

Liberty Global plc (LBTYA)

\$22.27 (As of 06/01/20)

Price Target (6-12 Months): **\$23.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: F

Summary

Liberty Global is suffering a persistent customer loss in the video segment, primarily due to stiff competition in the market as evident from first-quarter 2020 results. Further, discouraging voice subscriber addition does not bode well for the stock. However, the company is expected to benefit from increasing Internet speed and an expanding mobile subscriber base. Virgin Media added a record 72,000 postpaid mobile connections in the first quarter, driven by Oomph! FMC bundles, which feature super-fast broadband speeds combined with attractive mobile offers. Moreover, higher ARPU owing to price rises is a positive for the company's top line. Also, the joint venture with Telefonica in the U.K. augurs well for the long haul. Shares have outperformed the industry on a year-to-date basis.

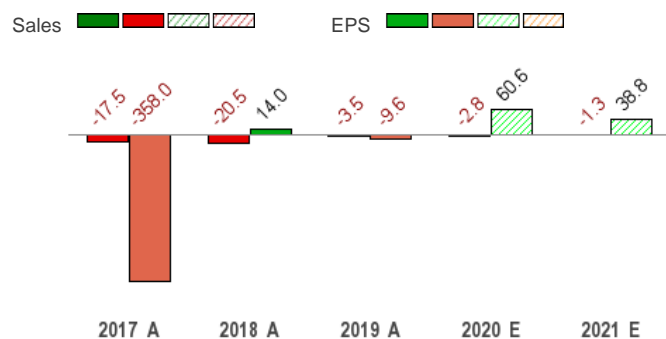
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|----------------------------------|
| 52 Week High-Low | \$28.62 - \$15.24 |
| 20 Day Average Volume (sh) | 2,486,913 |
| Market Cap | \$13.5 B |
| YTD Price Change | -2.1% |
| Beta | 1.25 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Cable Television |
| Zacks Industry Rank | Bottom 40% (152 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | -2,544.4% |
| Last Sales Surprise | NA |
| EPS F1 Est- 4 week change | -42.0% |
| Expected Report Date | 08/13/2020 |
| Earnings ESP | 0.0% |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|----------|
| 2021 | | | | | 11,081 E |
| 2020 | 2,876 A | | | | 11,224 E |
| 2019 | 2,868 A | 2,850 A | 2,841 A | 2,982 A | 11,542 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-----------|-----------|----------|-----------|-----------|
| 2021 | | | | | -\$0.52 E |
| 2020 | \$1.50 A | | | | -\$0.85 E |
| 2019 | -\$0.43 A | -\$0.50 A | \$0.77 A | -\$2.20 A | -\$2.16 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 06/01/2020. The reports text is as of 06/02/2020.

Overview

Liberty Global Plc is an international provider of video, broadband internet, fixed-line telephony, mobile and other communications services to residential customers and businesses in Europe.

As of Mar 31, 2020, the company's owned and operated networks passed 25,879,100 homes and served 24,932,300 revenue generating units (RGUs) consisting of 9,367,200 broadband internet subscribers, 8,196,800 video subscribers and 10,711,800 fixed-line telephony subscribers.

Moreover, as of Mar 31, 2020, Liberty Global served 6,362,600 mobile subscribers.

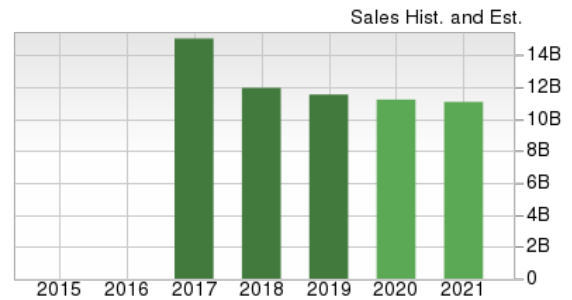
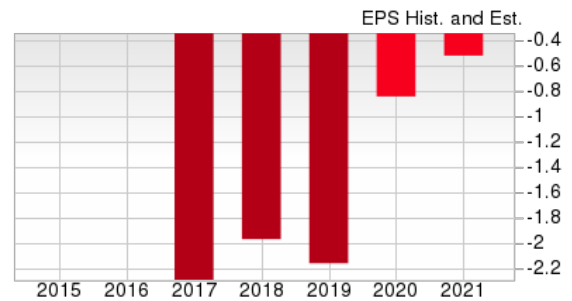
The company provides residential and business telecommunication services in (i) the United Kingdom and Ireland through Virgin Media (ii) Belgium through Telenet Group Holding, a 57.7%-owned subsidiary, and (iii) Switzerland, Poland and Slovakia through UPC Holding.

Moreover, Liberty Global has 50% non-controlling interest ownership in VodafoneZiggo, which provides residential and business-to-business communications services in the Netherlands.

The company divested a number of assets in the past couple of years. In July 2019, Liberty Global completed the sale of its operations in Germany, Romania, Hungary and the Czech Republic to Vodafone. Moreover, in May, the company completed the sale of its direct-to-home satellite (DTH) operations to M7 Group, which served customers in Hungary, the Czech Republic, Slovakia and Romania.

Further, in July 2018, the company completed the sale of its operations in Austria. Additionally, in January 2018, Liberty Global completed the spin-off of its Latin American and Caribbean operations into a new, independent, publicly-traded company, Liberty Latin America Ltd.

Revenues were \$11.54 billion in 2019. As of Dec 31, 2019, Liberty's reportable segments were U.K./Ireland (57.2% of revenues), Belgium (25.1%), Switzerland (10.9%) and Central and Eastern Europe (4.1%).



Reasons To Buy:

- ▲ Liberty Global continues to grow through several initiatives, including divestitures. Launch of DOCSIS 3.1 network services and Amazon Prime video, 50-50 joint venture (JV) with Vodafone in Netherlands, buyout of UTV Ireland TV stations from ITV, and content deal with Sky bode well for the company.
- ▲ Moreover, increasing demand for higher Internet speed in the U.K. is a key catalyst. Almost 80% of the company's broadband base prefers speed above 100 Mbps. Liberty Global expects to rollout 1 Gbps speed across the U.K. by the end of 2021. Moreover, the company's focus on offering higher value bundles is expected to drive the topline.
- ▲ Moreover, the spin-off of Latin American and Caribbean operations is expected to help Liberty Global focus on operations with long-term potential and prospects. Additionally, the divestiture of Austria, Germany, Hungary, Romania and the Czech Republic operations further helps it focus on developing its core operations.
- ▲ We are impressed with Liberty's share repurchase program that reflects the company's strong liquidity position. As of Mar 31, 2020 Liberty Global had \$10.3 billion in liquidity of which \$5.4 billion was in cash, \$20 billion of investments held under Separately Managed Accounts (SMAs) and \$2.9 billion of unused borrowing capacity. Total principal amount of debt and finance leases were \$27.5 billion for continuing operations. Moreover, the average debt tenor is seven years, with approximately 71% not due until 2026 or thereafter. As of Mar 31, 2020, Liberty Global's adjusted gross and net leverage ratios were 5.2X and 3.7X, respectively.

Liberty Global continues to grow through several initiatives including rapid penetration in the U.K., higher Internet speed offerings and aggressive share buyback.

Reasons To Sell:

- ▼ The markets for video, broadband, fixed-line telephony and mobile services are highly competitive and speedily evolving. In addition, technological advances and product innovations have amplified and are likely to continue to increase the number of alternative providers available to customers. Consequently, Liberty Global's businesses are expected to keep facing considerable competition in the countries in which they operate.
- ▼ Liberty Global's top line and EBITDA growth is weighed down by the maturing Western European operations, which account for a majority of the company's total revenues. The company also faces considerable foreign exchange rate fluctuations. Moreover, the company's plethora of acquisitions exposes it to significant integration risks.
- ▼ Liberty Global is also facing significant regulatory hurdles in Belgium, which is negatively impacting results. The company's decision to delay annual price increase due to mobile regulatory headwinds is expected to hurt top-line growth.

Competitive fixed-line and mobile services business, foreign exchange rate risks and integration risks act as major dampeners.

Last Earnings Report

Liberty Global Q1 Earnings Surge, User Base Weakens

Liberty Global's first-quarter 2020 net income was \$949.8 million compared with the year-ago quarter's \$7 million.

Revenues inched up 0.3% year over year to \$2.88 billion. However, on a rebased basis, revenues dipped 0.3% from the year-ago quarter.

Liberty Global lost 18,900 subscribers (revenue-generating units or RGUs) during the quarter compared with a subscriber loss of 1,700 in the year-ago quarter.

Quarter Ending **03/2020**

| | |
|------------------|---------------------|
| Report Date | May 06, 2020 |
| Sales Surprise | NA |
| EPS Surprise | -2,544.44% |
| Quarterly EPS | 1.50 |
| Annual EPS (TTM) | -0.43 |

Top-Line Details

Average revenue per unit (ARPU) per cable customer relationships decreased 1% to \$59.59. On a rebased basis, growth was 0.6%.

Mobile ARPU (including interconnect revenues) on a reported basis, inched up 2.9% to \$16.74. On a rebased basis, the figure increased 0.5%.

Further, mobile ARPU (excluding interconnect revenues) on a reported basis, slid 1.6% to \$13.74. On a rebased basis, the figure was down 1.3%.

U.K./Ireland RGU loss was 1,100 against a gain of 25,500 in the year-ago quarter.

U.K./Ireland revenues, on a reported basis, slipped 2.4% year over year to \$1.62 billion. On a rebased basis, U.K./Ireland revenues were down 0.6% year over year due to declines in both mobile and B2B non-subscription revenues.

U.K./Ireland (Virgin Media) ARPU increased 1.2% to £51.97. On a rebased basis, growth was 1.2%.

Virgin Media's fixed-line customer base was largely flat. Virgin added a record 72,000 postpaid mobile connections in the first quarter, driven by Oomph! FMC bundles, which feature super-fast broadband speeds combined with attractive mobile offers.

RGU attrition in Belgium was 7,500 compared with 15,200 in the year-ago quarter. Telenet added 6,000 mobile subscribers in the reported quarter.

Belgium revenues, on a reported basis, increased 0.9% year over year to \$718.1 million. On a rebased basis, revenues fell 0.4% due to coronavirus adversity.

Belgium (Telenet) ARPU increased 1.9% (on a rebased basis also) to €58.34.

Switzerland RGU attrition was 16,400 compared with subscriber loss of 23,600 in the year-ago quarter. Moreover, UPC Switzerland's fixed-line customer losses nearly decreased to half year over year in the quarter under review.

Switzerland revenues, on a reported basis, increased 0.3% year over year to \$316.8 million. On a rebased basis, revenues decreased 2.7%, primarily due to weak consumer subscription revenues.

Continuing CEE (Poland and Slovakia) gained 6,100 RGUs compared with 11,600K in the year-ago quarter.

Continuing CEE revenues, on a reported basis, were unchanged at \$119.1 million. On a rebased basis, the top line increased 3.5% owing to higher residential cable subscription revenues, driven by new build areas and growth in B2B.

Revenues from Dutch joint venture increased 3.3% year over year on a rebased basis.

Liberty Global built 123,000 new premises in the reported quarter including 93,000 in the U.K. & Ireland.

Operating Details

Operating income surged a whopping 166% from the year-ago quarter to \$280.6 million.

Segmental operating cash flow (operating income after adjusted for non-cash items) decreased 3.6% year over year to \$1.15 billion, on a rebased basis.

U.K./Ireland operating cash flow (OCF), on a rebased basis, declined 3.5% due to rise in network taxes and higher mobile data and programming costs.

Belgium OCF, on a rebased basis, increased 0.6% on lower sales and marketing expenses and stringent cost-control measures. Approximately, €10 million of prepaid sports costs were written off in the first quarter due to fixture disruption.

Switzerland OCF, on a rebased basis, was down 16% due to a decline in residential cable subscription revenues, and higher interconnect and mobile handset costs.

Finally, Continuing CEE OCF, on a rebased basis, increased 4.8% owing to higher residential cable subscription revenues.

Balance Sheet & Cash Flow

As of Mar 31, 2020, Liberty Global had \$10.3 billion of cash, investments under SMAs and unused borrowing capacity.

Total principal amount of debt and finance leases were \$27.5 billion for continuing operations. Moreover, the average debt tenor is seven years, with approximately 71% not due until 2026 or thereafter.

As of Mar 31, 2020, Liberty Global's adjusted gross and net leverage ratios were 5.2X and 3.7X, respectively.

Cash provided by operating activities was \$449.8 million, up 46.8% year over year.

Moreover, adjusted free cash outflow was \$317 million in the first quarter compared with \$558.7 million a year ago.

The company bought back roughly \$500 million shares under its repurchase program in the reported quarter.

Post Q1 Development

Liberty Global and Telefonica plan to merge their U.K. operations. The 50-50 joint venture will combine Virgin Media, the U.K.'s fastest broadband network, and O2, the country's largest mobile platform. The deal is expected to close in around mid-2021.

The joint venture is expected to deliver substantial synergies valued at £6.2 billion. The transaction is expected to generate £5.7 billion proceeds for Telefonica and £1.4 billion for Liberty Global (after an equalization payment of £2.5 billion to Telefonica).

Guidance

For 2020, Liberty Global expects rebased OCF to decline in mid-single digits on a year-over-year basis. Adjusted free cash flow is expected to be \$1 billion, up 30% year over year. The company assumes lifting of lockdowns in the second quarter and an ensuing gradual economic recovery.

However, coronavirus is expected to negatively impact handset sales and premium video, both of which are low-margin businesses.

Recent News

Per a MarketWatch report on May 4, Telefonica and Liberty Global are in discussions to merge the O2 mobile business of the former with the latter's Virgin Media Cable network.

On Apr 9, Liberty Global announced the formation of Liberty Global Response Fund aimed at helping employees and their families who have been significantly affected by the COVID-19 crisis.

On Feb 11, Liberty Global announced an expanded relationship with Plume to give consumers more control over devices connected to their home network.

On Feb 10, Liberty Global announced a multi-year deal with Netflix that will continue to offer 11 million video customers in Europe convenient access to the latter's service.

On Feb 4, Liberty Global announced that it has selected Infosys as the strategic partner to ensure business continuity in its transfer of approximately 300 roles across operations management and service delivery. Per this contract, Liberty Global will transfer up to 300 employees from its operations in The Netherlands, the U.K. and Poland to Infosys.

On Dec 16, Liberty Global announced that it has terminated discussions regarding the combination of UPC Switzerland and Sunrise Communications.

Valuation

Liberty Global shares are down 2.1% in the year-to-date period and 8.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 3.5% and 14.1% in the year-to-date period, respectively. Over the past year, Zacks sub-industry is up 8.5%, while the sector is down 3.5%.

The S&P 500 index is down 5.5% in the year-to-date period but up 11.1% in the past year.

The stock is currently trading at 1.21X forward 12-month sales, which compares to 2.07X for the Zacks sub-industry, 2.13X for the Zacks sector and 3.43X for the S&P 500 index.

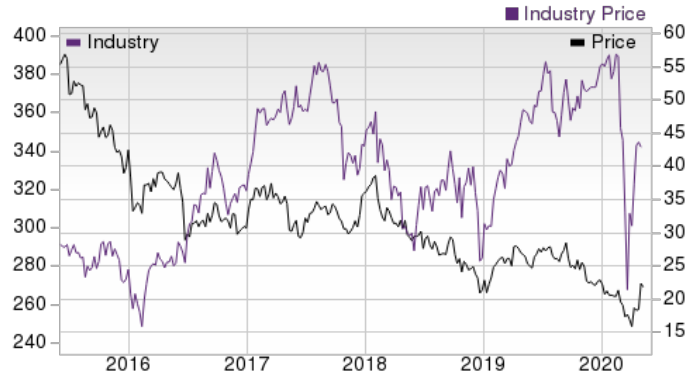
Over the past five years, the stock has traded as high as 2.65X and as low as 0.83X, with a 5-year median of 1.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$23 price target reflects 1.27X forward 12-month sales.

The table below shows summary valuation data for LBTYA

| Valuation Multiples -LBTYA | | | | | |
|----------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M | Current | 1.21 | 2.07 | 2.13 | 3.43 |
| | 5-Year High | 2.65 | 2.59 | 3.19 | 3.44 |
| | 5-Year Low | 0.83 | 1.61 | 1.67 | 2.53 |
| | 5-Year Median | 1.6 | 2.04 | 2.52 | 3.02 |
| EV/Sales TTM | Current | 2.61 | 3.15 | 2.83 | 2.98 |
| | 5-Year High | 8.8 | 3.81 | 4.05 | 3.46 |
| | 5-Year Low | 2.25 | 2.64 | 2.26 | 2.13 |
| | 5-Year Median | 4.42 | 3.27 | 3.38 | 2.83 |
| EV/EBITDA TTM | Current | 7.95 | 9.62 | 9.93 | 11.27 |
| | 5-Year High | 12.32 | 19.25 | 17.65 | 12.86 |
| | 5-Year Low | 6.08 | 8.27 | 8.26 | 8.26 |
| | 5-Year Median | 9.83 | 10.4 | 12.24 | 10.81 |

As of 06/01/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (152 out of 253)



Top Peers

| Company (Ticker) | Rec | Rank |
|----------------------------------|---------|------|
| Cable One, Inc. (CABO) | Neutral | 3 |
| Comcast Corporation (CMCSA) | Neutral | 4 |
| DISH Network Corporation (DISH) | Neutral | 3 |
| Rogers Communication, Inc. (RCI) | Neutral | 3 |
| Shaw Communications Inc. (SJR) | Neutral | 3 |
| ATT Inc. (T) | Neutral | 4 |
| TMobile US, Inc. (TMUS) | Neutral | 5 |
| WideOpenWest, Inc. (WOW) | Neutral | 3 |

| Industry Comparison Industry: Cable Television | | | | Industry Peers | | |
|--|-----------|------------|-----------|----------------|---------|---------|
| | LBTYA | X Industry | S&P 500 | DISH | RCI | SJR |
| Zacks Recommendation (Long Term) | Neutral | - | - | Neutral | Neutral | Neutral |
| Zacks Rank (Short Term) | 3 | - | - | 3 | 3 | 3 |
| VGM Score | D | - | - | C | C | B |
| Market Cap | 13.49 B | 12.14 B | 21.80 B | 17.10 B | 20.99 B | 8.40 B |
| # of Analysts | 2 | 5 | 14 | 9 | 7 | 6 |
| Dividend Yield | 0.00% | 0.00% | 1.97% | 0.00% | 3.60% | 4.97% |
| Value Score | C | - | - | B | B | A |
| Cash/Price | 0.55 | 0.07 | 0.06 | 0.20 | 0.08 | 0.00 |
| EV/EBITDA | 7.59 | 10.31 | 12.62 | 10.31 | 7.38 | 7.05 |
| PEG Ratio | NA | 2.86 | 2.92 | NA | 4.03 | 5.23 |
| Price/Book (P/B) | 1.07 | 2.29 | 2.98 | 1.46 | 2.76 | 1.87 |
| Price/Cash Flow (P/CF) | 6.46 | 8.41 | 11.85 | 8.41 | 5.93 | 6.28 |
| P/E (F1) | NA | 31.37 | 21.45 | 16.56 | 16.47 | 18.03 |
| Price/Sales (P/S) | 1.17 | 1.87 | 2.30 | 1.33 | 1.87 | 2.05 |
| Earnings Yield | -3.82% | 2.24% | 4.48% | 6.04% | 6.06% | 5.56% |
| Debt/Equity | 1.82 | 1.28 | 0.76 | 1.12 | 1.95 | 0.65 |
| Cash Flow (\$/share) | 3.45 | 2.72 | 6.96 | 3.88 | 7.01 | 2.72 |
| Growth Score | D | - | - | C | C | B |
| Hist. EPS Growth (3-5 yrs) | NA% | 5.13% | 10.87% | -1.54% | 11.80% | -3.39% |
| Proj. EPS Growth (F1/F0) | 60.88% | -8.33% | -10.79% | -24.23% | -19.35% | -12.19% |
| Curr. Cash Flow Growth | -8.34% | 1.79% | 5.46% | -11.24% | 1.79% | -3.39% |
| Hist. Cash Flow Growth (3-5 yrs) | -15.92% | 2.34% | 8.55% | 0.07% | 2.34% | -1.48% |
| Current Ratio | 1.20 | 1.20 | 1.29 | 1.00 | 1.10 | 0.51 |
| Debt/Capital | 64.50% | 60.44% | 44.75% | 53.91% | 66.15% | 39.46% |
| Net Margin | 107.92% | 13.32% | 10.59% | 8.82% | 13.45% | 13.32% |
| Return on Equity | -2.41% | 3.56% | 16.29% | 10.61% | 22.08% | 11.56% |
| Sales/Assets | 0.23 | 0.35 | 0.55 | 0.39 | 0.40 | 0.35 |
| Proj. Sales Growth (F1/F0) | -2.75% | 0.00% | -2.67% | -2.85% | -9.10% | -2.72% |
| Momentum Score | F | - | - | D | D | D |
| Daily Price Chg | 4.85% | 0.33% | 0.80% | 3.10% | -0.79% | 1.30% |
| 1 Week Price Chg | 1.94% | 5.35% | 4.60% | 7.07% | 6.78% | 5.63% |
| 4 Week Price Chg | -1.15% | 7.11% | 8.94% | 38.26% | 2.54% | 6.15% |
| 12 Week Price Chg | 26.68% | 18.11% | 8.65% | 30.89% | -3.93% | 7.48% |
| 52 Week Price Chg | -8.80% | -10.27% | 0.08% | -8.16% | -21.70% | -16.42% |
| 20 Day Average Volume | 2,486,913 | 247,604 | 2,465,511 | 3,150,056 | 597,899 | 594,180 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | -42.02% | -7.62% | -0.27% | -10.51% | -8.50% | 0.00% |
| (F1) EPS Est 12 week change | -106.10% | -20.94% | -16.20% | -14.16% | -22.06% | -6.41% |
| (Q1) EPS Est Mthly Chg | NA% | -4.03% | -0.83% | 0.15% | -8.54% | 0.00% |

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 | F |
| VGM Score | D |

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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