

Charter Communications (CHTR)

\$612.53 (As of 08/24/20)

Price Target (6-12 Months): **\$643.00**

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: B

Momentum: B

Summary

Shares of Charter have outperformed the industry year to date. It benefits from growth in Internet and mobile revenues as well as an expanding user base. The company continues to witness strong spike in Internet usage due to the coronavirus-induced work-from-home and online-learning wave. Charter's expanding mobile-subscriber base is also a key catalyst. Charter's broadband service has gained traction among SMBs and enterprises. However, Charter persistently suffers video-subscriber attrition, primarily due to cord-cutting and stiff competition from streamers like Netflix, Disney+ and Amazon prime video. Moreover, due to rising job cuts, cord cutting and subscription dues are expected to shoot up, which doesn't bode well for Charter's top line. Additionally, Charter has a leveraged balance sheet, which is a concern.

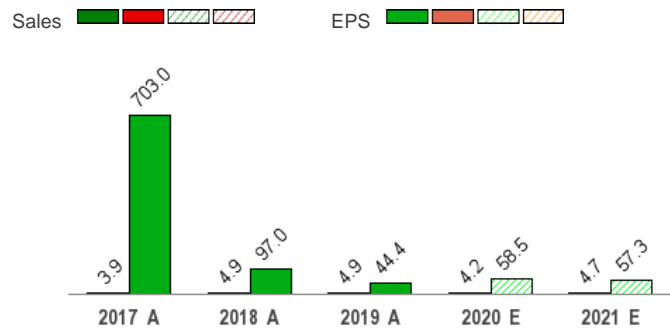
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$618.03 - \$345.67
20 Day Average Volume (sh)	833,255
Market Cap	\$125.5 B
YTD Price Change	26.3%
Beta	1.05
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Cable Television
Zacks Industry Rank	Top 49% (124 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	43.5%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	9.7%
Expected Report Date	10/23/2020
Earnings ESP	1.3%
P/E TTM	57.3
P/E F1	51.3
PEG F1	1.2
P/S TTM	2.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	12,278 E	12,362 E	12,515 E	12,815 E	49,968 E
2020	11,738 A	11,696 A	11,950 E	12,273 E	47,708 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	\$4.04 E	\$4.23 E	\$4.38 E	\$5.83 E	\$18.80 E
2020	\$1.96 A	\$3.63 A	\$2.88 E	\$4.15 E	\$11.95 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 08/24/2020. The reports text is as of 08/25/2020.

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:

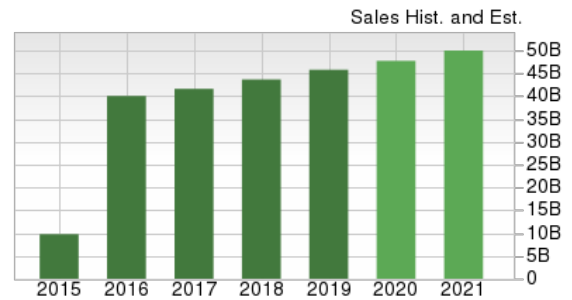
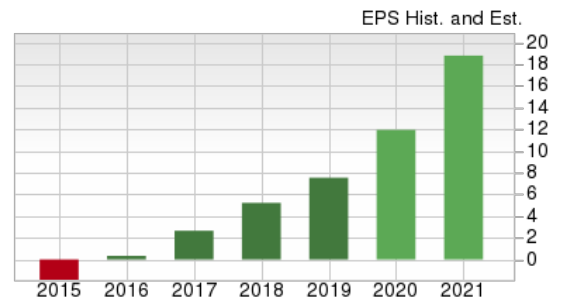
Residential (79.1% of total revenues): The segment comprises Video, Internet and Voice sub-segments. The company also generates revenues from franchise fees, equipment and video installation.

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 second-quarter 2020, total residential and SMB customer relationships increased 755K. Moreover, the company added 842K residential and 8K 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 saw a substantial increase in network traffic, particularly during 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 June, up more than 20% since the fourth quarter of 2019. Also, Charter's Remote Education Offer (REO) that began in March provided free Internet for 60 days to households with K-12 and college students as well as educators not having Spectrum Internet service witnessed good reception. The company added 448K Internet customers through this promotional program that ended on Jun 30. Moreover, approximately 50% of the REO chose to subscribe to additional services (video, voice, mobile) from Charter.
- ▲ Charter launched its Spectrum Mobile service on Jun 30, 2018 under MVNO reseller agreement with Verizon. As of Jun 30, 2020, subscriber base was 1.697 million as the company added 325K lines in the second-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.

Charter's expanding residential and commercial Internet plus 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 Jun 30, 2020, total debt was \$77.8 billion compared with debt of \$79.69 billion as of Mar 31. Although the company generates a significant free cash flow of \$1.9 billion in the second quarter compared with \$1.1 billion in the year-ago quarter, high debt-level amid the coronavirus-led recessionary backdrop is a major concern. Markedly, total debt-to-capital of 68.3% is much higher than industry's 56.4%. Moreover, times interest earned of 1.8X is less than industry's 4X.

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's Q2 Earnings and Revenues Beat Estimates

Charter reported second-quarter 2020 earnings of \$3.63 per share that beat the Zacks Consensus Estimate by 43.5% and jumped 161.2% year over year.

Revenues of \$11.70 billion increased 3.1% on a year-over-year basis owing to growth in Residential, Internet and mobile segment revenues. The figure comfortably beat the consensus mark of \$11.61 billion.

Quarter Ending 06/2020

Report Date	Jul 31, 2020
Sales Surprise	0.78%
EPS Surprise	43.48%
Quarterly EPS	3.63
Annual EPS (TTM)	10.70

Segmental Details

Residential revenues came in at \$9.35 billion, up 4.1% from the year-ago quarter.

Monthly Residential revenue per Residential Customer (excluding mobile) totaled \$110.82, down 1.2% year over year.

Internet revenues grew 10.4% year over year to \$4.53 billion.

Video revenues fell 0.4% to \$4.37 billion. Moreover, voice revenues decreased 7.7% to \$451 million.

Commercial revenues decreased 1.7% year over year to \$1.59 billion. Small and medium business revenues rose 2% year over year to \$983 million. Enterprise revenues dropped 7.1% to \$606 million.

Moreover, advertising sales plunged 37% year over year to \$249 million primarily due to lower local and national sales amid coronavirus pandemic.

Mobile revenues surged 96.1% year over year to \$310 million.

Other revenues came in at \$196 million, flat year over year.

Subscriber Statistics

As of Jun 30, 2020, Charter had 30.476 million total customer relationships, up 6.3% year over year.

Moreover, the company had 26.313 million residential Internet customers, up 8.5% year over year. More than 85% of customers were subscribers to tiers that provided 100 Mbps or more speed. Currently, 200 Mbps is the slowest speed offered to new Spectrum Internet customers in roughly 60% of Charter's footprint, with 100 Mbps being the slowest speed offered in the remaining 40% of its footprint.

Charter added 842K residential Internet customers in the reported quarter.

Further, Charter added 325K mobile lines in the second quarter. As of Jun 30, 2020, the company served a total of 1.697 million mobile lines.

Moreover, Charter added 102K video customers and 38K wireline voice customers in the quarter under review.

Operating Details

Total operating costs and expenses increased 0.6% from the year-ago quarter to \$7.21 billion.

Programming costs inched up 1.6% year over year to \$2.87 billion due to a rise in renewals and contractual programming. Regulatory, connectivity and produced-content costs were down 18.3% to \$488 million.

Costs to service customers increased 4.6% year over year to \$1.85 billion. Marketing costs were \$719 million, down 6.3% year over year.

Notably, mobile costs jumped 48.6% year over year to \$413 million.

Adjusted EBITDA increased 7.3% year over year to \$4.40 billion. Moreover, adjusted EBITDA margin expanded 150 basis points (bps) to 38.4%.

Balance Sheet & Cash Flow

As of Jun 30, 2020, cash and cash equivalents were \$2.10 billion compared with \$2.91 billion as of Mar 31, 2020. The company's credit facilities provided roughly \$4.7 billion of additional liquidity.

Further, as of Jun 30, 2020, total debt was \$77.8 billion compared with debt of \$79.69 billion as of Mar 31.

Cash flows from operating activities totaled \$3.5 billion compared with \$2.8 billion in the year-ago quarter.

Property, plant and equipment expenditures totaled \$1.9 billion in the reported quarter compared with \$1.6 billion in the year-ago quarter, primarily driven by increases in scalable infrastructure, line extensions and Internet CPE.

Charter currently expects 2020 cable capital expenditures to decline as a percentage of cable revenues versus 2019.

Free cash flow was \$1.9 billion compared with \$1.1 billion in the year-ago quarter.

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 26.3% in the year-to-date period and 54.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 4.4%, while the same in the Zacks Consumer Discretionary sector are down 4.6% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 13.1% and 6.8%, respectively.

The S&P 500 Index is up 5.5% in the year-to-date period and 18.3% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 12.02X, which compares to 10.23X for the Zacks sub-industry, 11.09X for the Zacks sector and 12.89X 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 \$643 price target reflects 2.69X 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	12.02	10.23	11.09	12.89
	5-Year High	105.92	19.25	17.79	12.89
	5-Year Low	8.94	8.27	8.34	8.25
	5-Year Median	16.16	10.36	12.23	10.91
EV/Sales TTM	Current	4.31	3.36	3.16	3.33
	5-Year High	9.87	3.81	3.75	3.46
	5-Year Low	3.05	2.64	2.29	2.14
	5-Year Median	3.82	3.26	3.39	2.88
P/S F12M	Current	2.56	2.27	2.4	3.71
	5-Year High	6.07	2.59	2.95	3.71
	5-Year Low	1.35	1.61	1.68	2.53
	5-Year Median	1.93	2.04	2.5	3.05

As of 08/24/2020

Industry Analysis Zacks Industry Rank: Top 49% (124 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Cable One, Inc. (CABO)	Outperform	3
DISH Network Corporation (DISH)	Outperform	1
Comcast Corporation (CMCSA)	Neutral	3
Liberty Global PLC (LBTYA)	Neutral	3
Rogers Communication, Inc. (RCI)	Neutral	4
Shaw Communications Inc. (SJR)	Neutral	2
ATT Inc. (T)	Neutral	3
Verizon Communications Inc. (VZ)	Neutral	3

Industry Comparison Industry: Cable Television				Industry Peers		
	CHTR	X Industry	S&P 500	CMCSA	DISH	LBTYA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	1	3
VGM Score	A	-	-	A	C	C
Market Cap	125.51 B	12.15 B	23.81 B	200.08 B	18.17 B	13.22 B
# of Analysts	10	4	14	14	4	1
Dividend Yield	0.00%	0.00%	1.64%	2.10%	0.00%	0.00%
Value Score	C	-	-	B	B	A
Cash/Price	0.02	0.08	0.07	0.07	0.15	0.54
EV/EBITDA	12.45	9.60	13.37	8.46	10.21	4.21
PEG Ratio	1.19	3.16	3.02	1.89	NA	NA
Price/Book (P/B)	3.45	2.35	3.17	2.36	1.49	1.05
Price/Cash Flow (P/CF)	11.07	8.91	12.77	7.29	8.91	6.46
P/E (F1)	51.26	31.52	21.72	18.29	17.73	NA
Price/Sales (P/S)	2.69	2.01	2.48	1.90	1.42	1.16
Earnings Yield	1.95%	2.45%	4.44%	5.46%	5.64%	-2.74%
Debt/Equity	2.13	0.83	0.76	1.25	0.90	0.83
Cash Flow (\$/share)	55.31	2.72	6.93	6.01	3.88	3.45
Growth Score	B	-	-	B	D	F
Hist. EPS Growth (3-5 yrs)	115.41%	4.27%	10.41%	17.39%	-2.69%	NA
Proj. EPS Growth (F1/F0)	58.50%	21.79%	-5.05%	-23.48%	-25.00%	71.76%
Curr. Cash Flow Growth	0.57%	-3.39%	5.20%	21.54%	-11.24%	-8.34%
Hist. Cash Flow Growth (3-5 yrs)	43.34%	2.34%	8.50%	11.76%	0.07%	-15.92%
Current Ratio	0.52	0.98	1.33	0.97	0.71	1.99
Debt/Capital	68.09%	46.84%	44.50%	55.83%	48.81%	45.26%
Net Margin	4.85%	11.89%	10.13%	10.91%	9.90%	104.07%
Return on Equity	6.05%	1.72%	14.66%	16.66%	11.14%	-3.19%
Sales/Assets	0.32	0.34	0.51	0.40	0.39	0.24
Proj. Sales Growth (F1/F0)	4.25%	0.00%	-1.45%	-6.35%	-2.31%	-1.65%
Momentum Score	B	-	-	C	C	C
Daily Price Chg	-0.23%	0.69%	1.32%	1.69%	3.13%	1.18%
1 Week Price Chg	1.48%	-1.23%	-1.45%	-1.60%	-3.29%	-0.86%
4 Week Price Chg	9.40%	2.84%	3.38%	0.55%	3.60%	-3.78%
12 Week Price Chg	13.16%	2.46%	7.69%	9.01%	5.98%	0.00%
52 Week Price Chg	54.38%	-10.13%	3.85%	1.04%	7.19%	-13.92%
20 Day Average Volume	833,255	271,607	1,873,293	14,652,835	2,949,894	1,328,095
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	9.66%	0.94%	1.00%	0.94%	6.79%	21.80%
(F1) EPS Est 12 week change	8.42%	2.04%	3.40%	2.04%	-0.58%	27.81%
(Q1) EPS Est Mthly Chg	3.82%	3.82%	0.00%	1.24%	12.00%	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	B
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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