

Charter Communications

Managing through a difficult environment

Reiterate Rating: NEUTRAL | PO: 350.00 USD | Price: 319.21 USD

CHTR 4Q: soft results, higher capex guide, ACP=5mn subs

Charter reported generally weaker than forecast 4Q [results \(see our 2 Feb note\)](#), provided an update to capex for 2024-2027 which is higher than our estimates, and noted it has ~5mn subs on the Affordable Connectivity Program (ACP). The company also highlighted broadband trends have remained negative in January (continuation of 4Q23/December) and the outlook for a return to growth remains uncertain. Clearly, fixed wireless and fiber competition are weighing on legacy broadband sub growth, though rural penetration remains solid.

Updated capex guidance will weigh on FCF

Charter provided updated 2024 capex guidance and included capex guidance for CY25-CY27. Charter now expects 2024 capex of \$12.2bn-\$12.4bn (vs. \$12.3bn prior est.), including \$4.5bn for line extensions. For 2025, the company now anticipates capex of \$12-\$12.5bn (vs. \$11.5bn prior est. and \$12.25bn current), 2026 capex of \$10bn-\$11bn (vs ~\$10bn prior est. and \$10.5bn current) and 2027 capex of \$8bn (all ex-BEAD). The updated capex guidance, alongside higher cash taxes and slower broadband growth pushes the inflection for strong FCF growth to 2027, while also causing slightly more concern around CHTR's absolute debt level of ~\$100bn and leverage of ~4.5x.

Adjusting estimates

We are reducing our 2024 broadband subscriber forecasts and now project -55k broadband sub net loss (vs. 143k net adds prior). While we are not incorporating potential ACP losses into our forecasts, with ~5mn subs in the program, we believe Charter faces risk of outsized subs losses (10% churn = 500k loss), which would drag on ARPU and EBITDA, if ACP is not renewed. Our 2024 financial ests. are now: (1) Rev. growth of 0.1% (vs. 1.5% prev.) on lower residential and reduced small to medium business forecasts; (3) EBITDA growth of 1.6% (vs. 3.8% prior) due to our lower rev. forecast partially offset by stronger expense management. Due to our increased capex, lower EBITDA and higher guidance on cash taxes (\$1.5bn-\$1.9bn), we are reducing our 2024 FCF est. to \$2.7bn (vs. \$3.16bn). We are also lowering our buyback est. to \$4bn.

Lowering PO to \$350; reiterate Neutral

We are lowering our PO to \$350 (vs \$425 prior) based on ~6.8x Cable 2024E EV/EBITDA (vs. 7.2x prior) post lower than forecast results and slower broadband growth.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	30.74	30.07	31.25	36.32	44.52
EPS Change (YoY)	25.7%	-2.2%	3.9%	16.2%	22.6%
Consensus EPS (Bloomberg)			36.36	41.51	49.25
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	10.4x	10.6x	10.2x	8.8x	7.2x
EV / EBITDA*	2.3x	2.2x	2.2x	2.1x	2.0x
Free Cash Flow Yield*	11.8%	7.0%	5.7%	6.8%	10.5%

* For full definitions of *IQmethod*SM measures, see page 6.

05 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	425.00	350.00
2024E EPS	37.72	31.25
2025E EPS	43.04	36.32
2026E EPS	NA	44.52
2024E EBITDA (m)	22,031.9	21,363.1
2025E EBITDA (m)	22,446.6	22,178.1
2026E EBITDA (m)	NA	23,260.4

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Stock Data

Price	319.21 USD
Price Objective	350.00 USD
Date Established	4-Feb-2024
Investment Opinion	B-2-9
52-Week Range	315.02 USD - 458.30 USD
Mkt Val (mn) / Shares Out (mn)	47,218 USD / 147.9
Free Float	63.9%
Average Daily Value (mn)	377.67 USD
BofA Ticker / Exchange	CHTR / NAS
Bloomberg / Reuters	CHTR US / CHTR.OQ
ROE (2024E)	27.6%
Net Dbt to Eqty (Dec-2023A)	0%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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BEAD: Broadband Equity Access and Deployment

iQprofileSM Charter Communications

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.0%	9.1%	8.7%	8.6%	8.9%
Return on Equity	34.6%	35.4%	27.6%	26.2%	30.0%
Operating Margin	22.1%	23.0%	23.0%	24.2%	25.2%
Free Cash Flow	5,549	3,318	2,689	3,206	4,970

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	3.0x	3.2x	3.3x	3.1x	2.9x
Asset Replacement Ratio	1.1x	1.3x	1.4x	1.4x	1.1x
Tax Rate	21.6%	23.2%	23.8%	23.8%	23.8%
Net Debt-to-Equity Ratio	892.0%	659.5%	540.9%	504.0%	638.5%
Interest Cover	2.6x	2.4x	2.4x	2.5x	2.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	54,022	54,607	54,637	54,712	55,895
% Change	4.5%	1.1%	0.1%	0.1%	2.2%
Gross Profit	21,616	21,894	22,234	23,092	24,265
% Change	4.8%	1.3%	1.6%	3.9%	5.1%
EBITDA	20,865	21,255	21,363	22,178	23,260
% Change	5.0%	1.9%	0.5%	3.8%	4.9%
Net Interest & Other Income	(4,500)	(5,705)	(5,710)	(5,795)	(5,931)
Net Income (Adjusted)	5,055	4,557	4,516	4,938	5,418
% Change	8.6%	-9.9%	-0.9%	9.3%	9.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	5,849	5,261	5,220	5,681	6,207
Depreciation & Amortization	8,903	8,696	8,805	8,931	9,187
Change in Working Capital	(396)	(447)	(394)	(130)	(307)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	569	923	1,336	978	410
Capital Expenditure	(9,376)	(11,115)	(12,279)	(12,253)	(10,527)
Free Cash Flow	5,549	3,318	2,689	3,206	4,970
% Change	-35.5%	-40.2%	-19.0%	19.2%	55.0%
Share / Issue Repurchase	(10,277)	(3,215)	(4,000)	(5,000)	(10,000)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	6,261	92	4,973	5,473	4,223

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	645	709	3,821	7,515	6,724
Trade Receivables	2,921	2,965	2,162	2,131	3,583
Other Current Assets	451	458	447	439	439
Property, Plant & Equipment	36,039	39,520	42,993	46,316	47,655
Other Non-Current Assets	104,467	103,541	103,541	103,541	103,541
Total Assets	144,523	147,193	152,964	159,942	161,942
Short-Term Debt	1,510	2,000	0	0	0
Other Current Liabilities	10,555	11,214	10,006	9,837	10,982
Long-Term Debt	97,603	95,777	101,430	106,903	111,126
Other Non-Current Liabilities	23,816	23,484	23,484	23,484	23,484
Total Liabilities	133,484	132,475	134,919	140,224	145,592
Total Equity	11,039	14,718	18,044	19,718	16,350
Total Equity & Liabilities	144,523	147,193	152,964	159,942	161,942

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Cable TV

Company Description

Charter is the second largest and leading pure-play U.S. cable provider with 14mn video subscribers, over 30mn Internet subscribers, 8mn voice and nearly 8mn mobile subscribers. Over half of the company's subscribers are located in New York, southern California, the Carolinas, Central Florida, Ohio and Texas.

Investment Rationale

Charter is facing increasing broadband competition from multiple operators, including fixed wireless providers and fiber build-outs. In our view, this will reduce share gains and potentially pressure ARPU as Charter looks to defend its incumbent position. In an effort to drive future growth, Charter has outlined plans to significantly increase capital expenditures which will weigh on FCF generation and capital returns. As a result, we believe multiples have re-rated accordingly.

Stock Data

Average Daily Volume 1,183,134

Quarterly Earnings Estimates

	2023	2024
Q1	6.65A	7.97E
Q2	8.05A	8.57E
Q3	8.26A	9.00E
Q4	7.07A	9.85E

Exhibit 1: Charter Communications 1Q24 estimates

We are forecasting a net loss of 30k broadband subs in 1Q24

Charter Communications

	1Q23A	New 1Q24E	Y/Y %
Video Revenue	4,254	3,882	-8.7%
Internet Revenue	5,718	5,849	2.3%
Voice Revenue	373	331	-11.3%
Mobile Service Revenue	497	675	35.8%
Residential Revenue	10,842	10,738	-1.0%
Small and Medium Business	1,091	1,080	-1.0%
Enterprise	682	705	3.4%
Commercial	1,773	1,785	0.7%
Advertising Sales	355	377	6.2%
Other	683	785	15.0%
Total Revenue	13,653	13,685	0.2%
Programming Expenses	2,799	2,652	-5.3%
Total Operating Costs (incl Prog. Exp.)	8,303	8,249	-0.7%
Adjusted EBITDA	5,350	5,436	1.6%
<i>Margin %</i>	<i>39.2%</i>	<i>39.7%</i>	<i>54 bps</i>
Total Capex	2,464	3,096	25.7%
<i>% of Revenue</i>	<i>18.0%</i>	<i>22.6%</i>	<i>458 bps</i>
Free Cash Flow	664	845	27.3%
Residential Video Net Adds	(237)	(225)	5.1%
Residential Internet Net Adds	67	(30)	-144.8%
Residential Voice Net Adds	(224)	(235)	-4.9%
Residential Mobile Net Adds	666	540	-18.9%
SMB Video Net Adds	(4)	(6)	50.0%
SMB Internet Net Adds	9	(1)	-111.1%
SMB Voice Net Adds	2	2	0.0%
SMB Mobile Net Adds	20	16	-20.0%
Enterprise PSU net adds	4	4	0.0%

Source: BofA Global Research estimates, company report

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Exhibit 2: Charter Communications 1Q24 estimate revisions

We forecast 2024 broadband net loss of 55k and FCF of \$2.7bn

Charter Communications

	New			Old		
	2023A	2024E	Y/Y %	2024E	Y/Y %	Variance
Video Revenue	16,351	14,768	-9.7%	15,263	-7.1%	(495)
Internet Revenue	23,032	23,552	2.3%	23,764	3.0%	(212)
Voice Revenue	1,510	1,325	-12.2%	1,282	-12.3%	44
Mobile Service Revenue	2,243	2,869	27.9%	2,987	33.3%	(118)
Residential Revenue	43,136	42,515	-1.4%	43,296	0.2%	(781)
Small and Medium Business	4,353	4,283	-1.6%	4,370	0.2%	(87)
Enterprise	2,770	2,848	2.8%	2,842	2.8%	6
Commercial	7,123	7,131	0.1%	7,212	1.2%	(81)
Advertising Sales	1,551	1,774	14.4%	1,783	15.0%	(8)
Other	2,797	3,217	15.0%	3,215	15.0%	1
Total Revenue	54,607	54,637	0.1%	55,506	1.5%	(869)
Programming Expenses	10,638	10,043	-5.6%	9,845	-7.6%	198
Total Operating Costs (incl Prog. Exp.)	32,713	32,403	-0.9%	32,735	0.0%	(332)
Adjusted EBITDA	21,894	22,234	1.6%	22,771	3.8%	(538)
Margin %	40.1%	40.7%	60 bps	41.0%	88 bps	-0.3%
Total Capex	11,115	12,279	10.5%	12,264	9.4%	15
% of Revenue	20.4%	22.5%	212 bps	22.1%	158 bps	0.4%
Free Cash Flow	3,490	2,689	-23.0%	3,161	-12.1%	(473)
Residential Video Net Adds	(994)	(1,080)	-8.7%	(1,074)	-0.8%	(6)
Residential Internet Net Adds	132	(55)	-141.7%	143	-20.1%	(198)
Residential Voice Net Adds	(985)	(1,015)	-3.0%	(1,007)	-2.0%	(9)
Residential Mobile Net Adds	2,403	2,085	13.2%	1,878	21.6%	207
SMB Video Net Adds	(31)	(35)	12.9%	(35)	10.0%	0
SMB Internet Net Adds	23	(3)	-113.0%	24	-10.0%	(27)
SMB Voice Net Adds	7	(2)	-128.6%	13	-2.0%	(15)
SMB Mobile Net Adds	71	61	-14.1%	61	-18.2%	(0)
Enterprise PSU net adds	19	16	-15.8%	18	5.0%	(2)

Source: BofA Global Research estimates, company report

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Price objective basis & risk

Charter Communications (CHTR)

Our \$350 PO is based on an 6.8x EV/2024E EBITDA multiple which is in line with historical multiples and reflects Charter's more modest projected growth and margin upside potential.

Downside risks to our price objective are: (1) increased competition in broadband markets from fixed wireless access and fiber providers which could lead to even lower subscriber net additions than currently forecast as well as financial pressure, and an end to ACP poses incremental risk, (2) an acceleration in video losses due to increased direct-to-consumer options which could lead to increased cord-cutting, (3) increased government regulations and (4) financial risks due to leverage.

Upside risks to our price objective are: (1) greater than forecast broadband resiliency including better than projected share gains of broadband subscribers as well as still strong pricing power, (2) faster than projected capital returns, (3) significant net additions from the company's rural build-out and (4) greater than expected benefit from government broadband subsidies.

Analyst Certification

I, Jessica Reif Ehrlich, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Cable, Entertainment and Satellite Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Comcast Corp	CMCSA	CMCSA US	Jessica Reif Ehrlich
	Endeavor Group Holdings, Inc.	EDR	EDR US	Jessica Reif Ehrlich
	Madison Square Garden Entertainment	MSGE	MSGE US	Peter Henderson
	Netflix, Inc.	NFLX	NFLX US	Jessica Reif Ehrlich
	Spotify Technology	SPOT	SPOT US	Jessica Reif Ehrlich
	Walt Disney Co.	DIS	DIS US	Jessica Reif Ehrlich
	Warner Bros. Discovery	WBD	WBD US	Jessica Reif Ehrlich
NEUTRAL				
	Charter Communications	CHTR	CHTR US	Jessica Reif Ehrlich
	Fox Corporation	FOXA	FOXA US	Jessica Reif Ehrlich
	Fox Corporation	FOX	FOX US	Jessica Reif Ehrlich
	Warner Music Group Corporation	WMG	WMG US	Jessica Reif Ehrlich
UNDERPERFORM				
	Altice USA, Inc.	ATUS	ATUS US	Jessica Reif Ehrlich
	iHeartMedia, Inc.	IHRT	IHRT US	Jessica Reif Ehrlich
	Paramount Global	PARA	PARA US	Jessica Reif Ehrlich
RSTR				
	Liberty SiriusXM Group	LSXMA	LSXMA US	Jessica Reif Ehrlich
	Liberty SiriusXM Group	LSXMK	LSXMK US	Jessica Reif Ehrlich
	Sirius XM Holdings Inc	SIRI	SIRI US	Jessica Reif Ehrlich



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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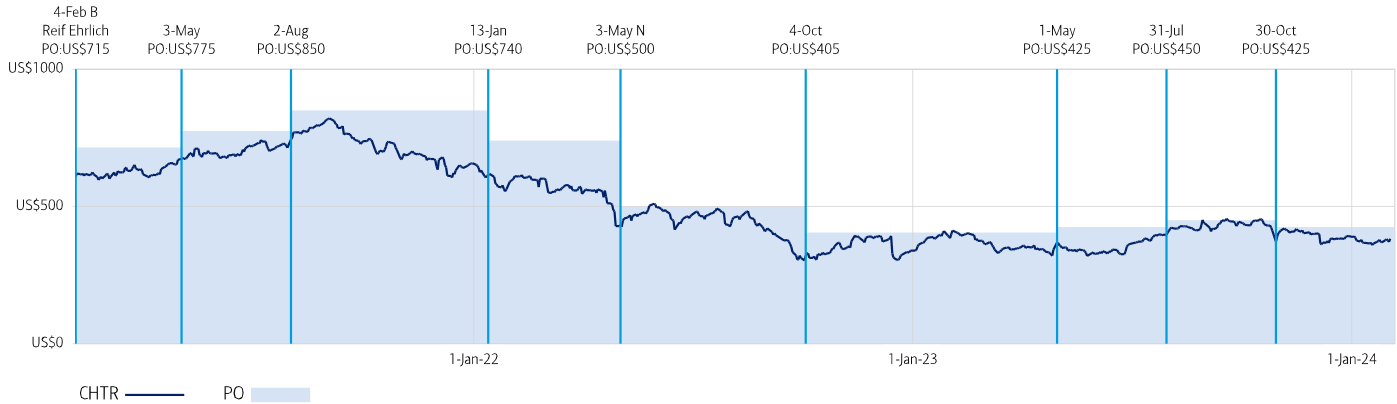
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Important Disclosures

Charter Communicatio (CHTR) Price Chart



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Equity Investment Rating Distribution: Media & Entertainment Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	35	53.85%	Buy	15	42.86%
Hold	15	23.08%	Hold	8	53.33%
Sell	15	23.08%	Sell	7	46.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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