

Charter Communications (CHTR)

\$564.66 (As of 07/17/20)

Price Target (6-12 Months): **\$593.00**

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:A

Value: C

Growth: A

Momentum: B

Summary

Shares of Charter have outperformed the industry year to date. The company witnessed a huge spike in Internet usage since early March due to the coronavirus-induced work-from-home and online-learning wave that bodes well for top-line growth. Charter's expanding mobile subscriber base is also a key catalyst. However, as economy reopens and stay-at-home guidelines are relaxed, the growth rate is expected to decline. Moreover, Charter persistently suffers video subscriber attrition, primarily due to cord-cutting and stiff competition from streamers like Netflix, Disney+ and Amazon prime video. Hence, rising job losses are expected to intensify cord-cutting while subscription dues are also expected to shoot up. These developments don't bode well for Charter's top line.

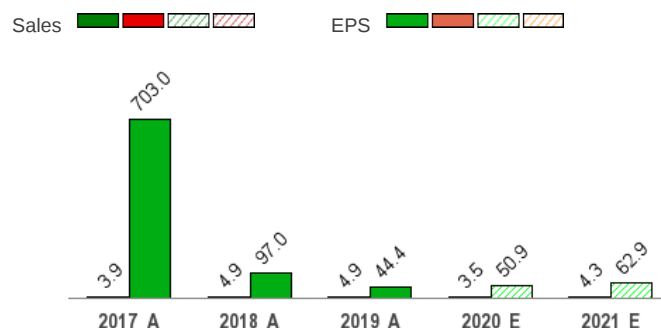
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$571.60 - \$345.67
20 Day Average Volume (sh)	1,018,439
Market Cap	\$132.2 B
YTD Price Change	16.4%
Beta	1.03
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Cable Television
Zacks Industry Rank	Bottom 25% (187 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-27.7%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	07/31/2020
Earnings ESP	-12.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	12,142 E	12,221 E	12,364 E	12,675 E	49,397 E
2020	11,738 A	11,612 E	11,811 E	12,180 E	47,378 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	\$4.09 E	\$4.33 E	\$4.45 E	\$5.98 E	\$18.54 E
2020	\$1.96 A	\$2.57 E	\$2.79 E	\$4.16 E	\$11.38 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.

P/E TTM	66.8
P/E F1	49.6
PEG F1	1.2
P/S TTM	2.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/17/2020. The reports text is as of 07/20/2020.

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 29.7 million residential and small and medium business customers as of Mar 31, 2020.

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 1.4 million subscriber lines at the end of first-quarter 2020.

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:

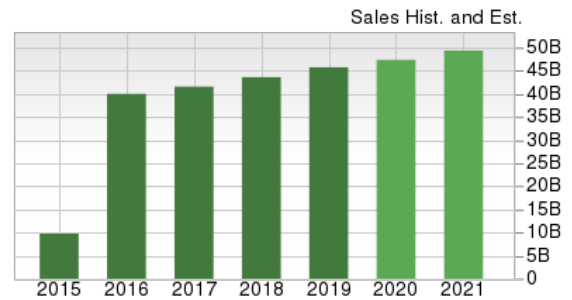
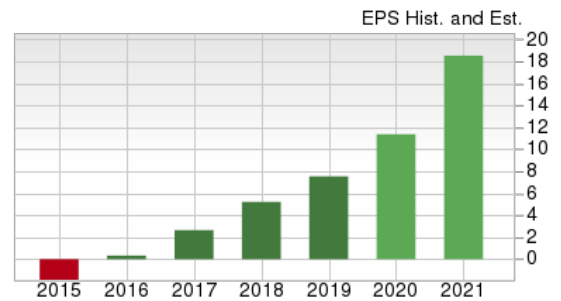
Residential (79.1% of total revenues): The segment comprises Video, Internet and Voice sub-segments. The company also generates revenues from franchise fees, equipment and video installation.

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 first-quarter 2020, total residential and SMB customer relationships increased 486K. Moreover, the company added 563K residential and 19K 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's expanding residential and commercial Internet plus small & medium business (SMB) customer base and new 5G service offerings are key catalysts.

▲ Charter saw a substantial increase in network traffic, particularly in the daytime owing to the coronavirus-led work-from-home and online-learning wave. Residential data usage for Internet-only customers was more than 600 gigabytes per month in March, up more than 20% since the fourth quarter of 2019. Also, Charter's Remote Education Offer (REO) in March, which provided free Spectrum Internet for 60 days to households with K-12 and/or college students as well as educators that did not have Spectrum Internet service, witnessed good reception. The company added 119K Internet customers through this promotional program. Moreover, as of Mar 31, 2020, approximately 50% of the REO chose to subscribe to additional services (video, voice, mobile) offered by the company.

▲ Charter launched its Spectrum Mobile service on Jun 30, 2018 under MVNO reseller agreement with Verizon. As of Mar 31, 2020, subscriber base was 1.4 million as the company added 290K lines in the first-quarter. 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.

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.
- ▼ Coronavirus is leaving a massive negative impact on the U.S. economy, which resulted in significant joblessness, thereby increasing the chances of further cord cutting. Charter is also participating in the FCC's Keep Americans Connected Pledge, pausing disconnects and collection efforts for residential and SMB customers impacted by the coronavirus. At the end of the first quarter, roughly 140K residential customers requested protection from disconnection under the pledge. At the end of April, 67K of those 140K subscribers' due balances exceeded the point of normal disconnection. The rate is expected to increase further in the second quarter. Moreover, SMBs are the worst hit by the coronavirus and Charter's substantial exposure to this cohort is a headwind, at least in the near term.
- ▼ Charter has a leveraged balance sheet. As of Mar 31, 2020, total net debt was \$76.78 billion compared with \$75.60 billion on Dec 31, 2019. Total debt-to-capital increased to 68.1% from 67.1%. Although the company generates a significant free cash flow of \$1.37 billion in the first quarter compared with \$645 million in the year-ago quarter, high debt-level amid the coronavirus-led recessionary backdrop is a major concern.

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

Last Earnings Report

Charter Q1 Earnings & Revenues Up Y/Y on User Growth

Charter reported first-quarter 2020 earnings of \$1.96 per share that jumped 67.6% year over year.

Revenues of \$11.74 billion increased 4.8% on a year-over-year basis, owing to growth in Internet, mobile, SMB and advertising sales.

The Zacks Consensus Estimate for earnings and revenues was pegged at \$2.71 per share and \$11.79 billion, respectively.

Quarter Ending **03/2020**

Report Date	May 01, 2020
Sales Surprise	-0.45%
EPS Surprise	-27.68%
Quarterly EPS	1.96
Annual EPS (TTM)	8.46

Segmental Details

Residential revenues came in at \$9.29 billion, up 4.2% from the year-ago quarter.

Monthly Residential revenue per Residential Customer (excluding mobile) totaled \$112.73, down 0.9% year over year.

Internet revenues grew 9.5% year over year to \$4.41 billion.

Video revenues inched up 0.9% to \$4.42 billion. However, voice revenues decreased 9.4% to \$457 million.

Commercial revenues increased 1.9% year over year to \$1.62 billion. Small and medium business (SMB) revenues rose 5.4% year over year to \$996 million. Enterprise revenues dipped 3.2% to \$622 million.

Moreover, advertising sales increased 5.7% year over year to \$365 million, primarily owing to lower political revenues.

Mobile revenues surged 85% year over year to \$258 million.

Other revenues came in at \$211 million, down 4.4% year over year.

Subscriber Statistics

As of Mar 31, 2020, Charter had 29.721 million total customer relationships, up 1.7% year over year. Moreover, the company had 25.471 million residential Internet customers, up 2.3% year over year.

Further, Charter added 290K mobile lines in the first quarter. As of Mar 31, 2020, the company served a total of 1.4 million mobile lines.

However, Charter continued to lose video (70K in the reported quarter) and wireline voice customers (net losses were 83K).

Operating Details

Total operating costs and expenses increased 2.7% from the year-ago quarter to \$7.34 billion.

Programming costs inched up 0.9% year over year to \$2.89 billion due to a rise in renewals and contractual programming. Regulatory, connectivity and produced content costs were down 1.7% to \$551 million.

Costs to service customers increased 1.4% year over year to \$1.85 billion. Marketing costs were \$766 million, up 4.2% year over year.

Notably, mobile costs jumped 44.4% year over year to \$374 million.

Adjusted EBITDA increased 8.4% year over year to \$4.40 billion. Moreover, adjusted EBITDA margin expanded 120 basis points (bps) to 37.4%.

Balance Sheet & Cash Flow

As of Mar 31, 2020, cash and cash equivalents were \$2.91 billion compared with \$3.48 billion as of Dec 31, 2019.

Further, as of Mar 31, total debt was \$79.69 billion compared with debt of \$79.08 billion as of Dec 31, 2019.

Recent News

On Jul 9, Charter Communications announced that its subsidiaries, CCO Holdings, LLC and CCO Holdings Capital Corp have sold \$1.5 billion in aggregate principal amount of senior unsecured notes due 2031 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 Jun 11, Charter Communications announced an investment of \$10 million in partnership with both the National Urban League (NUL) and National Action Network (NAN) to support Black and other minority-owned small businesses in underserved communities.

On Apr 17, Charter Communications raised debt through the issuance of \$1.6 billion in aggregate principal amount of senior secured notes due 2031 and \$1.4 billion in aggregate principal amount of senior secured notes due 2051.

On Apr 10, Charter Communications announced that its Spectrum Enterprise unit is delivering TV services to USNS Mercy docked in Los Angeles and USNS Comfort docked in Manhattan to help patients and medical personnel stay informed about the COVID-19 outbreak.

Valuation

Charter shares are up 16.4% in the year-to-date period and 38.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 3.6%, while the same in the Zacks Consumer Discretionary sector are down 8.1% in the year-to-date period. Over the past year, the Zacks sub-industry is up 8.6%, while the sector is down 2.1%.

The S&P 500 Index is up 0.3% in the year-to-date period and 8.8% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 12.69X, which compares to 10.12X for the Zacks sub-industry, 10.4X for the Zacks sector and 11.98X 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 \$593 price target reflects 2.87X 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	12.69	10.12	10.4	11.98
	5-Year High	105.92	19.25	17.63	12.86
	5-Year Low	8.94	8.27	8.26	8.25
	5-Year Median	16.16	10.38	12.21	10.87
EV/Sales TTM	Current	4.41	3.32	2.99	3.15
	5-Year High	9.87	3.81	3.93	3.45
	5-Year Low	3.05	2.64	2.29	2.14
	5-Year Median	3.79	3.26	3.38	2.84
P/S F12M	Current	2.73	2.25	2.29	3.58
	5-Year High	6.07	2.59	3.2	3.58
	5-Year Low	1.35	1.61	1.67	2.53
	5-Year Median	1.92	2.04	2.49	3.02

As of 07/17/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (187 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Cable One, Inc. (CABO)	Neutral	3
Comcast Corporation (CMCSA)	Neutral	3
DISH Network Corporation (DISH)	Neutral	3
Liberty Global PLC (LBTYA)	Neutral	3
Shaw Communications Inc. (SJR)	Neutral	3
ATT Inc. (T)	Neutral	3
Verizon Communications Inc. (VZ)	Neutral	3
Rogers Communication, Inc. (RCI)	Underperform	3

Industry Comparison Industry: Cable Television				Industry Peers		
	CHTR	X Industry	S&P 500	CMCSA	DISH	LBTYA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	B	C
Market Cap	132.24 B	12.06 B	22.62 B	192.05 B	17.16 B	13.82 B
# of Analysts	13	5	14	16	5	2
Dividend Yield	0.00%	0.00%	1.82%	2.18%	0.00%	0.00%
Value Score	C	-	-	B	B	C
Cash/Price	0.02	0.08	0.07	0.05	0.20	0.51
EV/EBITDA	12.64	10.26	13.05	8.38	10.33	7.67
PEG Ratio	1.16	3.01	2.99	1.89	NA	NA
Price/Book (P/B)	3.23	2.25	3.13	2.32	1.47	1.10
Price/Cash Flow (P/CF)	10.21	8.44	12.20	7.02	8.44	6.62
P/E (F1)	49.89	31.35	22.02	17.74	17.93	NA
Price/Sales (P/S)	2.86	1.90	2.34	1.77	1.34	1.20
Earnings Yield	2.02%	2.29%	4.28%	5.64%	5.59%	-3.42%
Debt/Equity	2.04	1.12	0.75	1.28	1.12	1.82
Cash Flow (\$/share)	55.31	2.72	6.94	6.01	3.88	3.45
Growth Score	A	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	120.21%	5.13%	10.85%	17.32%	-1.54%	NA
Proj. EPS Growth (F1/F0)	50.90%	0.00%	-9.37%	-24.02%	-29.77%	63.89%
Curr. Cash Flow Growth	0.57%	-3.39%	5.51%	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	0.44	1.20	1.30	0.87	1.00	1.20
Debt/Capital	67.07%	55.15%	44.33%	56.39%	53.91%	64.50%
Net Margin	3.91%	12.55%	10.59%	10.72%	8.82%	107.92%
Return on Equity	4.66%	3.56%	15.74%	17.56%	10.61%	-2.41%
Sales/Assets	0.32	0.34	0.54	0.42	0.39	0.23
Proj. Sales Growth (F1/F0)	3.53%	0.00%	-2.44%	-5.77%	0.70%	-1.20%
Momentum Score	B	-	-	C	A	B
Daily Price Chg	1.19%	0.23%	0.36%	0.09%	-1.47%	-1.21%
1 Week Price Chg	3.91%	-0.05%	-0.41%	3.21%	-3.60%	1.73%
4 Week Price Chg	5.52%	0.18%	2.56%	6.95%	-11.25%	-3.80%
12 Week Price Chg	13.13%	10.19%	15.49%	16.87%	43.09%	25.54%
52 Week Price Chg	35.86%	-19.32%	-3.93%	-5.34%	-19.81%	-18.83%
20 Day Average Volume	1,018,439	194,026	2,236,294	20,687,482	2,866,232	1,081,823
(F1) EPS Est 1 week change	-0.34%	0.00%	0.00%	0.00%	0.93%	7.69%
(F1) EPS Est 4 week change	-0.54%	0.00%	0.01%	0.85%	-2.90%	7.69%
(F1) EPS Est 12 week change	-13.37%	-17.84%	-5.24%	-18.22%	-17.84%	-87.95%
(Q1) EPS Est Mthly Chg	0.72%	0.00%	0.00%	-4.67%	-2.48%	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	A
Momentum Score	B
VGM Score	A

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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