

Liberty Global plc (LBTYA)

\$16.69 (As of 03/30/20)

Price Target (6-12 Months): **\$18.00**

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:F

Value: B

Growth: F

Momentum: F

Summary

Liberty Global is suffering a persistent 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, as indicated by the fourth-quarter results. 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, higher ARPU owing to price increases is a positive for the top line. Additionally, the long-term agreement with Netflix and Amazon Prime in the U.K. augurs well for the company.

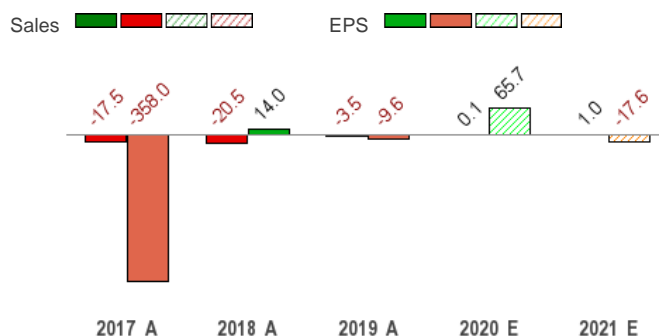
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$28.62 - \$15.24
20 Day Average Volume (sh)	2,460,566
Market Cap	\$10.6 B
YTD Price Change	-26.6%
Beta	1.21
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Cable Television
Zacks Industry Rank	Top 9% (23 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2,544.4%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-80.5%
Expected Report Date	05/04/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					11,672 E
2020					11,553 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					-\$0.87 E
2020					-\$0.74 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.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/30/2020. The reports text is as of 03/31/2020.

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 Dec 31, 2019, the company's owned and operated networks passed 25,759,100 homes and served 25,047,500 revenue generating units (RGUs) consisting of 9,345,200 broadband internet subscribers, 8,281,200 video subscribers and 7,421,100 fixed-line telephony subscribers.

Moreover, as of Dec 31, 2019, Liberty Global served 6,295,200 mobile subscribers.

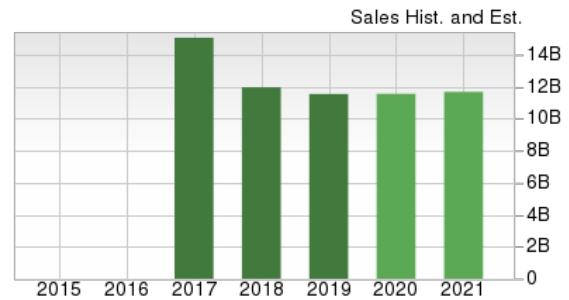
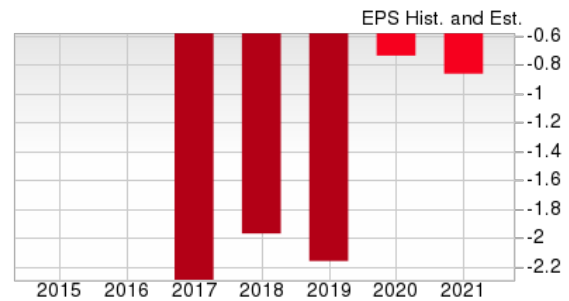
The company provides residential and business telecommunication services in (i) the United Kingdom and Ireland through Virgin Media (ii) Belgium through Telenet Group Holding, a 57.7%-owned subsidiary, and (iii) Switzerland, Poland and Slovakia through UPC Holding.

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. Liberty Global has \$11.1 billion in liquidity of which \$8.1 billion is in cash. The company continues to target 4 times leverage by the end of 2020, 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 Incurs Loss in Q4

Liberty Global's fourth-quarter 2019 net loss of \$1,386.5 million came in against the year-ago quarter's income of \$25.1 million.

Revenues inched up 1.1% year over year to \$2.98 billion. On a rebased basis, revenues dipped 0.6% from the year-ago quarter.

Liberty Global lost 128,300 subscribers (revenue generating units or RGUs) during the quarter compared with a subscriber loss of 32,500 in the year-ago quarter.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	NA
EPS Surprise	-2,544.44%
Quarterly EPS	-2.20
Annual EPS (TTM)	-2.36

Top-Line Details

Residential cable revenues decreased 0.9% year over year to \$1.90 billion. Moreover, B2B revenues slipped 0.8% from the year-ago quarter to \$490.9 million. However, residential mobile revenues increased 5.2% to \$429.9 million.

The company lost 91,300 video RGUs compared with 74,900 RGUs lost in the year-ago quarter. It also lost 52,700 voice RGUs against a gain of 17,600 RGUs in the year-ago quarter.

Further, Liberty Global added 15,700 data RGUs, significantly down from 24,800 RGUs added in the year-ago quarter.

Average revenue per unit (ARPU) per cable customer relationships increased 0.1% to \$60.22. On a rebased basis, growth was 0.8%.

U.K./Ireland RGU loss was 110,900 against a gain of 23,500 in the year-ago quarter.

U.K./Ireland revenues, on a reported basis, increased 1.2% year over year to \$1.72 billion. On a rebased basis, U.K./Ireland revenues were up 1.3% year over year.

U.K./Ireland (Virgin Media) ARPU per cable customer relationships increased 1.4% to £52.44. On a rebased basis, growth was 1.6%.

RGU attrition in Belgium was 18,600 compared with 54,400 in the year-ago quarter.

Belgium revenues, on a reported basis, increased 1.7% year over year to \$746 million. On a rebased basis, revenues slid 2% due to lower B2B non-subscription revenues and residential cable revenues.

Belgium (Telenet) ARPU per cable customer relationships increased 2.2% (on a rebased basis also) to €58.38.

Switzerland RGU attrition was 34,300 compared with subscriber loss of 48,600 in the year-ago quarter. Revenues, on a reported basis, decreased 2.9% year over year to \$316.1 million. On a rebased basis, revenues decreased 3.5%, primarily due to weak residential cable subscription revenues.

Continuing CEE (Poland and Slovakia) gained 35,500 RGUs compared with 47K in the year-ago quarter.

Continuing CEE revenues, on a reported basis, increased 0.8% year over year to \$120 million. On a rebased basis, revenues increased 3.5% owing to higher residential cable subscription revenues.

Liberty Global built 191,000 new premises in the reported quarter including 154,000 in the U.K. & Ireland.

Mobile Details

In mobile, Liberty Global added 87,500 subscribers compared with 33,300 in the year-ago quarter.

Belgium added 30K mobile subscribers supported by the company's converged WIGO offering. In U.K./Ireland, Liberty Global gained 76K mobile subscriptions, driven by the launch of unlimited FMC bundles.

Virgin Media's fixed-mobile converged base expanded 50 basis points (bps) sequentially to 21.2% in the reported quarter.

Mobile ARPU (including interconnect revenues), on a reported basis, decreased 11.2% to \$16.15. On a rebased basis, the figure declined 2%.

Further, mobile ARPU (excluding interconnect revenues), on a reported basis, decreased 3.5% to \$13.98. On a rebased basis, the figure was down 2%.

Operating Details

Operating income increased 12% from the year-ago quarter to \$282.5 million.

Segmental operating cash flow (operating income after adjusted for non-cash items) decreased 4.1% year over year to \$1.27 billion, on a rebased basis.

U.K./Ireland operating cash flow (OCF), on a rebased basis, declined 1.4% due to rise in network taxes, higher mobile data costs and marketing spend as well as an increase in programming costs.

Belgium OCF, on a rebased basis, decreased 4.1% due to the Medialaan MVNO contract loss, certain regulatory headwinds and higher

programming costs.

Switzerland OCF, on a rebased basis, was down 13.1% due to a decline in residential cable subscription revenues, and higher interconnect and roaming costs.

Finally, Continuing CEE OCF, on a rebased basis, decreased 10.7% due to increase in programming and project related external spending.

Balance Sheet & Cash Flow

As of Dec 31, Liberty Global had \$11.1 billion of cash and unused borrowing capacity of \$3 billion under its credit facilities.

Total principal amount of debt and capital leases were \$28.3 billion for continuing operations. Moreover, the average debt tenor is seven years, with approximately 74% not due until 2025, for continuing operations.

As of Dec 31, Liberty Global's adjusted gross and net leverage ratios were 5.4x and 3.7x, 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.

The company has authorized a new \$1-billion share repurchase program.

Guidance

For 2020, rebased OCF is expected 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.

Recent News

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 31.1% in the past six-month period and 32.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 12.4% and 19% in the past six-month period, respectively. Over the past year, Zacks sub-industry and the sector are down 4.5% and 20%, respectively.

The S&P 500 index is down 13.5% in the past six-month period and 11.8% in the past year.

The stock is currently trading at 0.91X forward 12-month sales, which compares to 1.69X for the Zacks sub-industry, 1.70X for the Zacks sector and 2.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.68X and as low as 0.85X, with a 5-year median of 1.63X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18 price target reflects 0.98X 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	0.91	1.69	1.7	2.75
	5-Year High	2.68	2.59	3.19	3.43
	5-Year Low	0.85	1.61	1.7	2.54
	5-Year Median	1.63	2.04	2.52	3
EV/Sales TTM	Current	2.32	2.84	2.49	2.64
	5-Year High	8.8	3.81	4.02	3.46
	5-Year Low	2.25	2.63	2.27	2.16
	5-Year Median	4.45	3.29	3.4	2.83
EV/EBITDA TTM	Current	7.06	8.89	9.03	9.4
	5-Year High	12.32	19.25	17.6	12.88
	5-Year Low	6.08	8.26	8.26	8.27
	5-Year Median	9.92	10.46	12.27	10.78

As of 03/30/2020

Industry Analysis Zacks Industry Rank: Top 9% (23 out of 254)



Top Peers

DISH Network Corporation (DISH)	Outperform
Cable One, Inc. (CABO)	Neutral
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	F	-	-	B	C	D
Market Cap	10.56 B	10.01 B	18.21 B	10.84 B	20.40 B	8.08 B
# of Analysts	2	4	13	6	8	6
Dividend Yield	0.00%	0.00%	2.3%	0.00%	3.70%	5.67%
Value Score	B	-	-	B	C	C
Cash/Price	0.76	0.04	0.06	0.26	0.02	0.01
EV/EBITDA	6.79	8.10	11.22	8.10	7.13	6.81
PEG Ratio	NA	1.80	1.74	NA	2.59	3.39
Price/Book (P/B)	0.80	1.91	2.41	0.94	2.88	1.63
Price/Cash Flow (P/CF)	4.84	5.90	9.70	5.34	5.76	5.74
P/E (F1)	NA	24.30	15.12	9.21	12.48	15.71
Price/Sales (P/S)	0.91	1.80	1.96	0.85	1.80	2.00
Earnings Yield	-4.43%	3.04%	6.55%	10.85%	8.02%	6.40%
Debt/Equity	1.84	1.23	0.70	1.13	1.85	0.65
Cash Flow (\$/share)	3.45	2.72	7.01	3.88	7.01	2.72
Growth Score	F	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	NA%	6.03%	10.89%	0.78%	11.28%	-4.73%
Proj. EPS Growth (F1/F0)	65.74%	9.38%	1.80%	-13.40%	3.47%	-7.87%
Curr. Cash Flow Growth	-8.34%	1.79%	5.93%	-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	1.22	0.96	1.23	0.89	0.86	0.56
Debt/Capital	64.81%	60.12%	42.57%	54.06%	64.97%	39.23%
Net Margin	99.83%	13.22%	11.64%	10.93%	13.55%	13.22%
Return on Equity	-17.91%	1.10%	16.74%	13.99%	23.66%	11.41%
Sales/Assets	0.23	0.35	0.54	0.40	0.43	0.35
Proj. Sales Growth (F1/F0)	0.10%	1.59%	2.08%	-2.54%	2.48%	1.59%
Momentum Score	F	-	-	B	D	D
Daily Price Chg	-0.83%	1.84%	2.63%	-1.19%	4.99%	2.49%
1 Week Price Chg	-4.54%	14.99%	12.32%	5.06%	1.88%	15.62%
4 Week Price Chg	-16.22%	-16.09%	-18.22%	-39.62%	-15.97%	-13.07%
12 Week Price Chg	-26.09%	-19.56%	-23.36%	-41.84%	-18.58%	-23.42%
52 Week Price Chg	-32.97%	-33.58%	-17.22%	-37.45%	-24.64%	-25.54%
20 Day Average Volume	2,460,566	495,208	4,211,236	4,838,560	980,336	1,499,449
(F1) EPS Est 1 week change	0.00%	0.00%	-0.19%	0.00%	0.00%	-1.81%
(F1) EPS Est 4 week change	-80.49%	-1.81%	-3.07%	8.67%	0.00%	-1.81%
(F1) EPS Est 12 week change	-72.09%	0.00%	-4.15%	9.84%	-1.33%	-8.72%
(Q1) EPS Est Mthly Chg	NA%	0.00%	-2.28%	12.16%	0.00%	0.00%

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	B
Growth Score	F
Momentum Score	F
VGM Score	F

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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