yield dividend investors. However, with low earnings forecast for this year, we are estimating 4% annual total returns for the coming years. We see the fundamentals of the company as having a long way to improve, but the yield is excellent at 10.5%. The company's debt remains a problem, and has us taking a cautious stance on the stock. Deleveraging may help improve its growth profile eventually, but for now, we're reiterating our hold rating with the 15.7% valuation headwind taken into account.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	62,202	61,443	54,962	52,261	54,713	50,580	49,990	51,133	52,993	47,626
Gross Profit	16,877	16,905	14,452	14,324	16,213	15,644	15,886	16,017	17,446	15,480
Gross Margin	27.1%	27.5%	26.3%	27.4%	29.6%	30.9%	31.8%	31.3%	32.9%	32.5%
SG&A Exp.	11,806	13,988	12,118	10,796	10,723	10,774	10,697	10,355	10,546	9,817
D&A Exp.	12,263	14,106	12,907	12,164	12,229	11,346	15,755	16,458	16,097	14,190
Operating Profit	3,908	2,732	2,018	4,682	5,740	4,699	9,947	6,325	6,992	15,143
Op. Margin	6.3%	4.4%	3.7%	9.0%	10.5%	9.3%	19.9%	12.4%	13.2%	31.8%
Net Profit	96,118	9,243	(5,964)	(6,909)	2,865	(9,290)	(1,023)	131	2,428	12,335
Net Margin	154.5%	15.0%	-10.9%	-13.2%	5.2%	-18.4%	-2.0%	0.3%	4.6%	25.9%
Free Cash Flow	(805)	3,214	500	5,883	6,388	5,594	10,864	10,009	10,488	9,212
Income Tax	(26,898)	(7,709)	5,448	5,227	(1,033)	1,733	1,389	4,510	1,546	501

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	203	184	192	165	180	160	185	182	172	170
Cash & Equivalents	16,868	10,310	12,804	8,232	5,763	13,762	14,953	6,824	8,366	12,764
Acc. Receivable	6,037	12,065	6,308	5,314	6,124	5,279	4,857	4,796	4,578	4,191
Inventories	734	722	811	616	716	802	660	792	933	1,042
Goodwill/Int.	77,712	64,448	66,372	49,392	53,332	46,049	59,569	62,775	59,427	51,476
Total Liab. (\$B)	83	82	95	87	95	89	116	114	108	99
Accounts Payable	7,840	22,337	8,409	6,638	7,625	7,346	7,385	7,900	8,178	8,355
Long-Term Debt	48,605	52,524	64,995	49,770	51,068	59,468	63,436	63,029	60,984	52,494
Total Equity (\$B)	118	99	94	77	83	70	68	65	61	69
LTD/E Ratio	0.41	0.53	0.69	0.65	0.61	0.85	0.94	0.96	1.00	0.76

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	46.5%	4.8%	-3.2%	-3.9%	1.7%	-5.5%	-0.6%	0.1%	1.4%	7.2%
Return on Equity	84.9%	8.5%	-6.2%	-8.1%	3.6%	-12.1%	-1.5%	0.2%	3.8%	18.4%
ROIC	57.1%	5.7%	-3.8%	-4.8%	2.2%	-7.0%	-0.8%	0.1%	1.9%	10.0%
Shares Out.	2,644	2,651	2,656	2,662	2,668	2,668	2,668	2,649	2,911	2,778
Revenue/Share	23.31	23.07	20.59	18.68	19.64	18.32	16.99	17.23	18.20	17.15
FCF/Share	(0.30)	1.21	0.19	2.10	2.29	2.03	3.69	3.37	3.60	3.32

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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