

Liberty Global plc (LBTYA)

\$20.83 (As of 02/04/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: A

Growth: D

Momentum: F

Summary

Liberty Global is suffering from continued customer loss in the video segment, primarily due to stiff competition in the market. Additionally, declining cable revenues, and discouraging data and voice subscriber addition do not bode well for the stock. Weak performance by Virgin Media is expected to hurt the top line in the near term. Shares have underperformed the industry in the past year. However, the company is expected to benefit from increasing Internet speed and an expanding mobile subscriber base. Moreover, increased ARPU owing to price increases is a positive for the top line. The company's plan to reduce corporate costs is expected to boost profitability. Notably, estimates have been stable ahead of the company's fourth-quarter earnings release. The company has a mixed record of earnings surprises in recent quarters.

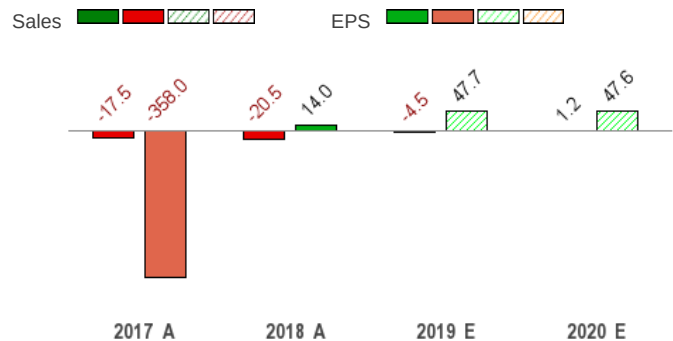
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$28.62 - \$19.69
20 Day Average Volume (sh)	1,560,265
Market Cap	\$13.2 B
YTD Price Change	-8.4%
Beta	1.38
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Cable Television
Zacks Industry Rank	Top 15% (38 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	250.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-25.6%
Expected Report Date	02/13/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					11,553 E
2019	2,868 A	2,850 A	2,841 A		11,421 E
2018	4,156 A	3,045 A	2,958 A	2,949 A	11,958 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					-\$0.54 E
2019	-\$0.43 A	-\$0.50 A	\$0.77 A	\$0.09 E	-\$1.03 E
2018	-\$1.47 A	\$0.80 A	-\$0.56 A	\$0.03 A	-\$1.97 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 02/04/2020. The reports text is as of 02/05/2020.

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.

The company provides residential and business-to-business (B2B) communication services in (i) the United Kingdom and Ireland through Virgin Media (ii) Belgium through Telenet Group Holding, a 57.7%-owned subsidiary, (iii) Switzerland and Poland through UPC Holding B.V., and (iv) Slovakia through UPC Broadband Slovakia. Moreover, the company has 50% non-controlling interest ownership in VodafoneZiggo (serves Netherlands).

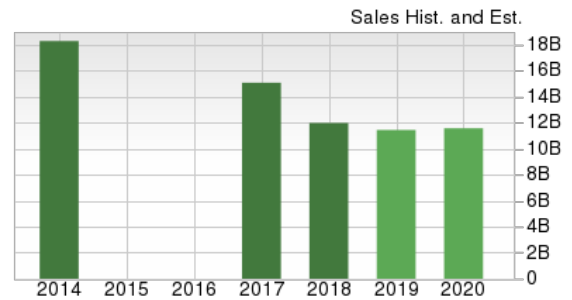
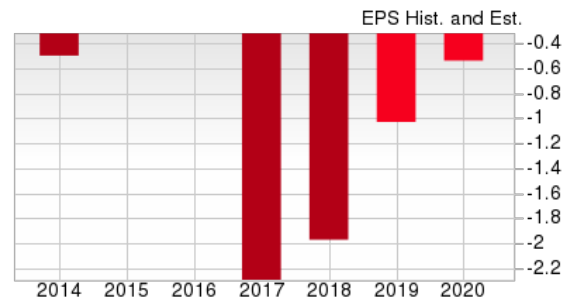
Notably, in January 2018, the company completed the spin-off of its Latin American and Caribbean operations into a new, independent, publicly-traded company — Liberty Latin America Ltd. On Jul 31, 2018, the company completed the sale of its operations in Austria.

Liberty Global completed the sale of its DTH business for €180 million (\$202 million) in May. Moreover, on Jul 31, the company completed the divestiture of its operations in Germany, Hungary, Romania and the Czech Republic to Vodafone for \$21.3 billion.

Notably, on Feb 27, Liberty Global inked a share purchase agreement ("SPA") to sell its operations in Switzerland (UPC Switzerland) to Sunrise Communications Group AG (Sunrise). However, the company terminated discussions regarding the combination on Dec 16, 2019.

As of Dec 31, 2018, UPC Switzerland's network passed 2.3 million homes and served 1.1 million customers who subscribed to 1.1 million video, 700,000 broadband and 520,000 voice services.

Revenues from continuing operations, including Switzerland, declined 3% year over year to \$2.84 billion. As of Mar 31, 2019, Liberty's reportable segments were U.K./Ireland (57.9% of revenues), Belgium (24.8%), Switzerland (11%) and Continuing CEE (4.2%).



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 top line
- ▲ Further, the spin-off of Latin American and Caribbean operations helped 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. Liberty Global has \$10 billion in liquidity of which \$7.4 billion is in cash. The company continues to target 4x-5x leverage, which will further reduce investment risks.

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 Q3 Earnings Improve Y/Y, Revenues Fall

Liberty Global reported third-quarter 2019 net income of \$12,847.9 million compared with the year-ago quarter's \$974.1 million. These include a \$12.2-billion gain from the sale of the company's operations in Germany, Hungary, Romania and the Czech Republic recognized during the reported quarter.

Revenues from continuing operations, including Switzerland, declined 3% year over year to \$2.84 billion. On a rebased basis, revenues decreased 0.6% from the year-ago quarter. Excluding Switzerland, revenues declined 0.2%.

Liberty Global lost 76,300 subscribers (revenue generating units or RGUs) during the quarter against a subscriber addition of 32,000 in the year-ago quarter, primarily due to weakness at Virgin Media. Excluding Switzerland operations, the company lost 62,200 RGUs in the reported quarter.

Quarter Ending 09/2019

Report Date	Nov 06, 2019
Sales Surprise	NA
EPS Surprise	250.00%
Quarterly EPS	0.77
Annual EPS (TTM)	-0.13

Top-Line Details

Residential cable revenues decreased 1.3% year over year to \$1.82 billion. Moreover, B2B revenues declined 0.7% from the year-ago quarter to \$463.3 million. However, residential mobile revenues increased 0.8% to \$401 million.

The company lost 65,700 video RGUs compared with 32,600 RGUs lost in the year-ago quarter. It also lost 21,400 voice RGUs compared with a gain of 40,700 RGUs in the year-ago quarter.

Further, Liberty Global added 10,800 data RGUs, significantly down from 23,900 RGUs added in the year-ago quarter.

Average revenue per unit (ARPU) per cable customer relationships decreased 4.2% to \$57.94. On a rebased basis, growth was 0.3%.

U.K./Ireland RGU loss was 52,700 against a gain of 105,300 in the year-ago quarter due to slower growth in voice and video.

U.K./Ireland revenues, on a reported basis, decreased 5.3% year over year to \$1.58 billion. On a rebased basis, U.K./Ireland revenues were almost flat year over year.

U.K./Ireland (Virgin Media) ARPU per cable customer relationships increased 0.6% to £51.41. On a rebased basis, growth was 0.5%.

RGU attrition in Belgium was 36,000 compared with 52,900 in the year-ago quarter.

Belgium revenues, on a reported basis, decreased 3.3% year over year to \$721.9 million. On a rebased basis, revenues dropped 2% due to lower B2B non-subscription revenues and residential cable revenues.

Belgium (Telenet) ARPU per cable customer relationships increased 2.4% (on a rebased basis also) to €57.84.

Switzerland RGU attrition was 14,100 compared with subscriber loss of 41,500 in the year-ago quarter. Revenues, on a reported basis, decreased 3.6% year over year to \$311.7 million. On a rebased basis, revenues decreased 3.3%, primarily due to lower residential cable subscription revenues.

UPC ARPU per cable customer relationships decreased 0.9% to €37.06. On a rebased basis, ARPU declined 3.5%.

Continuing CEE (Poland and Slovakia) gained 26,500 RGUs compared with 21,100 in the year-ago quarter. Growth was primarily driven by improved sales in Poland.

Continuing CEE revenues, on a reported basis, declined 2.6% year over year to \$117.2 million. On a rebased basis, revenues increased 2.4% due to higher residential cable subscription revenues.

Liberty Global built 162,000 new premises in the reported quarter, including 119,000 in the U.K. & Ireland.

Mobile Details

In mobile, Liberty Global added 132,400 subscribers compared with 23,700 in the year-ago quarter.

Belgium added 31,000 mobile subscribers supported by the company's converged WIGO offering. In U.K./Ireland, Liberty Global gained 107,000 mobile subscriptions, driven by the launch of unlimited FMC bundles.

Virgin Media's fixed-mobile converged base expanded 80 basis points (bps) sequentially to 20.7% in the reported quarter. Management expects increasing adoption of converged bundles to drive ARPU and lower churn rate in the long haul.

Mobile ARPU (including interconnect revenues), on a reported basis, decreased 15.1% to \$16.47. On a rebased basis, the figure declined 4.7%.

Further, mobile ARPU (excluding interconnect revenues), on a reported basis, decreased 8.5% to \$14.23. On a rebased basis, the figure dropped 4.8%.

Operating Details

Operating income increased 1.8% from the year-ago quarter to \$208.8 million.

Segment operating cash flow (operating income after adjusted for non-cash items) decreased 4.1% year over year to \$1.21 billion, on a rebased basis.

U.K./Ireland operating cash flow (OCF), on a rebased basis, declined 4.1% on lower revenues, increased programming costs, higher mobile data costs and raised network taxes.

Belgium OCF, on a rebased basis, decreased 2.3% due to the Medialaan MVNO contract loss and certain regulatory headwinds.

Switzerland OCF, on a rebased basis, was down 11.9% due to a decline in residential cable subscription revenues, and higher project and marketing spend.

Finally, Continuing CEE OCF, on a rebased basis, increased 0.5% due to higher marketing spending.

Balance Sheet & Cash Flow

As of Sep 30, Liberty Global had \$7.4 billion of cash and unused borrowing capacity of \$2.5 billion under its credit facilities.

Total principal amount of debt and capital leases were \$27.6 billion for continuing operations. Moreover, the average debt tenor is seven years, with approximately 75% not due until 2025, for continuing operations.

As of Sep 30, Liberty Global's adjusted gross and net leverage ratios were 5.1x and 3.6x, respectively.

Cash provided by operating activities was \$591.7 million, while adjusted free cash outflow from continuing operations was \$70.9 million in the reported quarter.

Liberty Global successfully completed its modified Dutch auction tender offer in the reported quarter. The company repurchased nearly 100 million shares in total at a blended average price of just more than \$27 per share for a combined aggregate cost of \$2.7 billion.

Guidance

For 2019, rebased OCF from continuing operations (excluding Switzerland) is expected to be flat to down year over year.

Adjusted free cash flow is expected between \$550 million and \$600 million.

Recent News

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. Notably, on Oct 13, Liberty Global and Sunrise Communications had announced an agreement, whereby the former will support the latter regarding the acquisition of UPC Switzerland. Liberty Global had agreed to support Sunrise's rights offering up to an aggregate amount of CHF 500 million through the purchase of tradeable subscription rights at market prices and the subsequent purchase of newly-issued shares, if any.

On Oct 31, Liberty Global revealed details of its latest project that utilizes the network infrastructure of its U.K. subsidiary, Virgin Media, to help revolutionize on-street electric-vehicle charging. This project, a Liberty Global-Innovate UK partnership, utilizes Virgin Media's 40,000 powered street cabinets and 170,000 km of ducts. Over the next 18 months, the company aims to deploy and operate 1,200 charging sockets across the country as part of the project.

Valuation

Liberty Global shares are down 18.5% in the past six-month period and 17.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 12.2% and 9.1% in the past six-month period, respectively. Over the past year, Zacks sub-industry and the sector are up 22.2% and 12.7%, respectively.

The S&P 500 index is up 13.4% in the past six-month period and 18.2% in the past year.

The stock is currently trading at 1.14X forward 12-month sales, which compares to 2.09X for the Zacks sub-industry, 2.32X for the Zacks sector and 3.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.68X and as low as 1.12X, with a 5-year median of 1.66X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$22 price target reflects 1.20X 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	1.14	2.09	2.32	3.5
	5-Year High	2.68	2.59	3.19	3.5
	5-Year Low	1.12	1.61	1.81	2.54
	5-Year Median	1.66	2.13	2.54	3
EV/Sales TTM	Current	2.6	3.39	3.3	3.31
	5-Year High	8.8	3.83	4.01	3.31
	5-Year Low	2.56	2.04	2.43	2.12
	5-Year Median	4.48	3.28	3.43	2.79
EV/EBITDA TTM	Current	21.38	10.77	12.4	11.95
	5-Year High	33.59	19.42	17.76	12.85
	5-Year Low	6.32	7.07	9.29	8.49
	5-Year Median	11.08	10.59	12.4	10.66

As of 02/04/2020

Industry Analysis Zacks Industry Rank: Top 15% (38 out of 255)



Top Peers

Cable One, Inc. (CABO)	Outperform
DISH Network Corporation (DISH)	Outperform
Comcast Corporation (CMCSA)	Neutral
Rogers Communication, Inc. (RCI)	Neutral
Shaw Communications Inc. (SJR)	Neutral
AT&T Inc. (T)	Neutral
T-Mobile US, Inc. (TMUS)	Neutral
WideOpenWest, Inc. (WOW)	Neutral

Industry Comparison Industry: Cable Television				Industry Peers		
	LBTYA Neutral	X Industry	S&P 500	DISH Outperform	RCI Neutral	SJR Neutral
VGM Score	D	-	-	D	C	D
Market Cap	13.17 B	11.51 B	24.31 B	18.13 B	25.48 B	9.67 B
# of Analysts	2	4	13	5	8	6
Dividend Yield	0.00%	0.00%	1.78%	0.00%	3.02%	4.66%
Value Score	A	-	-	B	C	C
Cash/Price	0.57	0.02	0.04	0.09	0.02	0.01
EV/EBITDA	5.38	10.15	13.98	10.15	8.23	7.80
PEG Ratio	NA	2.21	2.01	NA	3.20	4.16
Price/Book (P/B)	0.98	2.40	3.29	1.78	3.59	2.04
Price/Cash Flow (P/CF)	6.54	7.36	13.58	7.52	7.19	7.18
P/E (F1)	NA	19.31	18.82	17.77	15.41	19.31
Price/Sales (P/S)	1.14	2.24	2.66	1.41	2.24	2.39
Earnings Yield	-2.59%	2.60%	5.30%	5.63%	6.49%	5.16%
Debt/Equity	1.80	1.28	0.71	1.28	1.85	0.65
Cash Flow (\$/share)	3.19	2.72	6.92	4.89	6.94	2.72
Growth Score	D	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	NA%	7.04%	10.80%	2.81%	11.28%	-4.73%
Proj. EPS Growth (F1/F0)	47.57%	30.59%	7.40%	-17.14%	3.47%	-6.18%
Curr. Cash Flow Growth	121.51%	18.76%	10.22%	8.12%	1.79%	-3.39%
Hist. Cash Flow Growth (3-5 yrs)	-11.66%	7.25%	8.55%	3.68%	2.34%	-1.48%
Current Ratio	1.26	1.26	1.21	0.60	0.86	0.56
Debt/Capital	64.33%	59.72%	42.91%	57.18%	64.97%	39.23%
Net Margin	112.38%	13.22%	11.79%	10.47%	13.55%	13.22%
Return on Equity	-1.75%	1.10%	17.24%	14.55%	23.66%	11.41%
Sales/Assets	0.22	0.35	0.55	0.41	0.43	0.35
Proj. Sales Growth (F1/F0)	1.15%	4.63%	4.10%	-3.02%	2.48%	4.46%
Momentum Score	F	-	-	D	C	C
Daily Price Chg	1.81%	0.05%	1.49%	0.08%	0.38%	0.72%
1 Week Price Chg	0.05%	-0.23%	-2.60%	0.05%	-0.46%	-1.56%
4 Week Price Chg	-6.51%	0.06%	0.51%	3.49%	0.12%	-5.09%
12 Week Price Chg	-12.37%	8.48%	4.44%	2.14%	4.96%	-4.54%
52 Week Price Chg	-19.85%	-0.01%	14.65%	17.77%	-9.19%	-5.46%
20 Day Average Volume	1,560,265	347,693	1,935,862	2,174,445	451,345	510,361
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-25.58%	0.00%	0.00%	0.98%	-1.33%	-7.03%
(F1) EPS Est 12 week change	-86.21%	1.42%	-0.10%	20.52%	-2.52%	-7.03%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	-7.88%	NA	-9.52%

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	A
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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