Is CenturyLink a Buy?

### Description

You’re not likely to win the Miss Congeniality sash in a year in which you whack your dividend by more than half and serve up negative year-over-year revenue growth across all five of your business units. **CenturyLink** (NYSE: CTL) isn’t at its best right now, just like many of the independent local exchange carriers that are facing an uphill battle against a stiff breeze.



However, there’s also a reasonable bullish argument to be made that the stock — down 44% over the past year — has taken a bigger hit than the business’s fundamentals have. A lot of the near-term storm clouds seem to be priced into the shares, making it a tempting stock purchase for an income investor with an elevated risk tolerance. CenturyLink is calling, even if there aren’t a lot of investors feeling brave enough to answer.

## Speed dialing

There’s more to an income-generating investment than a juicy 7.9% yield, but that’s just the siren calling investors out to sea when it comes to CenturyLink these days. With low rates on traditional fixed-income vehicles and the S&P 500 commanding a yield just shy of 2%, it’s easy to see why CenturyLink might seem initially inviting among dividend stocks.

A closer look is initially pretty daunting. The provider of residential and enterprise communications services is struggling on both fronts. Consumers and businesses are turning to more high-tech or in some cases cheaper communication solutions, and that’s a drag for CenturyLink. Organic revenue has been sliding for years. The only time CenturyLink has reported top-line results moving higher seems to be when it has made a needle-moving acquisition like the $34 billion deal for Level 3 that closed in late 2017.

The good news is that CenturyLink continues to be profitable. Reducing its quarterly distributions per share from $0.54 to $0.25 earlier this year was greeted by another exodus of shareholders, but the result is that 2019 will likely be the first year since 2010 that its payout ratio stays below 100%. CenturyLink is still generating healthy free cash flow, and it announced earlier this year that it expects to score another $800 million to $1 billion of annualized synergies and transformation initiatives in the next three years.

CenturyLink has beaten Wall Street profit expectations in each of the past three quarters, and analyst estimates have been creeping higher over the summer. The long-term trend remains dicey, but a stock shedding nearly half its value over the past year when revenue declined by just 5% in its latest quarterly report seems like an overreaction to a dividend cut that was as necessary as it was overdue. This isn't a stock you buy and forget about for five years, but if we're looking a year out, it's easy to see how it can beat the market as it gets priced more fairly given its current situation. CenturyLink isn't the stock you'll want to marry for the rest of your life, but it could serve income-seeking investors with an interesting yet risky bounce in the near term.

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