

Charter Communications (CHTR)

\$507.28 (As of 01/09/20)

Price Target (6-12 Months): **\$533.00**

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: D

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.

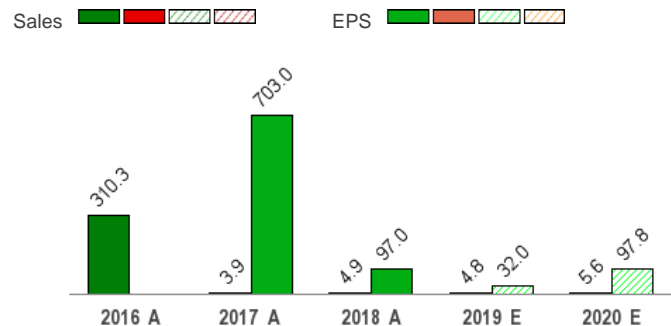
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$509.99 - \$279.33
20 Day Average Volume (sh)	982,393
Market Cap	\$109.0 B
YTD Price Change	4.6%
Beta	1.19
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Cable Television
Zacks Industry Rank	Top 19% (48 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.8%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	1.5%
Expected Report Date	01/31/2020
Earnings ESP	15.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	11,812 E	11,989 E	12,125 E	12,404 E	48,302 E
2019	11,206 A	11,347 A	11,450 A	11,726 E	45,738 E
2018	10,657 A	10,854 A	10,892 A	11,231 A	43,634 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.82 E	\$3.35 E	\$3.38 E	\$4.30 E	\$13.63 E
2019	\$1.11 A	\$1.39 A	\$1.74 A	\$2.56 E	\$6.89 E
2018	\$0.70 A	\$1.15 A	\$2.11 A	\$1.29 A	\$5.22 A

*Quarterly figures may not add up to annual.

P/E TTM	91.7
P/E F1	37.2
PEG F1	0.9
P/S TTM	2.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

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 2018, the company reported revenues of \$43.63 billion, which increased 4.9% from the year-ago quarter. Additionally, Charter had approximately 28.1 million residential and small and medium business customers as of Dec 31, 2018.

The company operates through four reportable segments:

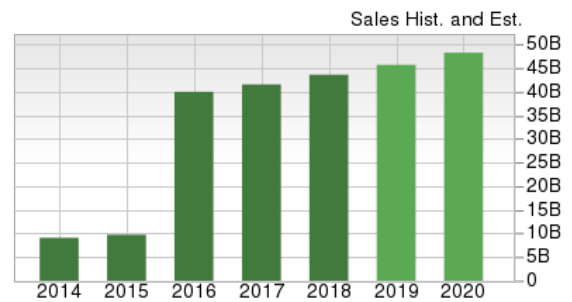
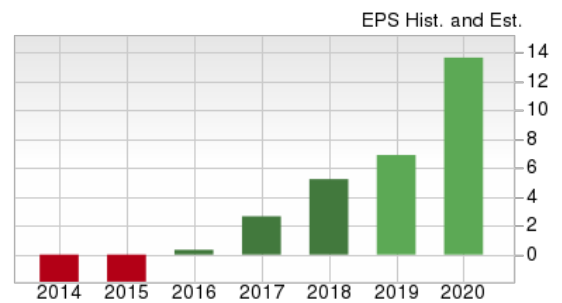
Residential (78.1% of total revenues): The segment comprises Video, Internet and Voice sub-segments. The company also generates revenues from franchise fees, equipment and video installation.

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

Advertising (5% 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.

Other (2.1% 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.

Charter faces competition from other telephone, direct broadcast satellite (DBS) operators, fiber to home providers, Internet service providers and over-the-top (OTT) providers like AT&T, Verizon, Comcast, YouTube, Amazon and Netflix to name a few.



Reasons To Buy:

- ▲ Charter's residential and commercial Internet and SMB customer growth continues to drive the top line. In third-quarter 2019, total residential and SMB customer relationships increased 310K. Moreover, the company added 380K residential and SMB Internet customers. As of Sep 30, 2019, Charter had 24.6 million residential 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 Sep 30, 2019, a total of 794K 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.

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.

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.
- ▼ 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 Sep 30, 2019, total debt was \$74.90 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 (\$2.83 billion in nine months that ended Sep 30) on its debt negatively impacts profitability.

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

Last Earnings Report

Charter Q3 Earnings Beat, User Growth Aids Revenues

Charter reported third-quarter 2019 earnings of \$1.74 per share that beat the Zacks Consensus Estimate by eight cents but declined 17.5% year over year.

Revenues of \$11.45 billion beat the consensus mark of \$11.43 billion. The top line increased 5.1% on a year-over-year basis owing to growth in Internet, mobile, commercial and video revenues, and significant customer wins.

Quarter Ending **09/2019**

Report Date	Oct 25, 2019
Sales Surprise	0.16%
EPS Surprise	4.82%
Quarterly EPS	1.74
Annual EPS (TTM)	5.53

Segment Details

Residential revenues (78.9% of total revenues) came in at \$9.03 billion, up 4.4% from the year-ago quarter.

Residential revenue per residential customer (excluding mobile) totaled \$112, up 0.8% year over year, driven by promotional rate step-ups and rate adjustments. However, a higher percentage of non-video customers, an increasing mix of Choice and Stream customers within 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 0.6% to \$4.36 billion, driven by annual rate adjustments and promotional roll-off.

Internet revenues (46.5% of residential revenues) grew 10.1% year over year to \$4.20 billion owing to an increase in Internet customers, promotional roll-off and rate adjustments.

However, voice revenues (5.3% of revenues) decreased 6.8% to \$477 million due to value-based pricing and a decline in wireline voice customers.

Commercial revenues (14.1% of total revenues) increased 4.1% year over year to \$1.62 billion. Small and medium business (SMB) revenues (60.2% of commercial revenues) rose 5.6% year over year to \$974 million. Enterprise revenues (39.8% of commercial revenues) increased 1.9% to \$644 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 (3.4% of total revenues) declined 10.5% year over year to \$394 million, primarily due to lower political revenues.

Mobile revenues (1.7% of total revenues) totaled \$192 million compared with \$17 million in the year-ago quarter.

Other revenues (1.9% of total revenues) came in at \$215 million, down 5.7% year over year.

Subscriber Statistics

As of Sep 30, Charter had 28.967 million total customer relationships. The company added more than 1.1 million net new customer relationships over the past twelve months.

In the reported quarter, total residential and SMB customer relationships increased 310K compared with 234K in the year-ago quarter.

Moreover, residential and SMB Internet net additions were 380K in the reported quarter.

As of Sep 30, Charter had 24.6 million residential Internet customers, with 85% subscribing to tiers that provided 100 Mbps or more speed.

The company recently doubled its minimum Internet speed to 200 Mbps in several markets at no additional cost to new and existing Spectrum Internet residential and SMB 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 276K mobile lines in the third quarter compared with 208K mobile lines in the previous quarter. As of Sep 30, the company served a total of 794K mobile lines.

However, Charter continued to lose video (75K in the reported quarter) and wireline voice customers (net losses were 190K).

Operating Details

Total operating costs and expenses increased 6.1% from the year-ago quarter to \$7.36 billion. As a percentage of revenues, total operating costs and expenses expanded 60 basis points (bps) to 64.3%.

Programming costs rose 0.4% year over year to \$2.79 billion due to a rise in renewals and contractual programming. However, as a percentage of revenues, programming costs shrank 110 bps year over year.

Regulatory, connectivity and produced content costs were up 12.1% to \$612 million, primarily due to increased cost of video customer premise equipment sold to customers, higher regulatory and franchise pass-through fees, and elevated original programming costs. As a percentage of revenues, regulatory, connectivity and produced content costs increased 30 bps year over year.

Costs to service customers grew 2.2% year over year to \$1.89 billion. Marketing costs were \$793 million, up 0.4% year over year.

However, as a percentage of revenues, costs to service customers and marketing costs contracted 50 bps and 30 bps, on a year-over-year basis, respectively.

Notably, mobile costs were \$337 million compared with \$94 million in the year-ago quarter.

Adjusted EBITDA increased 3.4% year over year to \$4.09 billion. However, adjusted EBITDA margin contracted 60 bps to 35.7%.

Balance Sheet & Cash Flow

As of Sep 30, 2019, cash and cash equivalents were \$508 million compared with \$696 million as of Jun 30, 2019.

Moreover, as of Sep 30, total principal amount of debt was \$74.2 billion. At the end of the reported quarter, the ratio of net debt to the past 12-month adjusted EBITDA was 4.47x. Charter intends to stay at or just below the high end of its targeted 4x to 4.5x leverage range.

In third-quarter 2019, net cash flow from operating activities totaled \$2.94 billion, higher than \$2.76 billion in the previous quarter.

Capital expenditures were \$1.7 billion that included \$100 million related to the mobile business. The company generated \$1.3 billion of consolidated free cash flow compared with \$1.1 billion in the previous quarter.

In the reported quarter, the company bought back 7.8 million shares for approximately \$3.1 billion.

2019 Guidance

Charter currently expects 2019 capital expenditure to be slightly below \$7 billion compared with about \$8.9 billion in 2018.

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 23.7% in the six months period and 72.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 6.4% and 4.5% in the six months period, respectively. Over the past year, the Zacks sub-industry and the sector are up 34.3% and 21.1%, respectively.

The S&P 500 Index is up 9.8% in the six months period and 25.3% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 11.51X, which compares to 10.8X for the Zacks sub-industry, 12.75X for the Zacks sector and 11.99X 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 16.17X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$533 price target reflects 2.36X 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	11.51	10.8	12.75	11.99
	5-Year High	105.61	19.42	17.77	12.86
	5-Year Low	9.04	8.52	11.08	8.48
	5-Year Median	16.17	10.64	12.43	10.67
EV/Sales TTM	Current	3.98	3.37	3.32	3.28
	5-Year High	9.87	3.81	4.02	3.3
	5-Year Low	2.77	2.73	2.7	2.16
	5-Year Median	3.72	3.29	3.44	2.8
P/S F12M	Current	2.25	2.07	2.37	3.51
	5-Year High	6.07	2.59	3.19	3.51
	5-Year Low	1.35	1.61	1.81	2.54
	5-Year Median	1.91	2.14	2.54	3

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Top 19% (48 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	-	-	B	C	C
Market Cap	108.95 B	11.61 B	23.84 B	207.04 B	17.54 B	13.16 B
# of Analysts	12	4.5	13	12	6	2
Dividend Yield	0.00%	0.00%	1.79%	1.85%	0.00%	0.00%
Value Score	C	-	-	B	B	A
Cash/Price	0.00	0.02	0.04	0.02	0.09	0.53
EV/EBITDA	11.57	10.47	13.88	10.47	9.95	5.38
PEG Ratio	0.86	2.48	2.02	1.14	NA	NA
Price/Book (P/B)	2.69	2.51	3.33	2.62	1.73	0.98
Price/Cash Flow (P/CF)	9.90	7.46	13.76	9.15	7.28	6.53
P/E (F1)	37.22	18.64	18.76	13.76	17.19	NA
Price/Sales (P/S)	2.41	2.24	2.63	1.91	1.36	1.14
Earnings Yield	2.69%	2.69%	5.32%	7.27%	5.82%	-2.07%
Debt/Equity	1.76	1.33	0.72	1.33	1.28	1.80
Cash Flow (\$/share)	51.24	2.72	6.94	4.98	4.89	3.19
Growth Score	D	-	-	B	F	D
Hist. EPS Growth (3-5 yrs)	139.60%	6.43%	10.56%	15.86%	2.81%	NA
Proj. EPS Growth (F1/F0)	97.81%	31.25%	7.46%	6.88%	-17.20%	59.43%
Curr. Cash Flow Growth	3.53%	12.04%	14.83%	15.26%	8.12%	121.51%
Hist. Cash Flow Growth (3-5 yrs)	47.02%	7.00%	9.00%	9.26%	3.68%	-11.66%
Current Ratio	0.28	1.26	1.23	0.86	0.60	1.26
Debt/Capital	63.79%	59.80%	42.99%	57.33%	57.18%	64.33%
Net Margin	2.76%	13.76%	11.08%	11.45%	10.47%	112.38%
Return on Equity	2.91%	0.38%	17.16%	17.97%	14.55%	-1.75%
Sales/Assets	0.31	0.35	0.55	0.42	0.41	0.22
Proj. Sales Growth (F1/F0)	5.61%	3.57%	4.16%	5.39%	-3.04%	-3.39%
Momentum Score	C	-	-	F	B	D
Daily Price Chg	1.30%	0.26%	0.39%	0.26%	0.25%	-2.62%
1 Week Price Chg	2.23%	-0.01%	-0.30%	-0.20%	-0.19%	-2.98%
4 Week Price Chg	8.02%	3.93%	2.38%	5.81%	3.94%	-3.84%
12 Week Price Chg	14.79%	5.18%	6.40%	-0.91%	2.01%	-18.37%
52 Week Price Chg	73.33%	5.87%	22.97%	27.05%	24.23%	1.17%
20 Day Average Volume	982,393	285,440	1,610,101	17,791,130	1,688,564	1,278,075
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.98%	0.00%
(F1) EPS Est 4 week change	1.47%	0.00%	0.00%	-2.87%	3.24%	-5.74%
(F1) EPS Est 12 week change	10.88%	1.42%	-0.50%	-1.80%	20.44%	-50.88%
(Q1) EPS Est Mthly Chg	5.00%	0.00%	0.00%	0.29%	0.00%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Momentum Score	B
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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