

Charter Communications (CHTR)

\$424.03 (As of 04/01/20)

Price Target (6-12 Months): **\$445.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/31/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: C

Summary

Shares of Charter have outperformed the industry in the past year. The company is benefiting from growth in Internet, mobile, commercial and video revenues. Increase in Internet speed at no extra cost is also aiding subscriber growth. Additionally, Charter's spectrum mobile products are gaining traction and subscriber base is increasing rapidly. Launch of spectrum mobile services to small and medium business customers is a key catalyst. Improving free cash flow is a growth driver. However, commercial revenues continued to suffer due to migration of customers to Spectrum pricing, and packaging from Legacy TWC and Legacy Bright House. Further, Charter persistently loses video subscribers, primarily due to cord-cutting and intense competition from streaming service providers like Netflix and Amazon.

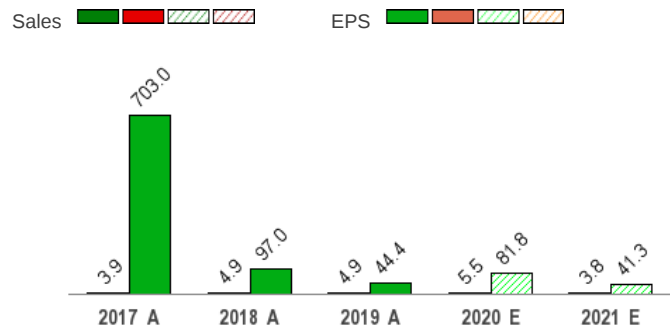
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$546.54 - \$343.15
20 Day Average Volume (sh)	2,815,781
Market Cap	\$89.0 B
YTD Price Change	-12.6%
Beta	1.04
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Cable Television
Zacks Industry Rank	Top 9% (23 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	34.8%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	05/05/2020
Earnings ESP	9.5%
P/E TTM	55.7
P/E F1	30.9
PEG F1	0.7
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	12,298 E	12,436 E	12,545 E	12,811 E	50,110 E
2020	11,810 E	11,951 E	12,076 E	12,387 E	48,276 E
2019	11,206 A	11,347 A	11,450 A	11,761 A	45,764 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$4.06 E	\$4.67 E	\$4.63 E	\$5.96 E	\$19.37 E
2020	\$2.72 E	\$3.14 E	\$3.11 E	\$4.38 E	\$13.71 E
2019	\$1.11 A	\$1.39 A	\$1.74 A	\$3.37 A	\$7.54 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/01/2020. The reports text is as of 04/02/2020.

Overview

Charter Communications is the second largest cable operator in the United States and a leading broadband communications company providing video, Internet and voice services. The company serves approximately 29.2 million residential and small and medium business customers as of Dec 31, 2019.

Charter's high-capacity, two-way telecommunications network passes over 52 million households and small and medium businesses across the United States. The company also estimates that more than 300 million devices are wirelessly connected to its network through WiFi.

Moreover, the company's mobile offering – Spectrum Mobile - reached 1.1 million subscriber lines at the end of 2019.

Charter also sells video and online advertising to local, regional and national advertising customers and fiber-delivered communications and managed information technology ("IT") solutions to large enterprise customers. The company also own and operate regional sports networks and local sports, news and community channels and sell security and home management services in the residential marketplace.

Headquartered in Stamford, CT, Charter reported revenues of \$45.76 billion in 2019. The company operates through five reportable segments:

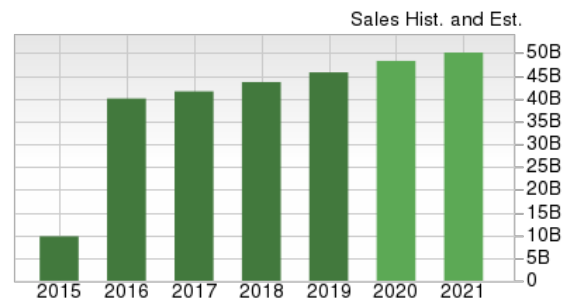
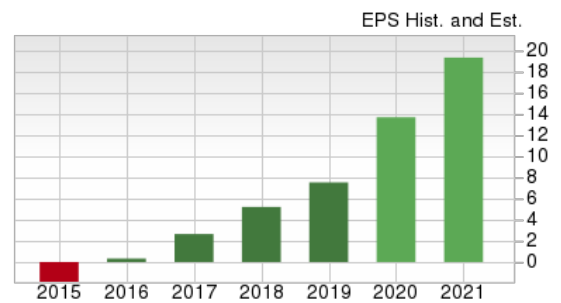
Residential (79.1% of total revenues): The segment comprises Video, Internet and Voice sub-segments. The company also generates revenues from franchise fees, equipment and video installation.

Commercial (14% of total revenues): The segment consists of small and medium business (SMB) and enterprise sub-segments.

Advertising (3.4% of total revenues): Charter generates revenues from commercial advertising customers, programmers and other vendors, as well as local cable and advertising on regional sports and news channels.

Mobile (1.6% of total revenues): As of Dec 31, Charter had 1.082 million residential, and small and medium business mobile lines.

Other (1.9% of total revenues): The segment consists of revenues from regional sports and news channels, home shopping, late payment fees, wire maintenance fees and other miscellaneous revenues.



Reasons To Buy:

- ▲ Charter's residential and commercial Internet and small & medium business (SMB) customer growth continues to drive the top line. In fourth-quarter 2019, total residential and SMB customer relationships increased 286K. Moreover, the company added 313K residential and 26K SMB Internet customers. In 2019, Internet revenues increased 9.8% from the preceding year reported figure. Notably, leveraging DOCSIS 3.1 technology, Charter offers 940 Mbps speed service (Spectrum Internet Gig) in nearly its entire footprint. Further, the company doubled minimum Internet speed to 200 Mbps in a number of markets for new and existing Spectrum Internet customers at no extra cost. This is expected to boost new customers' thereby expanding subscriber base.
 - ▲ Charter launched its Spectrum Mobile service on Jun 30, 2018 under MVNO reseller agreement with Verizon. As of Dec 31, 2019, subscriber base was 1.1 million. Moreover, Spectrum Mobile offers 5G in dense urban pockets of select cities, including New York, Charlotte, Dallas and Los Angeles. The coverage areas are expected to expand throughout 2020 using high-band and low-band spectrum. Spectrum Mobile has also partnered with Samsung to offer latter's new line of 5G-enabled Galaxy S20 series phones.
 - ▲ Charter's broadband service has gained traction among SMBs and enterprises. In 2019, segmental revenues from SMB and Enterprise increased 5.6% and 1.1%, respectively. Through Spectrum Business, the company offers Internet, voice and video services to SMBs over its hybrid fiber coaxial network. In 2019, the company began offering Spectrum Mobile service to SMBs. The company's enterprise portfolio offerings have expanded with the launch of hybrid Software-Defined Wide Area Network (SD-WAN). The company has also launched Spectrum Total Connect, a new high-speed internet offering for large national businesses.
 - ▲ Charter has initiated the rollout of its Spectrum WiFi, which provides unlimited Internet access to residential customers even when they are outdoors. At the end of 2019, the company launched its advanced in-home WiFi product in select service areas and plans to continue to roll-out this product to its entire footprint throughout 2020 and 2021. Additionally, the Spectrum WiFi, combined with MVNO opportunities and other wireless building blocks will allow the company to create products and services with a high value proposition.
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Charter's expanding residential and commercial Internet and small & medium business (SMB) customer base and new 5G service offerings are key catalysts.

Reasons To Sell:

- ▼ The multi-channel video market in the United States is almost saturated. This significantly lowers room for growth for cable TV operators like Charter in an intensely competitive market. Moreover, the company's voice revenues continue to decrease due to the launch of Spectrum pricing and packaging. Customers are increasingly migrating to Spectrum products due to its better performance.
- ▼ Moreover, Charter face triple play competition, consisting of wireline multichannel video, wireline Internet, and wireline voice service, from three primary competitors, AT&T, Frontier and Verizon. As of Dec 31, 2019, AT&T, Frontier and Verizon offered these triple play packages in approximately 33%, 7% and 5% of Charter's operating areas.
- ▼ Charter continues to lose video subscribers primarily due to cord-cutting and intense competition from streaming service providers such as Netflix, Hulu, HBO, Amazon Prime and YouTube. These over-the-top (OTT) providers are now offering a variety of alternative packages, including skinny bundles, which are delivered at lower costs than traditional offerings. They are also innovating in terms of original content to sustain competitive advantage against traditional cable-TV operators.
- ▼ Charter has a leveraged balance sheet. As of Dec 31, 2019, total debt was \$78.4 billion, up from \$72.83 billion as of Dec 31, 2018. High indebtedness adds to the risk of investing in the company. Further, higher interest expenses (\$3.8 billion in 2019, up 7.3% over 2018) on its debt negatively impacted profitability.

Charter operates in a saturated & competitive multi-channel U.S. video market. Intense competition, eroding voice subscriber base and a leveraged balance sheet are key concerns.

Last Earnings Report

Charter Q4 Earnings & Revenues Up Y/Y on User Growth

Charter reported fourth-quarter 2019 earnings of \$3.28 per share that jumped 154.3% year over year.

Revenues of \$11.45 billion increased 4.7% on a year-over-year basis, owing to growth in Internet, mobile, SMB and video revenues.

The Zacks Consensus Estimate for earnings and revenues was pegged at \$2.50 per share and \$11.76 billion, respectively.

Quarter Ending **12/2019**

Report Date	Jan 31, 2020
Sales Surprise	0.35%
EPS Surprise	34.80%
Quarterly EPS	3.37
Annual EPS (TTM)	7.61

Segment Details

Residential revenues (78.8% of total revenues) came in at \$9.27 billion, up 5.7% from the year-ago quarter.

Monthly Residential revenue per Residential Customer (excluding mobile) totaled \$113.79, up 1.8% year over year, driven by promotional rate step-ups, rate adjustments and a lower rate of customers migrating to Spectrum pricing and packaging.

However, a higher percentage of non-video customers, an increasing mix of streaming and lighter video packages for the company's video customer base, and lower pay-per-view and video on demand revenues hurt the top line.

Video revenues (48.3% of residential revenues) increased 2.6% to \$4.47 billion, driven by annual rate adjustments and promotional roll-off.

Internet revenues (46.9% of residential revenues) grew 11.6% year over year to \$4.35 billion owing to an increase in Internet customers, promotional roll-off and rate adjustments.

However, voice revenues (4.9% of revenues) decreased 12.6% to \$450 million due to value-based pricing and a decline in wireline voice customers.

Commercial revenues (13.6% of total revenues) increased 1.8% year over year to \$1.60 billion. Small and medium business (SMB) revenues (61.5% of commercial revenues) rose 6.3% year over year to \$986 million. Enterprise revenues (38.5% of commercial revenues) decreased 4.6% to \$617 million.

However, commercial revenue growth was negatively impacted by the divestiture of Navisite, Charter's managed cloud services business within Spectrum Enterprise, on Sep 6.

Moreover, advertising sales (3.7% of total revenues) declined 22.8% year over year to \$434 million, primarily due to lower political revenues.

Mobile revenues (2% of total revenues) totaled \$236 million compared with \$89 million in the year-ago quarter.

Other revenues (1.9% of total revenues) came in at \$220 million, down 6% year over year.

Subscriber Statistics

As of Dec 31, Charter had 29.235 million total customer relationships, up 4% year over year.

In the reported quarter, total residential and SMB customer relationships increased 268K compared with 248K in the year-ago quarter.

Moreover, residential and SMB Internet net additions were 313K and 26K, respectively.

As of Dec 31, Charter had 24.9 million residential Internet customers, with 85% subscribing to tiers that provided 100 Mbps or more speed.

The company doubled its minimum Internet speed offering to 200 Mbps in several markets at no additional costs for new and existing Spectrum Internet customers.

Notably, 200 Mbps is currently the slowest speed offered to new Internet customers in approximately 60% of Charter's footprint. Moreover, 100 Mbps is offered as the slowest speed in the remaining 40% of its footprint.

Further, Charter added 288K mobile lines in the fourth quarter. As of Dec 31, the company served a total of 1.1 million mobile lines.

However, Charter continued to lose video (105K in the reported quarter) and wireline voice customers (net losses were 152K).

Operating Details

Total operating costs and expenses increased 2.3% from the year-ago quarter to \$7.23 billion. As percentage of revenues, total operating costs and expenses declined 140 basis points (bps) to 61.5%.

Programming costs rose 0.6% year over year to \$2.81 billion due to a rise in renewals and contractual programming. However, as percentage of revenues, programming costs shrank 100 bps year over year.

Regulatory, connectivity and produced content costs were up 4.4% to \$596 million, primarily due to increased cost of video customer premise equipment sold to customers and elevated original programming costs. As percentage of revenues, regulatory, connectivity and produced content costs were stable at 5.1% year over year.

Costs to service customers declined 2.2% year over year to \$1.79 billion. Marketing costs were \$748 million, up 2.2% year over year.

However, as percentage of revenues, costs to service customers and marketing costs contracted 110 bps and 20 bps on a year-over-year basis, respectively.

Notably, mobile costs were \$372 million compared with \$211 million in the year-ago quarter.

Adjusted EBITDA increased 8.8% year over year to \$4.53 billion. Moreover, adjusted EBITDA margin expanded 140 bps to 38.5%.

Balance Sheet & Cash Flow

As of Dec 31, 2019, cash and cash equivalents were \$3.48 billion.

Further, as of Dec 31, total principal amount of debt was \$78.4 billion. At the end of the reported quarter, the ratio of net debt to the past 12-month adjusted EBITDA was 4.45x. Charter intends to stay at or just below the high end of its targeted 4x to 4.5x leverage range.

In fourth-quarter 2019, net cash flow from operating activities totaled \$3.36 billion, higher than \$2.94 billion in the previous quarter.

Capital expenditures were \$2.3 billion that included \$151 million related to the mobile business. The company generated \$1.6 billion of consolidated free cash flow compared with \$1.3 billion in the previous quarter.

In the reported quarter, the company bought back 5.6 million shares for approximately \$2.6 billion.

2020 Guidance

Charter expects programming costs per video customer to grow in the mid-single-digit-percentage range.

Moreover, mobile capital expenditures are expected to be similar to 2019 and then, decline meaningfully in 2021.

Further, in 2020, Charter expects cable capital expenditure intensity to continue to decline from 15% in 2019.

Recent News

On Mar 25, Charter Communications announced that it is expanding the eligibility of its 60-day free offer for Spectrum broadband Internet and WiFi access to include educators (K-12 teachers and college/university professors) who do not have a Spectrum account.

On Mar 23, Charter Communications announced that it will provide SHOWTIME and EPIX premium channels at no additional charge to Spectrum TV customers who are not currently viewing those channels through Apr 19.

On Mar 18, Charter Communications announced that it sold senior unsecured notes worth \$2.5 billion in aggregate principal amount to qualified institutional buyers in reliance on Rule 144A and outside the United States to non-U.S. persons in reliance on Regulation S.

On Mar 6, Charter Communications announced that Spectrum Mobile offers Samsung's premium new 5G-enabled phones, namely the Galaxy S20 5G, Galaxy S20+ 5G and Galaxy S20 Ultra 5G across nationwide Spectrum stores, online at SpectrumMobile.com and by receiving a call on (855) 251-3375. Customers with Spectrum Mobile's \$45 per month unlimited data plan can use the phones to access 5G service at no additional cost in select cities across the country.

On Feb 27, Charter Communications announced the creation of the Spectrum Community Investment Loan Fund, which focuses on lending loans through community development financial institutions (CDFIs) to small businesses serving underserved communities with Charter's operating footprint.

On Feb 18, Charter Communications announced that it sold senior unsecured notes worth \$1.65 billion in aggregate principal amount to qualified institutional buyers in reliance on Rule 144A and outside the United States to non-U.S. persons in reliance on Regulation S.

On Jan 13, Charter Communications announced the launch of Spectrum Total Connect, a new high-speed internet offering for large national businesses from Spectrum Business National Accounts.

Valuation

Charter shares are down 12.6% in the year-to-date period and 22.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 22.7% and 28.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector is down 7% and 21.3%, respectively.

The S&P 500 Index is down 19.7% in the year-to-date period and 10.2% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 10.22X, which compares to 8.75X for the Zacks sub-industry, 8.95X for the Zacks sector and 9.57X for the S&P 500 index.

Over the past five years, the stock has traded as high as 105.92X and as low as 8.94X, with a 5-year median of 16.16X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$445 price target reflects 1.91X forward 12-month sales.

The table below shows summary valuation data for CHTR

Valuation Multiples - CHTR					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	10.22	8.75	8.95	9.57
	5-Year High	105.92	19.25	17.6	12.88
	5-Year Low	8.94	8.26	8.26	8.27
	5-Year Median	16.16	10.46	12.27	10.78
EV/Sales TTM	Current	3.52	2.79	2.46	2.6
	5-Year High	9.87	3.81	4.02	3.46
	5-Year Low	2.77	2.63	2.27	2.16
	5-Year Median	3.7	3.29	3.4	2.83
P/S F12M	Current	1.82	1.65	1.68	2.81
	5-Year High	6.07	2.59	3.19	3.43
	5-Year Low	1.35	1.61	1.68	2.54
	5-Year Median	1.91	2.04	2.52	3

As of 04/01/2020

Industry Analysis Zacks Industry Rank: Top 9% (23 out of 254)



Top Peers

DISH Network Corporation (DISH)	Outperform
Cable One, Inc. (CABO)	Neutral
Comcast Corporation (CMCSA)	Neutral
Liberty Global PLC (LBTYA)	Neutral
Rogers Communication, Inc. (RCI)	Neutral
Shaw Communications Inc. (SJR)	Neutral
AT&T Inc. (T)	Neutral
Verizon Communications Inc. (VZ)	Neutral

Industry Comparison Industry: Cable Television				Industry Peers		
	CHTR Neutral	X Industry	S&P 500	CMCSA Neutral	DISH Outperform	LBTYA Neutral
VGM Score	B	-	-	B	B	C
Market Cap	89.04 B	9.30 B	16.87 B	147.61 B	9.78 B	10.15 B
# of Analysts	15	4	13	15	6	2
Dividend Yield	0.00%	0.00%	2.53%	2.84%	0.00%	0.00%
Value Score	C	-	-	B	B	A
Cash/Price	0.04	0.04	0.06	0.03	0.26	0.76
EV/EBITDA	9.97	7.69	10.63	7.10	7.69	6.69
PEG Ratio	0.72	1.78	1.69	0.93	NA	NA
Price/Book (P/B)	2.29	1.76	2.30	1.76	0.85	0.77
Price/Cash Flow (P/CF)	7.67	5.82	9.07	5.39	4.82	4.66
P/E (F1)	30.93	23.21	14.38	10.43	8.31	NA
Price/Sales (P/S)	1.95	1.82	1.80	1.35	0.76	0.88
Earnings Yield	3.23%	3.23%	6.90%	9.59%	12.03%	-2.62%
Debt/Equity	1.95	1.23	0.70	1.23	1.13	1.84
Cash Flow (\$/share)	55.31	2.72	7.01	6.01	3.88	3.45
Growth Score	B	-	-	B	C	F
Hist. EPS Growth (3-5 yrs)	129.13%	6.03%	10.92%	16.77%	0.78%	NA
Proj. EPS Growth (F1/F0)	81.87%	30.59%	1.52%	-0.70%	-13.40%	80.79%
Curr. Cash Flow Growth	0.57%	1.79%	5.98%	21.54%	-11.24%	-8.34%
Hist. Cash Flow Growth (3-5 yrs)	43.34%	2.34%	8.55%	11.76%	0.07%	-15.92%
Current Ratio	0.52	0.96	1.24	0.84	0.89	1.22
Debt/Capital	66.07%	60.12%	42.33%	55.43%	54.06%	64.81%
Net Margin	3.64%	13.22%	11.67%	11.98%	10.93%	99.83%
Return on Equity	4.07%	1.10%	16.70%	18.25%	13.99%	-17.91%
Sales/Assets	0.31	0.35	0.54	0.42	0.40	0.23
Proj. Sales Growth (F1/F0)	5.49%	2.04%	1.75%	3.52%	-2.54%	0.10%
Momentum Score	C	-	-	D	B	B
Daily Price Chg	-2.81%	-4.25%	-5.14%	-5.70%	-6.45%	-2.79%
1 Week Price Chg	18.29%	14.99%	12.29%	3.60%	5.06%	-4.54%
4 Week Price Chg	-18.90%	-19.69%	-25.58%	-23.72%	-44.79%	-19.02%
12 Week Price Chg	-15.32%	-22.00%	-29.13%	-28.58%	-47.31%	-24.86%
52 Week Price Chg	22.78%	-36.62%	-23.44%	-19.49%	-43.21%	-39.04%
20 Day Average Volume	2,815,781	498,492	4,261,481	41,107,920	4,827,965	2,419,077
(F1) EPS Est 1 week change	0.02%	0.00%	-0.18%	-0.89%	0.00%	43.92%
(F1) EPS Est 4 week change	-0.71%	-1.22%	-3.95%	-3.34%	8.67%	-1.22%
(F1) EPS Est 12 week change	0.64%	0.00%	-5.28%	-5.98%	9.84%	3.49%
(Q1) EPS Est Mthly Chg	0.45%	0.00%	-5.80%	-4.10%	8.25%	NA

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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