

Frontier Communications

Corporate Bond Research

Rating: Sell

Investment Classifications

Investment Category: Aggressive Income

Sector: Industrials

Recommended Sector Weight: 35% - 55%

Entity Description

Frontier Communications provides internet, voice and video services to residential and business customers.

Related Bonds

GTE California
GTE Florida
GTE North
GTE Southwest

Credit Ratings

Moody's	B3 / Stable
S&P	B / Stable
Fitch	BB- / Stable

INVESTMENT SUMMARY

We rate Frontier Communications and subsidiary bonds a Sell. The company's operating performance deteriorated substantially since it acquired businesses in Florida, California and Texas from Verizon. While these acquired assets are higher-quality than Frontier's legacy assets, a poor transition of them has put Frontier in a stressed position, in our view. Frontier took on significant debt to fund the purchase of the assets from Verizon and is now in a difficult position of significant capital-spending requirements to maintain its network, large debt load, and declining cash flow.

BOND OVERVIEW

Frontier's operating performance has deteriorated. Results at operations in Florida, California and Texas acquired from Verizon have deteriorated meaningfully since Frontier took control. While Frontier's overall asset quality improved with these acquisitions, a poorly executed transition led to customer losses due to customer service, installation and pricing problems, among other issues. As management moved to fix these problems, the focus on its legacy businesses slipped. Subscriber losses increased as a result, driving revenues and cash flows lower.

Frontier's significant debt load reduces financial flexibility. Despite reducing debt by about \$11 billion in bankruptcy, Frontier's debt load is still about \$9 billion. Additionally, the company's pension and health care benefit plans are underfunded by about \$1.2 billion. We believe this large debt load reduces the company's cushion to pay interest and principal from available cash flow.

Frontier's business consists of wireline networks, which we believe are generally in long-term decline. While there are segments that could still deliver some growth - such as its high-speed internet service - Frontier also operates in markets that are in decline due to competition from wireless communications providers. 5G offerings from other providers will likely increase competition for Frontier's broadband internet service. Significant capital-spending requirements to maintain and upgrade its network are likely to continue to strain the company's financial position, in our view.

Valuation - Valuation is based on our analysis of credit spread relative to bonds of comparable quality and potential recovery in the event of bankruptcy. Credit spread is excess yield above U.S. Treasury bonds.

Risks - Upside risks include the possibility that the company may improve its finances by growing its business and using cash flows to reduce debt.

Analyst: Brian Therien, CFA

Please see important disclosures and certification on page 2 of the report.

Required Research Disclosures

February 8, 2023	BUY	HOLD	SELL
Corporate Credits	0%	78%	22%
Investment Banking	0%	14%	0%
Services			

The table lists the percent of corporate credits we follow globally in each of the equivalent rating categories. We do not assign a "Buy" rating to any corporate credits. Investment banking services indicate the percentage of those subject companies that have been investment banking clients within the last 12 months.

Appropriate for Income	Appropriate for Aggressive Income	Sell	FYI
Appropriate for Income – We consider bonds to be an appropriate holding for investors seeking Income within a well-diversified portfolio. Our time horizon is 3-5 years.	Appropriate for Aggressive Income – We consider bonds appropriate only as a small Aggressive Income portion within a well-diversified portfolio. Bonds within this category are riskier, with a higher possibility of loss due to default, than bonds classified as Income. Our time horizon is 3-5 years.	Sell – We recommend investors sell these bonds. We believe these bonds are no longer an appropriate fixed-income holding because, in our opinion, they offer an unattractive risk/reward scenario at current prices. Our time horizon is 3-5 years.	FYI - For informational purposes only; factual, no opinion.

Initiated Coverage (SELL) 07/06/17

Analyst Certification

- I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report. Brian Therien, CFA
- Analysts receive compensation that is derived from revenues of Edward Jones as a whole which include, but are not limited to, investment banking revenue.
- Edward Jones trades as principal in the debt securities that are the subject of this research report.

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