

# Charter Communications, Inc. (NYSE: CHTR)

Sector: Telecommunications



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$398.14	\$337.54	\$369.51	\$250.10	53.6x	\$86.57 B	0.00%	1.41

## Business Description

Charter Communications is the second largest cable operator in the United States and a leading broadband communications services company providing video, Internet, and voice services to approximately 28.1 million residential and small and medium business customers. In addition, they recently launched their Spectrum mobile service to residential customers along with video and online advertising inventory to local, regional, and national customers. Charter's core strategy is to use their network to deliver high quality products at competitive prices, and combined with excellent service. The capability and functionality of their two-way network continues to grow, especially with the respect to wireless connectivity. The Internet service they offer consumers allows them to wirelessly connect to their network using Wi-Fi technology. Lastly, they are testing and evaluating opportunities for growth with their customers via their mobile network operator (MVNO) reseller agreement with Verizon Communications Inc.

## Industry Trends

Broadband has been a key cable growth area with subscriptions rising 6% a year with high speed data demand reaching new highs. Total Cable HSD subscribers was 68.2 million in 2018 and is expected to rise to 70.7 million in 2022. Moreover, residential voice services have witnessed significant decline in revenues due to increasing usage of wireless voice services. In addition, growing consumer preference for digital and subscription services instead of linear pay-tv and rental or outright purchase has compelled industry participants to alter their business models. However, U.S Broadband Only Subscribers has increased from 17.4 million to 22.2 million in 2018 and is expected to continue to rise. Furthermore, While the promise of 5G's speeds will boost wireless subscriptions, it may not cause near-term displacement of fixed wire-line customers, given that standards are yet to be finalized and several technical issues need resolution

## Investment Thesis

Charter Communications is America's fastest growing TV, internet, and voice company. Charter's Time Warner Cable turnaround is on track, setting up the company for stable trends in the medium to long term. With its M&A integrations having largely wound down by the end of 2018, the cable operator is likely poised for strong cash-flow generation in 2019. Charter should be able to maintain market-share gains and revenue growth on its superior broadband speeds compared with telecom, as well as shift of Time Warner Cable and Bright House subscribers to its spectrum brand and pricing. Lastly, Charter expects consumer savings from their mobile offering to drive incremental cable to become a more powerful retention tool along with their 5G network capabilities.

## Corporate Social Responsibility

ISS Governance Quick score: 10 (Industry Average: 10)  
CHTR provides critical home repairs across the United States by partnering with nonprofit. CHTR goal is to improve 50,000 homes by 2020. CHTR supports nonprofit organizations that educate community members on the benefits of broadband and how to use it to improve their lives

## Valuation Assumptions

WACC: 8.00%  
Terminal Dividend Growth: 0.00%  
Upside: 18.0%

## Key Financials

Current stock price: \$337.54  
Intrinsic Value: \$398.14

Sources: Bloomberg, Ibis, JP Morgan, Company Filings

## 5-Year Stock Performance



## Competitive Analysis

Charter Communications competes for U.S video, High Speed Data and Voice customers in the United States mostly with Comcast Corp. AT&T Inc. Verizon Communications and Altice USA. Comcast is the 2<sup>nd</sup> largest provider of Video and Internet for both Residential and Commercial customers. In addition, Charter's mobile business was first launched in 2018 and was only available to current Charter subscribers. However, in 2019 Charter expects to have Full Bring Your Own Device availability, which will expand their mobile market opportunity substantially

## Competitive Advantages

Charter's state-of-the-art, fiber-rich network is superior in its ability to deliver fast and reliable internet to millions of consumers across the country. Starting speed of Spectrum Internet is at least 100 Mbps in more than 99 percent of the communities. In comparison Verizon Fios offers 75 Mbps and AT&T offers 25 Mbps. Moreover, Charter's all-digital platform enables, faster Internet speeds and better picture quality while providing greater plant security and enabling lower installation and disconnect service truck rolls. For the mobile business, Charter will be able to offer a total lower cost because using Wi-Fi network in conjunction with additional unlicensed or licensed spectrum, improves network performance and expands capacity.

## Risks

We recognize a few key risks with an investment in a company such as Charter Communications which are highly competitive market, increasing programming costs, and lack of technological developments. Charter Communications operates in a very competitive business environment, which affects their ability to attract and retain new customers. Although, their merger with Spectrum and Bright House has successfully allowed them to gain more market share. In addition, programming costs are rising at a much faster rate than wages or inflation, and they may not have the ability to reduce or moderate the growth rates or, or pass on to their customers. Through the process of cord cutting it has increased the need in high speed internet which Charter can receive more revenue. Lastly, this industry has shown to be a rapidly changing environment, which charter must fully leverage its network assets and 5G capabilities to keep up with competitors.

## Report Prepared By:

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