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CenturyLink, Inc.

CenturyLink: Playbook on Track, Stay the Course, PT to \$25

 Stock Rating
Overweight

 Industry View
In-Line

 Price Target
\$25.00

We think CenturyLink remains in the early stages of its transformation, and is positioned to outperform, despite the 74% total return from its 11/27/17 low. Skeptics suggest near-term revenue trends are foreboding, but we think near-term revenue misses the bigger picture: robust FCF/EBITDA growth.

WHAT'S CHANGED

CenturyLink, Inc. (CTL.N)	From	To
Price Target	\$21.60	\$25.00

No longer early, but still not too late. In March 2017, we were too early with our Overweight rating on CenturyLink, as disappointing 2017 performance at legacy CenturyLink clouded the outlook for the pro forma company. Since closing the Level 3 transaction (11/2/17), CenturyLink appears to have found its footing in the early stages of its integration. The stock has reacted accordingly, (+42% TR YTD, + 74% TR since 11/27/17 low post Level 3 close), but we think more upside remains. We believe the key to unlocking that upside is 1) accelerating margin expansion to drive EBITDA & FCF/share growth, and 2) positioning the company for revenue stability/growth by grooming "empty calorie" revenue. While the latter pressures revenue in the near/medium term, ultimately, it should also pull forward the inflection point in revenue performance. Moreover, aggressively managing the revenue base should allow the company to focus attention and resources on its more profitable revenue streams, thereby improving the LT EBITDA/FCF trajectory. In this vein, we were very encouraged to see the company boost 2018 EBITDA and FCF guidance by 3% and 14% respectively with 2Q earnings

EBITDA/FCF performance should overshadow lackluster revenue, at least for now. Heading into 2018, we believed CenturyLink's performance would revolve around the outlook for dividend sustainability. At the beginning of the year, bears argued that CenturyLink might not have to cut the dividend in 2018 or in 2019, but CenturyLink should cut the dividend in order to accelerate network investments, and avoid a similar fate that befell Frontier's and Windstream's dividends. Following strong 1H18 results, and the benefit of 1x working capital tailwinds (primarily tax refunds), CenturyLink's dividend payout is expected to be ~62% at the midpoint of the company's revised 2018 guidance, and the calls to cut the dividend have dissipated.

Instead, bears have now turned their attention to the disappointing revenue

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CenturyLink, Inc. (CTL.N, CTL US)

Telecom Services / United States of America

Stock Rating	Overweight			
Industry View	In-Line			
Price target	\$25.00			
Shr price, close (Aug 14, 2018)	\$22.36			
Mkt cap, curr (mm)	\$23,991			
52-Week Range	\$22.36-13.17			
Fiscal Year Ending	12/17	12/18e	12/19e	12/20e
EPS, basic (\$) **	2.40	0.84	1.23	1.51
ModelWare EPS (\$)	2.36	0.79	1.18	1.46
P/E	7.1	28.3	19.0	15.3
Div yld (%)	12.9	9.7	9.7	9.7

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

** = Based on consensus methodology

e = Morgan Stanley Research estimates

QUARTERLY MODELWARE EPS (\$)

Quarter	2017	2018e Prior	2018e Current	2019e Prior	2019e Current
Q1	0.83	-	0.36a	-	-
Q2	0.03	-	0.27a	-	-
Q3	0.17	0.18	0.21	-	-
Q4	1.39	0.22	0.25	-	-

e = Morgan Stanley Research estimates, a = Actual Company reported data

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performance. Indeed, our 2018 revenue forecast is now 2% below where consensus started in 2018. But we think the focus on revenue is misplaced, at least during the initial stages of the integration. Starting with removing revenue from its guidance, CenturyLink's new management team made it very clear the company would be focused on EBITDA + FCF/share growth, and not managing towards a specific revenue target. To quote CEO Jeff Storey: *"We're focused on driving profitable growth, continuing to capture synergies and taking advantage of the cost and customer experience transformation opportunities we see. We will continue investing in the business to drive future growth and free cash flow per share."*

While we now model lower revenue in 2018-2020, our longer term estimates are largely unchanged, and we now expect CenturyLink to stabilize revenue in 2022 (we previously had negative revenue continuing through 2023). More importantly, our EBITDA estimates have increased, as we have given CenturyLink credit for its faster synergy realization. Our revised EBITDA estimates remain in-line with management's targets of 500-700 bps of margin expansion within 3-5 years.

Valuation remains compelling. At a 9.7% dividend yield, a 430 bps spread to the Bells, despite a similar payout profile, we think the risk-reward remains attractive. The average spread over the last five years has been 320 bps, up from 200 bps when we upgraded the stock in March 2017. Our new \$25 price-target represents a 8.6% dividend yield, which is a ~375 bps spread vs the Bells at our price targets. This corresponds to a 12.5% 2019e FCF yield, and a 6.9x 2019e EV/EBITDA, which approximates the average of the Bells (6.8x), the RLECs (5.5x) and cable (8.1x).

Where we could be wrong. Rising interest rates combined with leverage of over 4x add risk should integration hiccups present themselves. Further, if revenue challenges are more severe than expected, EBITDA and FCF growth could roll over once the merger synergies begin to fade. Finally, cable has seen the most success at the low end of the SME market, but could continue to move up market and challenge the incumbents. While we see 25% total return to our new \$25 price target, investors should note that we have already seen material outperformance this year, especially following the recent earnings print.

Related Research:

[CenturyLink, Inc.: It is all about FCF and EBITDA \(9 Aug 2018\)](#)

[CenturyLink Doubling Down - Risk-Reward Attractive Heading into 2018 \(13 Dec 2017\)](#)

[CenturyLink, Inc.: Resuming Coverage: Synergies + NOLs Support FCF and Dividend \(29 Mar 2017\)](#)

CenturyLink Risk Reward**Risk-Reward Snapshot: CenturyLink, Inc. (CTL, Overweight)**

Source: Morgan Stanley Research, Thomson Reuters.

Price Target \$25.00

Our price target is based on dividend yield and EV/EBITDA.

Bull \$36.00**6% div yld (+100 bps v. Bells). 9.7% FCF yield (2019 \$3.50 FCF/share)**

Seamless Integration Yields Synergy Upside – CenturyLink integrates Level 3 without a hitch, and realizes \$600m in opex synergies in 2018 in addition to \$100m in capex synergies, and FCF/share approaches ~\$3.10 in 2019. High bandwidth data services revenue growth accelerates to 5%, and the valuation starts to converge with Bells & other enterprise focused companies. The payout ratio declines below 60% in 2019, putting concerns about the dividend to rest

Base \$25**8.6% div. yld (+375 bps v Bells). ~7x PF 2019e EV/EBITDA.**

Growing Comfort Dividend – CenturyLink delivers on its guidance to grow FCF, helping the market gain confidence in dividend sustainability. Revenue declines at a -0.7% CAGR between 2018-2023, but EBITDA grows at a 1% CAGR, helped by deal synergies (\$310m/\$595m in 2018/2019). With stable capital intensity around 16%, CenturyLink is able maintain a payout ratio below 70% through 2021. Leverage decreases from 4.2x in 2017, to 3.5x by 2021.

Bear \$14.50**15% div yld, ~5.6x 2019e EV/EBITDA**

Acquisition Drama – Integration challenges put pressure on legacy business and enterprise revenue, and both strategic and legacy revenue trends worsen, as cable beings to move up market in SMB/enterprise. As a result, EBITDA declines at a 6% CAGR between 2018 and 2020. CenturyLink is forced to cut the dividend in half to control leverage, and the stock trades at a 10% yield

Investment Thesis

■ CenturyLink has the highest yield (~10%) in the S&P 500, but we think trends should improve as the company integrates recently acquired Level 3. With three-quarters of the revenue coming from enterprise/business customers, we think CenturyLink's valuation can start to diverge from RLEC peers. CenturyLink recently realigned its business, which it expects to accelerate growth by driving faster decision making, improving market responsiveness, and increasing accountability. In consumer, broadband subscriber trends have disappointed for three years in a row, but we believe CenturyLink's current strategy to focus on higher ARPU customers will result in improved churn overtime. Moreover, recent results suggest CenturyLink can grow broadband revenue even with declining subs. Overall, we think the Level 3 merger can help transform CenturyLink into a more stable business with growing FCF, driven by opex + capex synergies, and the cash tax savings from Level 3 NOLs. If CenturyLink is able to execute on its integration plans, we would expect the stock to re-rate towards a more normalized historical valuation (200-300 bps yield spread to Bells).

Potential Catalysts

- Quarterly results / synergy updates
- Lawsuit resolution
- Revenue improvement, line loss trends, and broadband adds
- REIT transaction (longer term)
- Share repurchases (longer-term)

Potential Risks

- LVL integration challenges
- Cable competition (90%+ overlap)
- Macro pressure on enterprise revenue
- Cloud price cuts from Amazon, Google, and Microsoft
- Margin pressure from revenue mix shift
- Pension/OPEB obligations

CenturyLink 2Q18 Variance Table

Exhibit 1: 2Q18 Variance Table

	2Q17	1Q18	MSe 2Q18	Actual 2Q18	Diff Pos./ (Neg.)	Consensus 2Q18
CENTURYLINK FINANCIAL METRICS						
Revenue	6,040	5,945	5,930	5,902	-28	5,921
% Growth (Y/Y)		-1.7%	-1.8%	-2.3%	-47 bps	-2.0%
Adj. EBITDA	1,442	2,181	2,236	2,271	35	2,207
% margin	23.9%	36.7%	37.7%	38.5%	78 bps	37.3%
% Growth (Y/Y)	na	na	na	na	0 bps	na
Capex (\$M)	830	805	961	771	-190	959
% capital intensity	13.7%	13.5%	16.2%	13.1%	-314 bps	16.2%
Free Cash Flow (\$M)	-144	862	687	919	232	
% Growth (Y/Y)	na	na	na	na	0 bps	
SEGMENT DETAILS						
SMB	893	860	851	884	33	
Enterprise	1,296	1,315	1,336	1,295	-41	
International	911	937	942	903	-39	
Wholesale	1,319	1,271	1,257	1,283	26	
Consumer	1,436	1,379	1,361	1,352	-9	
Regulatory	185	183	183	185	2	
SUBSCRIBER DETAILS						
Broadband Net adds (K)	-65	-58	-80	-80	0	

Source: Company data, Morgan Stanley Research

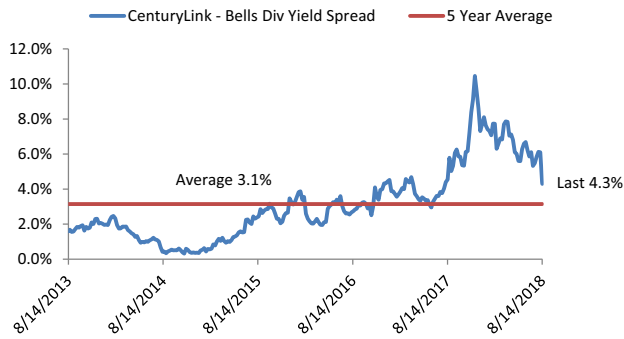
Exhibit 2: MS vs 2018 Guidance

	Low	High	Midpt	MS
Adj. EBITDA	\$9,000	\$9,150	\$9,075	\$9,050
FCF	\$3,600	\$3,800	\$3,700	\$3,702
Payout Ratio	64%	61%	62%	62%
Capex	\$3,650	\$3,750	\$3,700	3,693

Source: Company data, Morgan Stanley Research

CenturyLink Charts

Exhibit 3: CenturyLink trades at a significantly wider dividend yield than the Bells



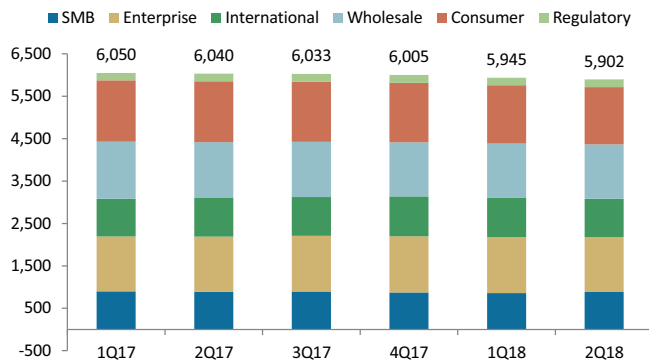
Source: Company data, Morgan Stanley Research

Exhibit 4: CenturyLink has the highest yield in the S&P 500



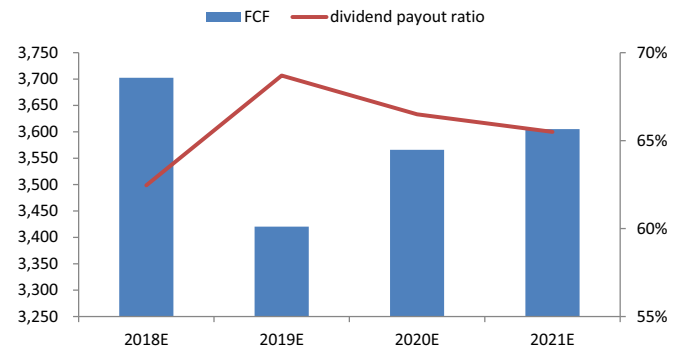
Source: Company data, Morgan Stanley Research, Thomson Reuters, Priced 8/13/18

Exhibit 5: Enterprise/commercial revenue represents ~75% of total



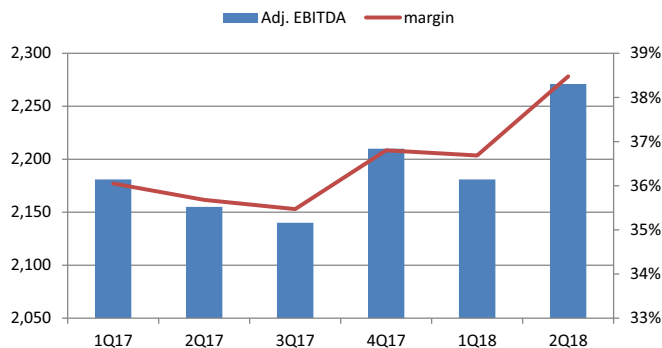
Source: Company data, Morgan Stanley Research

Exhibit 6: We think the payout ratio looks sustainable over the next few years



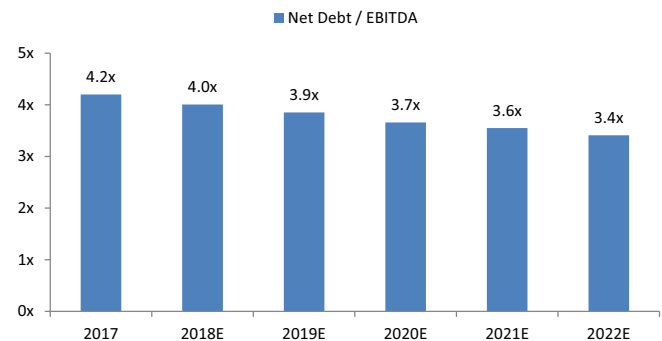
Source: Company data, Morgan Stanley Research

Exhibit 7: Margins increased 280bps Y/Y as merger synergies ramped to 80% of target



Source: Company data, Morgan Stanley Research

Exhibit 8: We expect leverage to decline below 4x next year



Source: Company data, Morgan Stanley Research

Valuation

Exhibit 9: We believe CenturyLink should trade at a premium to the legacy RLECs, but a discount to cable and fiber peers

2019 EV / EBITDA (consensus)			
RLECs/RBOCs		Cable	
Frontier	5.1x	Comcast	7.2x
Windstream	5.5x	Charter	8.9x
Consolidated	6.0x	Altice US	8.1x
Average	5.5x	Average	8.1x
Fiber		CenturyLink	
Zayo	10.9x	CTL @ Current Px (\$22)	6.6x
Cogent	14.0x	CTL @ \$25 PT	6.9x
Cincinnati Bell	6.1x		
Average	10.3x		
Bells			
AT&T	6.8x		
Verizon	6.8x		
Average	6.8x		

Source: Company data, Morgan Stanley Research. Note: Estimates are based on Thomson Reuters consensus

Exhibit 10: CenturyLink's current trades at an attractive valuation

Current Valuation	
'18 EV/EBITDA	6.7x
'19 EV/EBITDA	6.6x
'20 EV/EBITDA	6.5x
'18 P/E	20.4x
'19 P/E	16.8x
'20 P/E	15.0x
'18 FCF Yield	15.0%
'19 FCF Yield	13.9%
'20 FCF Yield	14.5%

Source: Company data, Morgan Stanley Research

Exhibit 11: We expect CenturyLink's valuation to continue to diverge from RLECs

	EV / EBITDA			Dividend Yield			Free Cash Flow Yield		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
CenturyLink	6.7x	6.6x	6.5x	9.7%	9.7%	9.7%	15.0%	13.9%	14.5%
Frontier	4.9x	5.1x	5.2x	na	na	na	124.6%	144.3%	139.0%
Windstream	4.7x	4.8x	5.0x	na	na	na	6.0%	19.5%	17.9%
Cincinnati Bell	5.3x	4.8x	4.7x	na	na	na	na	0.6%	7.9%
AT&T	6.4x	5.8x	5.7x	6.2%	6.3%	6.5%	10.9%	11.7%	12.2%
Verizon	7.1x	7.0x	6.9x	4.5%	4.6%	4.7%	8.2%	8.9%	9.1%
	Y/Y Revenue Growth			Y/Y EBITDA Growth			EBITDA Margins		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
CenturyLink	-2.9%	-1.9%	-1.1%	4.1%	1.4%	1.9%	38.6%	39.9%	41.1%
Frontier	-5.9%	-2.5%	-1.9%	-3.0%	-2.6%	-2.1%	41.6%	41.6%	41.5%
Windstream	-4.9%	-2.6%	-2.0%	-3.8%	-3.0%	-2.4%	22.9%	22.8%	22.7%
Cincinnati Bell	1.5%	11.8%	-0.6%	25.5%	10.1%	1.4%	27.5%	27.1%	27.6%

Source: Company data, Morgan Stanley Research. Note estimates based on MSE

Financials

Exhibit 12: What's Changed

	New 2Q18	MSe			Old 2Q18	MSe			Difference			
		2018E	2019E	2020E		2018E	2019E	2020E	2Q18	2018E	2019E	2020E
FINANCIAL METRICS												
Total Revenue	5,902	23,445	23,175	22,926	5,930	23,683	23,359	23,086	-28	-237	-184	-160
SMB	884	3,525	3,391	3,276	851	3,384	3,255	3,144	33	142	136	132
Enterprise	1,295	5,181	5,336	5,485	1,336	5,381	5,542	5,697	-41	-200	-206	-212
International	903	3,610	3,718	3,811	942	3,776	3,889	3,987	-39	-166	-171	-175
Wholesale	1,283	5,037	4,845	4,666	1,257	5,001	4,776	4,565	26	36	70	100
Consumer	1,352	5,354	5,142	4,943	1,361	5,409	5,161	4,953	-9	-55	-19	-10
Regulatory	185	738	742	745	183	732	736	739	2	6	6	6
Adj. EBITDA	2,271	9,050	9,262	9,385	2,236	8,851	9,127	9,269	35	200	135	117
% Margin	38.5%	38.6%	40.0%	40.9%	37.7%	37.4%	39.1%	40.1%	78 bps	123 bps	89 bps	79 bps
Capex (\$M)	771	3,693	3,708	3,668	961	3,667	3,738	3,694	-190	26	-30	-26
% of Revenues	13.1%	15.7%	16.0%	16.0%	16.2%	15.5%	16.0%	16.0%	-314 bps	27 bps	0 bps	0 bps
FCF (as calc by CTL)	811	3,702	3,420	3,566	687	3,390	3,179	3,391	124	312	241	175
Dividend Payout %	71.5%	62.5%	68.7%	66.5%	84.4%	68.3%	74.1%	70.1%	-1,285 bps	-589 bps	-537 bps	-358 bps
SUBSCRIBER METRICS												
Broadband Net Adds	-80	-223	-80	-25	-80	-223	-80	-25	0	0	0	0

Source: Company data, Morgan Stanley Research

Exhibit 13: CenturyLink: Income Statement (\$MM)

INCOME STATEMENT (\$MM)	2016	2017	2018E	2019E	2020E	CAGR '18 - '23	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18E	4Q18E
Total revenues	17,470	18,338	23,419	22,971	22,727	-0.5%	4,209	4,090	4,034	6,005	5,945	5,902	5,818	5,753
% growth	-2.4%	na	na	-1.9%	-1.1%		-4.4%	-7.0%	-7.9%	na	na	na	na	na
% growth q/q							-1.9%	-2.8%	-1.4%	48.9%	-1.0%	-0.7%	-1.4%	-1.1%
Cash Opex	11,221	12,174	15,030	14,132	13,618	-2.5%	2,698	2,774	2,637	4,065	3,912	3,845	3,701	3,573
% growth	2.3%	8.5%	23.5%	-6.0%	-3.6%		-1.4%	0.4%	-5.6%	38.9%	45.0%	38.6%	40.3%	-12.1%
% revenues	64.2%	66.4%	64.2%	61.5%	59.9%		64.1%	67.8%	65.4%	67.7%	65.8%	65.1%	63.6%	62.1%
Cost of services and products	7,774	8,543	10,787	10,199	9,897	-2.3%	1,888	1,890	1,927	2,838	2,803	2,730	2,665	2,589
% of revenues	44.5%	46.6%	46.1%	44.4%	43.6%		44.9%	46.2%	47.8%	47.3%	47.1%	46.3%	45.8%	45.0%
SG&A	3,447	3,631	4,244	3,933	3,720	-3.0%	810	884	710	1,227	1,109	1,115	1,036	984
% of revenues	19.7%	19.8%	18.1%	17.1%	16.4%		19.2%	21.6%	17.6%	20.4%	18.7%	18.9%	17.8%	17.1%
Depreciation and amortization	3,916	4,040	5,180	5,077	4,975	-2.4%	880	949	910	1,301	1,283	1,290	1,299	1,308
% growth	-6.5%	3.2%	28.2%	-2.0%	-2.0%		-9.8%	-3.9%	-8.5%	35.8%	45.8%	35.9%	42.8%	0.5%
Total expenses	15,137	16,214	20,211	19,208	18,593		3,578	3,723	3,547	5,366	5,195	5,135	5,000	4,881
% growth	-0.1%	7.1%	24.6%	-5.0%	-3.2%		-3.6%	-0.7%	-6.4%	38.2%	45.2%	37.9%	41.0%	-9.0%
% revenues	86.6%	88.4%	86.3%	83.6%	81.8%		85.0%	91.0%	87.9%	89.4%	87.4%	87.0%	85.9%	84.8%
Total operating income	2,333	2,124	3,208	3,763	4,134	8.9%	631	367	487	639	750	767	819	872
% growth	-15.0%	-9.0%	51.1%	17.3%	9.9%		-8.3%	-43.3%	-17.9%	57.8%	18.9%	109.0%	68.1%	36.5%
% margin	13.4%	11.6%	13.7%	16.4%	18.2%		15.0%	9.0%	12.1%	10.6%	12.6%	13.0%	14.1%	15.2%
Other Cash Opex Adjustments	264	418	652	325	225		21	126	0	271	148	214	155	135
EBITDA (Adj. OCF)	6,513	6,582	9,040	9,164	9,334	1.7%	1,532	1,442	1,397	2,211	2,181	2,271	2,273	2,316
Y/Y % growth	-6.1%	1.1%	37.4%	1.4%	1.9%		-9.0%	-12.5%	-12.5%	39.5%	42.4%	57.5%	62.7%	4.7%
Q/Q % growth							-3.3%	-5.9%	-3.1%	58.3%	-1.4%	4.1%	0.1%	1.9%
% margin	37.3%	35.9%	38.6%	39.9%	41.1%		36.4%	35.3%	34.6%	36.8%	36.7%	38.5%	39.1%	40.2%
SYNERGIES	75	893	1,020	1,148	1,148		75	215	675	808	893	956	1,052	1,148
% Annualized Run rate			105%	120%	135%			9%		25%	79%	95%	105%	120%
Interest expense	(1,318)	(1,481)	(2,136)	(2,079)	(2,036)	-2.4%	(318)	(320)	(362)	(481)	(535)	(546)	(529)	(525)
Other income and expense	5	12	57	57	57		(6)	(7)	14	11	21	16	10	10
Income before taxes	1,020	655	1,130	1,741	2,155		307	40	139	169	236	237	300	357
Income tax expense	(394)	849	(230)	(418)	(517)		(144)	(23)	(47)	1,063	(121)	55	(75)	(89)
% PBT (implied tax rate)	38.6%	-129.6%	20.4%	24.0%	24.0%		46.9%	57.5%	33.8%	-629.0%	51.3%	-23.2%	25%	25%
% Statutory Tax Rate	35.0%	35.0%	24.0%	24.0%	24.0%		35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	25.0%	25.0%
Net income (total)	626	1,504	900	1,323	1,638	21.0%	163	17	92	1,232	115	292	225	268
Noncontrolling interests	0	0	0	0	0									
NI (loss) to common shareholders	626	1,504	900	1,323	1,638		163	17	92	1,232	115	292	225	268
% growth	-39.5%	140.3%	-40.2%	47.1%	23.8%		-30.9%	-91.3%	-39.5%	2833.3%	-29.4%	1617.6%	144.2%	-78.3%
% margin	3.6%	8.2%	3.8%	5.8%	7.2%		3.9%	0.4%	2.3%	20.5%	1.9%	4.9%	3.9%	4.7%
EPS - Basic	\$1.16	\$2.40	\$0.84	\$1.23	\$1.51		\$0.30	\$0.03	\$0.17	\$1.39	\$0.11	\$0.27	\$0.21	\$0.25
% growth	-37.8%	106.6%	-64.8%	45.8%	22.6%		-31.1%	-91.3%	-39.7%	1683.9%	-64.2%	773.4%	23.6%	-82.0%
EPS - Diluted	\$1.16	\$2.39	\$0.84	\$1.22	\$1.49	21.3%	\$0.30	\$0.03	\$0.17	\$1.39	\$0.11	\$0.27	\$0.21	\$0.25
% growth	-37.8%	106.6%	-64.9%	44.8%	22.7%		-31.1%	-91.4%	-39.6%	1685.6%	-64.3%	771.3%	23.4%	-82.0%
GAAP vs NON-GAAP RECONCILIATIONS														
GAAP Net Income	626	1,504	900	1,323	1,638		163	17	92	1,232	115	292	225	268
Depreciation & Amortization Adjustments for	854	571	0	0	0		194	193	184					
Tax Adjustment for over depreciated assets	(323)	(1,395)	0				(74)	(73)	(70)	(1,178)	0	0	0	0
Special Items (net of tax)	168	343	272	125			1	114	22	206	147	(10)	75	60
Misc	0	16	0							16	0	0		
Other	0	-115	0				0	0	0	(115)	0	0		
Total one-time items	699	(580)	272	125	0		121	234	136	(1,071)	147	(10)	75	60
Adj. Net Income	1,325	924	1,172	1,448	1,638		284	251	228	161	262	282	300	328
Diluted shares outstanding	541	629	1,071	1,088	1,098		542	542	542	889	1,069	1,069	1,072	1,074
Adj. EPS	\$2.45	\$1.47	\$1.09	\$1.33	\$1.49		\$0.52	\$0.46	\$0.42	\$0.18	\$0.25	\$0.26	\$0.28	\$0.31

Source: Company data, Morgan Stanley Research

Exhibit 14: CenturyLink: Balance Sheet (\$MM)

BALANCE SHEET (\$MM)	2016	2017	2018E	2019E	2020E	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18E	4Q18E
Assets													
Cash and cash equivalents	224	589	518	1,076	1,704	216	6,357	6,164	589	506	705	632	518
Restricted Cash or ST invst			0										
Accounts receivable	2,017	2,557	2,429	2,383	2,357	1,789	1,868	1,888	2,557	2,432	2,471	2,457	2,429
Deferred Income Taxes, current	202	202	0	0	0	202	202	202	202			0	0
Prepaid and other	2,721	846	1,270	1,194	1,151	2,761	496	444	846	1,245	1,275	1,275	1,270
Total current assets	5,164	4,194	4,218	4,653	5,213	4,968	8,923	8,698	4,194	4,183	4,451	4,363	4,218
Net PPE	17,039	26,852	26,026	24,624	23,286	17,016	17,583	17,634	26,852	26,826	26,494	26,269	26,026
Goodwill - net	19,650	30,475	30,715	30,715	30,715	19,650	19,639	19,638	30,475	30,778	30,715	30,715	30,715
Other Intangible Assets - net			0										
Deferred Income Taxes			0										
Investments and other assets	5,164	14,059	12,659	12,659	12,659	4,968	4,780	4,566	14,059	12,975	12,659	12,659	12,659
Restricted Cash	0	31	0						31	31	27		
Total assets	47,017	75,611	73,618	72,652	71,872	46,602	50,925	50,536	75,611	74,793	74,346	74,007	73,618
Liabilities													
ST debt, current maturities of LT debt	1,503	443	437	437	437	1,499	196	124	443	437	437	437	437
Accounts Payable	1,179	1,555	1,525	1,442	1,399	1,036	944	939	1,555	1,508	1,360	1,540	1,525
Accrued expenses and other liab	1,694	1,597	1,515	1,531	1,475	1,521	1,169	1,204	1,597	1,612	1,630	1,569	1,515
Deferred Revenue	672	892	750	750	750	710	644	642	892	820	750	750	750
Current deferred taxes	301	370	344	344	344	330	290	357	370	390	344	344	344
Total current liabilities	5,349	4,857	4,570	4,504	4,405	5,096	3,243	3,266	4,857	4,767	4,521	4,639	4,570
Long term debt	18,185	37,283	36,290	35,940	35,415	18,180	24,881	24,854	37,283	36,940	36,878	36,544	36,290
Deferred Income Taxes	3,471	2,413	2,775	3,193	3,710	3,686	3,230	3,128	2,413	2,196	2,511	2,636	2,775
Benefit Plan Obligations	5,527	5,178	5,085	5,085	5,085	5,228	5,362	5,183	5,178	5,085	5,085	5,085	5,085
Other	1,086	2,389	2,462	2,462	2,462	1,106	1,123	1,145	2,389	2,362	2,362	2,412	2,462
Total liabilities	33,618	52,120	51,183	51,184	51,077	33,296	37,839	37,576	52,120	51,350	51,357	51,316	51,183
Shareholders' equity													
Common stock	547	1,069	1,079	1,079	1,079	547	550	550	1,069	1,079	1,079	1,079	1,079
Paid-in capital	14,970	23,314	23,470	23,529	23,590	15,006	14,637	14,370	23,314	23,316	23,360	23,415	23,470
Treasury Stock	0	0	0										
Accumulated OCI (net of tax)	(2,117)	(1,995)	(2,490)	(2,490)	(2,490)	(2,117)	(2,050)	(1,994)	(1,995)	(2,288)	(2,490)	(2,490)	(2,490)
Retained earnings	(1)	1,103	376	(650)	(1,384)	(130)	(51)	34	1,103	1,336	1,040	687	376
Non-controlling interest	0	0	0	0	0	0	0	0	0	0	0	0	0
Total shareholders' equity	13,399	23,491	22,435	21,468	20,795	13,306	13,086	12,960	23,491	23,443	22,989	22,691	22,435
Total liabilities and SE	47,017	75,611	73,618	72,652	71,872	46,602	50,925	50,536	75,611	74,793	74,346	74,007	73,618

Source: Company Data, Morgan Stanley Research estimates.

Exhibit 15: CenturyLink: Cash Flow Statement (\$MM)

Operating activities from continuing operations													
Net income	626	1,389	900	1,323	1,638	163	17	92	1,117	115	292	225	268
Adjustments to reconcile net income to net cash provided			0										
Depreciation and amortization	3,916	3,936	5,180	5,077	4,975	880	949	910	1,197	1,283	1,290	1,299	1,308
Deferred income taxes	6	(931)	814	663	762	(37)	(89)	(117)	(688)	123	277	200	214
Nonrecurring gains and losses	-	82	28			0	11	82	(11)	28	0		
Provision for bad debts	192	176	83			47	31	49	49	47	36	0	0
SBC + non-cash charges	80	111	205	59	60	21	22	21	47	41	54	55	55
Changes in current assets and current liabilities:			0										
Accounts receivable	(266)	31	77	46	25	116	(45)	(69)	29	117	(82)	14	27
Accounts payable	109	(123)	53	(83)	(43)	(81)	(31)	19	(30)	(14)	(98)	180	(15)
Other accrued taxes	(43)	54	(147)			206	(177)	74	(49)	20	(167)		
Other current assets and other current liabilities, net	92	(614)	(332)	76	43	(266)	(40)	85	(393)	(262)	(75)	0	4
Other long-term assets and liabilities	(18)	(174)	285	16	(56)	12	(104)	38	(120)	145	255	(61)	(54)
Contribution and Net Changes to Pension Oblg.	(152)	(202)	(245)	(245)	(245)	(25)	(31)	(125)	(21)	(49)	(146)	(25)	(25)
Other, net	66	143	19			20	173	(101)	51	73	(54)		
Net cash (used in) - operating activities cont. ops	4,608	3,878	6,919	6,933	7,161	1,056	686	958	1,178	1,667	1,582	1,887	1,783
Investing activities from continuing operations													
Payments for property, plant and equipment (Capex)	(2,981)	(3,106)	(3,688)	(3,675)	(3,636)	(780)	(830)	(753)	(743)	(805)	(771)	(1,047)	(1,064)
Proceeds from sale of assets / acquisitions	30	1,524	125			45	1,476	(3)	6	3	122	0	0
Other, net	(43)	(7,289)	(61)			4	(9)	0	(7,284)	34	(95)	0	0
Net cash (used in) - investing activities cont. ops	(2,994)	(8,871)	(3,624)	(3,675)	(3,636)	(731)	637	(756)	(8,021)	(768)	(744)	(1,047)	(1,064)
Financing activities from continuing operations													
Proceeds from issuance (payments) of debt	(341)	6,826	(986)	(350)	(525)	(26)	5,112	(104)	1,844	(343)	(55)	(335)	(254)
Proceeds from issuance (repurchases) of common stock	(10)	(15)	0	0	0	(11)	0	0	(4)	0	0	0	0
Cash dividends	(1,167)	(1,453)	(2,312)	(2,350)	(2,371)	(296)	(294)	(291)	(572)	(580)	(576)	(578)	(579)
Other, net	0	0	(36)			0	0	0	0	(25)	(11)	0	0
Net cash (used in) - financing activities cont. ops	(1,518)	5,358	(3,334)	(2,700)	(2,896)	(333)	4,818	(395)	1,268	(948)	(642)	(912)	(832)
Net increase (decrease) in cash and cash equivalents	96	365	(44)	558	628	(8)	6,141	(193)	(5,575)	(52)	195	(73)	(114)
Cash at the beginning of period	114	210	589	545	1,103	224	216	6,357	6,164	589	537	732	659
Restricted Cash Restatement			(27)										
Cash at the end of period	\$210	\$589	\$545	\$1,103	\$1,731	216	6,357	6,164	589	537	732	659	545

Source: Company Data, Morgan Stanley Research estimates.

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(as of July 31, 2018)

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Overweight/Buy	1164	37%	306	41%	26%	544	38%
Equal-weight/Hold	1347	43%	359	48%	27%	648	46%
Not-Rated/Hold	49	2%	4	1%	8%	7	0%
Underweight/Sell	546	18%	75	10%	14%	215	15%
TOTAL	3,106		744			1414	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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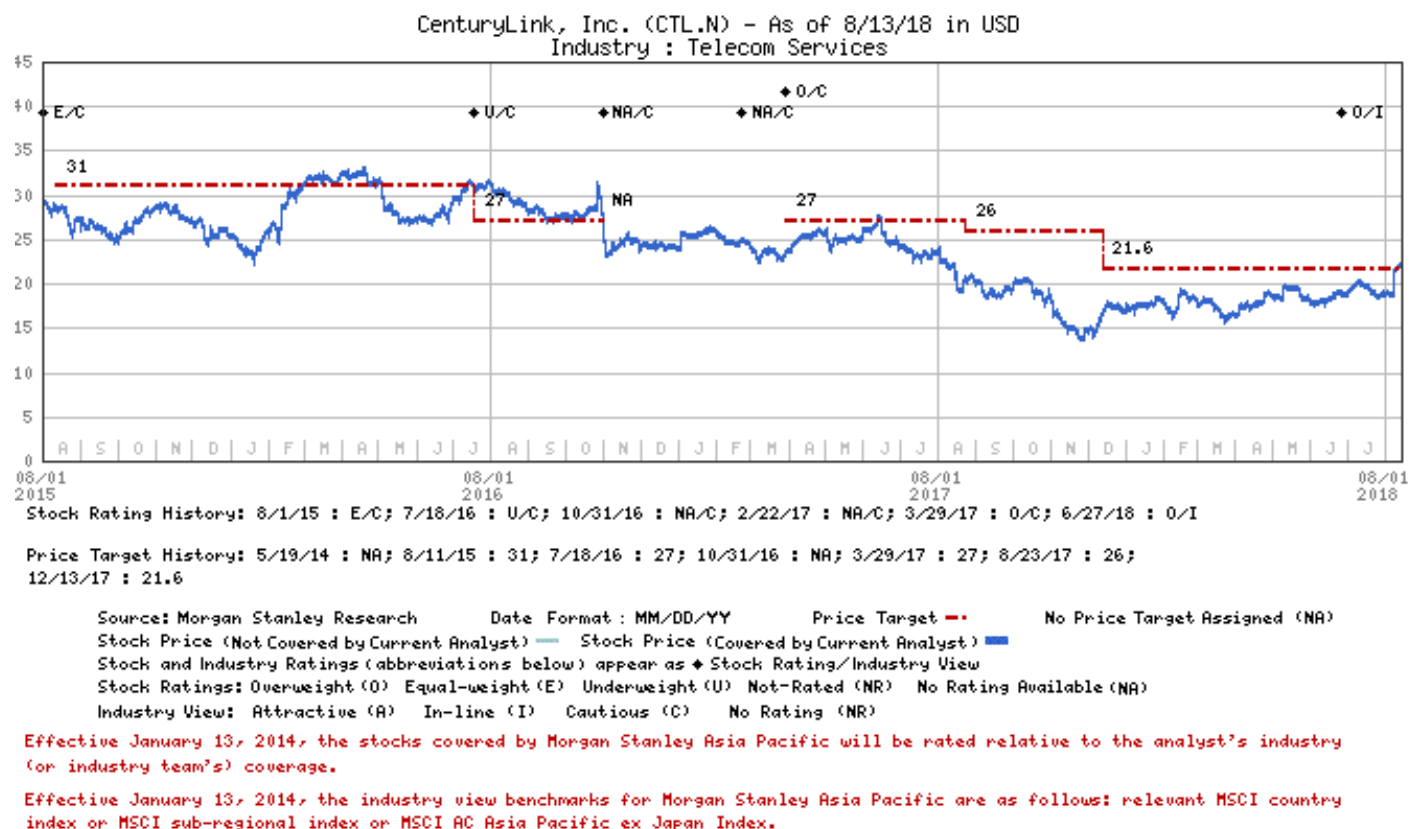
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INDUSTRY COVERAGE: Telecom Services

COMPANY (TICKER)	RATING (AS OF)	PRICE* (08/14/2018)
Simon Flannery		
American Tower Corp. (AMT.N)	O (08/06/2015)	\$149.11
AT&T, Inc. (T.N)	O (06/27/2018)	\$32.24
BCE Inc. (BCE.TO)	E (12/17/2015)	C\$53.67
CenturyLink, Inc. (CTL.N)	O (03/29/2017)	\$22.36
Cincinnati Bell Inc. (CBB.N)	U (05/25/2018)	\$12.60
Crown Castle Corp. (CCI.N)	O (11/11/2009)	\$111.25
CyrusOne Inc (CONE.O)	O (05/28/2013)	\$64.80
Equinix Inc. (EQIX.O)	E (05/13/2009)	\$434.02
Frontier Communications Corp (FTR.O)	E (07/18/2016)	\$5.46
Globalstar Inc (GSAT.A)	E (04/11/2018)	\$0.50
Gogo Inc (GOGO.O)	U (11/15/2013)	\$4.42
Intelsat S.A. (I.N)	U (05/12/2015)	\$23.00
QTS Realty Trust Inc (QTS.N)	E (11/04/2014)	\$44.19
Rogers Communications, Inc. (RCIb.TO)	E (12/17/2015)	C\$68.02
SBA Communications (SBAC.O)	O (03/28/2011)	\$154.80
Sprint Corp (S.N)	++	\$6.11
Telephone & Data Systems (TDS.N)	E (05/30/2014)	\$30.28
TELUS Corp. (T.TO)	O (04/30/2018)	C\$48.11
T-Mobile US, Inc. (TMUS.O)	++	\$65.96
Uniti Group Inc (UNIT.O)	E (06/14/2018)	\$19.50
US Cellular Corporation (USMN)	E (12/14/2016)	\$43.47
Verizon Communications (VZ.N)	O (02/27/2014)	\$52.87
ViaSat Inc (VSAT.O)	E (12/15/2017)	\$63.79
Windstream Corp. (WIN.O)	E (07/01/2015)	\$5.12
Zayo Group Holdings, Inc. (ZAYO.N)	O (12/12/2017)	\$37.65

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.