Charter Communications (CHTR)

$532.05 (As of 02/03/20)

Price Target (6-12 Months): **$559.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 01/31/19)	
	Prior Recommendation: Outperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: C | Growth: B	Momentum: F

Summary

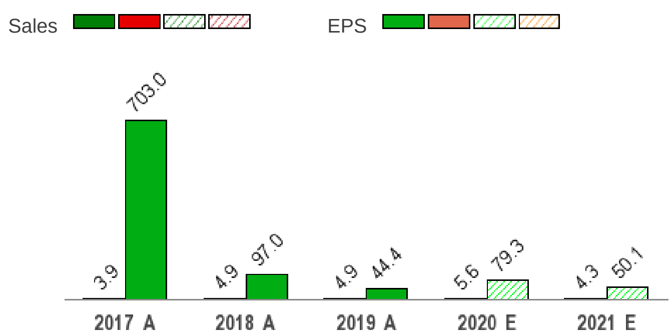
Charter's fourth-quarter 2019 top line benefited from growth in Internet, mobile, commercial and video revenues, and significant customer wins. Internet revenues grew owing to an increase in the customer base, promotional roll-off and rate adjustments. Additionally, an expanding mobile subscriber base is a key catalyst. Shares have outperformed the industry in the past year. 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. 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	$537.54 - $332.77
20 Day Average Volume (sh)	1,252,418
Market Cap	$114.3 B
YTD Price Change	9.7%
Beta	1.15
Dividend / Div Yld	$0.00 / 0.0%
Industry	Cable Television
Zacks Industry Rank	Top 22% (56 out of 254)
Last EPS Surprise	34.8%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-0.8%
Expected Report Date	05/05/2020
Earnings ESP	-0.6%
P/E TTM	69.9
P/E F1	39.4
PEG F1	0.9
P/S TTM	2.5

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	12,310 E	12,458 E	12,575 E	12,786 E	50,404 E
2020	11,812 E	11,974 E	12,122 E	12,425 E	48,327 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	$4.24 E	$4.80 E	$4.88 E	$5.69 E	$20.29 E
2020	$2.81 E	$3.34 E	$3.40 E	$4.32 E	$13.52 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 02/03/2020. The reports text is as of 02/04/2020.

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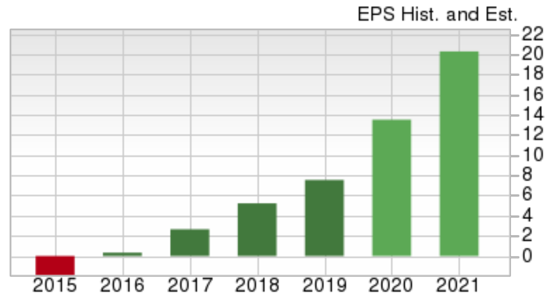
Overview

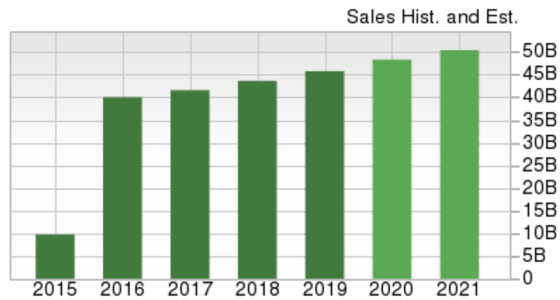
Headquartered in Stamford, CT, Charter Communications Inc. is a leading broadband communications company and the second largest cable operator in the United States. Charter provides a full range of advanced broadband services, including advanced Charter Spectrum TV video entertainment programming, Charter Spectrum Internet access, and Charter Spectrum Voice.

Spectrum Business similarly provides scalable, tailored, and cost-effective broadband communications solutions to business organizations, such as business-to-business Internet access, data networking, business telephone, video and music entertainment services, and wireless backhaul.

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.

In 2019, the company reported revenues of $45.76 billion. Additionally, Charter had approximately 29.235 million residential, and small and medium business customers as of Dec 31, 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 has started offering its wireless service, which is a key catalyst. Internet subscriber base is also increasing owing to a shift toward higher speed tiers.

- Charter's residential and commercial Internet and 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. Growth in Internet customers and rate adjustments aided Internet revenues in the reported quarter. Moreover, 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.

- The company is taking various initiatives to make its Spectrum products even better. Charter has developed its cloud-based user interface named Spectrum Guide, to run on all set-top boxes offering advanced video navigation. The company is also developing Charter TV applications for its video-on-demand content. Additionally, Charter has independently certified its new WiFi router to provide wireless services. Moreover, it has initiated the rollout of its Spectrum WiFi, which provides unlimited Internet access to residential customers even when they are outdoors. The company has also introduced a new set-top box called World Box which offers great entertainment at a low cost. Additionally, the Spectrum WiFi, combined with mobile virtual network operator (MVNO) opportunities and other wireless building blocks will allow the company to create products and services with a high value proposition.

- Charter launched its Spectrum Mobile service on Jun 30, 2018 under MVNO reseller agreement with Verizon. As of Dec 31, 2019, a total of 1.1 million mobile lines were served by the company. Moreover, Charter and Comcast's joint wireless venture aims to explore opportunities better plus accelerate and enhance each other's ability to participate in the national wireless marketplace.

Reasons To Sell:

> Charter's operation in a saturated & competitive multi-channel U.S. video market remains a concern. This is likely to hurt top-line growth.

- 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.

- 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 expense ($3.8 billion in 2019, up 7.3% over 2018) on its debt negatively impacts profitability.

Last Earnings Report

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

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.

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 Oct 21, Charter and Fox Corporation announced a long-term, comprehensive renewal of their distribution agreement for the latter's full portfolio of leading news, entertainment and sports networks.

On Sep 9, RDX announced the completion of the acquisition of Navisite from Charter. The acquisition was announced on Aug 26.

On Aug 14, 2019, Charter and Disney announced an expanded distribution agreement under which the latter will continue to deliver premier sports, news and entertainment content to former's Spectrum customers.

On Jun 26, 2019, Charter Communications announced a number of leadership changes. CFO Chris Winfrey will expand his area of oversight to include the company's large enterprise business, branded Spectrum Enterprise and the advertising business, Spectrum Reach.

Executive vice president and president of Spectrum Enterprise, Phil Meeks, and executive vice president and president of Spectrum Reach, David Kline, will report to Winfrey beginning Jul 1. As planned, Phil Meeks will retire in January 2020. Winfrey will continue to report to Charter chairman and CEO Tom Rutledge.

Chief product officer (CPO) Rich DiGeronimo will add Technology Officer to his title, as he will oversee Engineering and IT, in addition to Charter's product team beginning July 1. DiGeronimo will continue to report to Charter president and COO, John Bickham.

Executive vice president of IT and Engineering, Jim Blackley, will continue to report to Rutledge and assist the transition until his planned retirement in 2020.

Cliff Hagan, senior vice president of Shared Services, Customer Operations, will be promoted to executive vice president, Customer Operations, succeeding Kathleen Mayo, who will retire in August.

Valuation

Charter shares are up 40.1% in the six months period and 56.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 13.1% and 10.5% in the six months period, respectively. Over the past year, the Zacks sub-industry and the sector are up 22.1% and 11.7%, respectively.

The S&P 500 Index is up 14.9% in the six months period and 17.8% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 11.59X, which compares to 10.77X for the Zacks sub-industry, 12.4X for the Zacks sector and 11.95X for the S&P 500 index.

Over the past five years, the stock has traded as high as 105.61X and as low as 9.04X, with a 5-year median of 16.178X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $559 price target reflects 2.48X 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	11.59	10.77	12.4	11.95
	5-Year High	105.61	19.42	17.76	12.85
	5-Year Low	9.04	7.07	9.29	8.49
	5-Year Median	16.18	10.59	12.4	10.66
EV/Sales TTM	Current	4.07	3.34	3.22	3.24
	5-Year High	9.87	3.83	4.01	3.29
	5-Year Low	2.77	2.04	2.43	2.12
	5-Year Median	3.72	3.28	3.43	2.79
P/S F12M	Current	2.36	2.05	2.25	3.43
	5-Year High	6.07	2.59	3.19	3.43
	5-Year Low	1.35	1.61	1.81	2.54
	5-Year Median	1.92	2.13	2.54	3

As of 02/03/2020

Industry Analysis **Zacks Industry Rank:** Top 22% (56 out of 254)

Top Peers

Cable One, Inc. **(CABO)**	Outperform
DISH Network Corporation **(DISH)**	Outperform
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	C	-	-	A	D	D
Market Cap	114.27 B	11.43 B	23.66 B	194.07 B	18.12 B	12.94 B
# of Analysts	14	4	13	14	5	2
Dividend Yield	0.00%	0.00%	1.82%	1.97%	0.00%	0.00%
Value Score	C	-	-	B	B	A
Cash/Price	0.03	0.02	0.04	0.00	0.09	0.57
EV/EBITDA	11.54	10.14	13.87	5.63	10.14	5.34
PEG Ratio	0.91	2.18	1.97	1.18	NA	NA
Price/Book (P/B)	2.94	2.40	3.24	2,313.84	1.78	0.97
Price/Cash Flow (P/CF)	9.84	7.17	13.40	7.09	7.52	6.42
P/E (F1)	39.05	19.17	18.48	13.15	17.75	NA
Price/Sales (P/S)	2.50	2.23	2.60	1.78	1.41	1.12
Earnings Yield	2.54%	2.56%	5.40%	7.59%	5.63%	-2.64%
Debt/Equity	1.95	1.28	0.72	1.23	1.28	1.80
Cash Flow ($/share)	54.07	2.72	6.92	6.02	4.89	3.19
Growth Score	B	-	-	A	D	D
Hist. EPS Growth (3-5 yrs)	129.13%	7.04%	10.80%	16.77%	2.81%	NA
Proj. EPS Growth (F1/F0)	79.31%	30.59%	7.46%	3.63%	-17.14%	47.57%
Curr. Cash Flow Growth	0.57%	10.96%	10.59%	21.54%	8.12%	121.51%
Hist. Cash Flow Growth (3-5 yrs)	43.34%	7.25%	8.55%	11.76%	3.68%	-11.66%
Current Ratio	0.52	1.26	1.21	0.84	0.60	1.26
Debt/Capital	66.07%	59.72%	42.91%	55.43%	57.18%	64.33%
Net Margin	3.64%	13.22%	11.76%	11.98%	10.47%	112.38%
Return on Equity	4.07%	0.38%	17.24%	24.81%	14.55%	-1.75%
Sales/Assets	0.31	0.35	0.55	0.57	0.41	0.22
Proj. Sales Growth (F1/F0)	5.60%	3.79%	4.22%	4.80%	-3.02%	1.15%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	2.82%	0.29%	0.67%	-1.23%	-0.03%	-0.29%
1 Week Price Chg	2.53%	-0.23%	-2.60%	-3.14%	0.05%	0.05%
4 Week Price Chg	6.96%	0.08%	-0.76%	-4.50%	3.11%	-9.39%
12 Week Price Chg	12.36%	4.82%	2.84%	-5.72%	2.17%	-17.40%
52 Week Price Chg	57.88%	1.71%	13.93%	16.02%	21.73%	-20.85%
20 Day Average Volume	1,252,418	355,453	1,915,782	21,523,836	2,159,248	1,585,077
(F1) EPS Est 1 week change	-0.27%	0.00%	0.00%	-0.29%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.78%	0.00%	0.00%	-1.90%	0.98%	-25.58%
(F1) EPS Est 12 week change	0.69%	-0.08%	-0.13%	-5.12%	20.52%	-71.43%
(Q1) EPS Est Mthly Chg	-0.49%	-0.49%	0.00%	-6.35%	-7.88%	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	F
VGM Score	C

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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