

Altice USA, Inc.

Still a long road ahead

Reiterate Rating: UNDERPERFORM | PO: 2.85 USD | Price: 2.49 USD

Moving in the right direction, but long road ahead

We are encouraged by Altice's new management's efforts to improve the customer experience and we believe that the new CEO is positioning the company for a potential turn-around. To that end, the company seems to be approaching fiber builds, particularly in more rural areas, with greater financial discipline and an increased strategic rationale.

Still a show me story

However, Altice remains a "show me" story with significant leverage (~6.8x LTM on consolidated basis), declining EBITDA, and still relatively low, albeit higher, FCF Y/Y in 2024. Additionally, broadband subscriber growth will remain difficult to achieve, with strong competition in both the Optimum East (FiOS and increasingly TMUS FWA) and Optimum West footprints and we project continued losses in 2024. In our view, there is still a challenging road ahead to fully turn operations and financial results around.

Tweaking estimates

For 4Q23, we are adjusting our broadband net loss forecast to -25k (vs. -20k prev.) as the competitive environment in both Optimum West and Optimum East remains heightened. We are maintaining our 4Q23 mobile net add forecast of 30k and project 2024 net adds of 105k as Altice finally appears to be gaining some traction in mobile. Our video net loss estimates are -70k and -274k for 4Q23 and 2024, respectively. Financially, for 4Q23, we project: (1) -3.3% residential rev. growth (vs. -3.5% prior est.); (2) total revenue decline of -3.5% (vs. -3.6% prior), (3) EBITDA decline of -2.5% (v. -3.3% prev.) and (4) FCF of \$140mn. Financially, for 2024, we now forecast: (1) total revenue decline of -2.3% (vs. -2.2% prior); (2) adj. EBITDA decline of -0.4% (vs. -0.2% prev.); (3); capex of \$1.65bn; and (4) FCF of \$175mn.

Maintain Underperform and \$2.85 PO

In our view, ATUS still has significant execution risk as the company's turnaround efforts are challenged by several factors including increased broadband competition, significant leverage, a mobile offering that has only recently begun to gain traction and accelerating linear video losses. Maintain Underperform and \$2.85 PO.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.15	0.43	0.36	0.02	(0.11)
EPS Change (YoY)	175.6%	-80.0%	-16.3%	-94.4%	NM
Consensus EPS (Bloomberg)			0.49	0.45	0.44
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	1.2x	5.8x	6.9x	124.5x	NM
EV / EBITDA*	6.7x	7.6x	8.2x	8.2x	8.4x
Free Cash Flow Yield*	139.6%	40.0%	-4.9%	24.7%	27.6%

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

17 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E EPS	0.08	0.02
2025E EPS	-0.12	-0.11
2023E EBITDA (m)	3,588.8	3,596.0
2024E EBITDA (m)	3,581.7	3,580.0
2025E EBITDA (m)	3,453.9	3,496.6

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Stock Data

Price	2.49 USD
Price Objective	2.85 USD
Date Established	27-Apr-2023
Investment Opinion	C-3-9
52-Week Range	1.75 USD - 5.57 USD
Mkt Val (mn) / Shares Out (mn)	1,129 USD / 453.3
Free Float	79.2%
Average Daily Value (mn)	14.67 USD
BofA Ticker / Exchange	ATUS / NYS
Bloomberg / Reuters	ATUS US / ATUS.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	Medium

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"](#).

TMUS: T-Mobile

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Timestamp: 17 January 2024 05:10AM EST

iQprofileSM Altice USA, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	6.5%	3.5%	3.4%	5.4%	5.2%
Return on Equity	NM	NM	NM	NM	-1.0%
Operating Margin	24.7%	18.7%	19.0%	19.0%	19.0%
Free Cash Flow	1,576	451	(55)	279	311

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.8x	12.2x	10.0x	NM	NM
Asset Replacement Ratio	0.7x	1.1x	1.0x	1.0x	0.9x
Tax Rate	23.4%	57.4%	84.5%	24.0%	24.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	69.9%
Interest Cover	2.0x	1.6x	1.2x	1.1x	1.1x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	10,044	9,646	9,222	9,012	8,741
% Change	1.5%	-4.0%	-4.4%	-2.3%	-3.0%
Gross Profit	6,662	6,441	6,204	6,162	6,027
% Change	1.6%	-3.3%	-3.7%	-0.7%	-2.2%
EBITDA	4,380	3,865	3,596	3,580	3,497
% Change	-0.8%	-11.8%	-7.0%	-0.4%	-2.3%
Net Interest & Other Income	(1,219)	(1,286)	(1,625)	(1,658)	(1,681)
Net Income (Adjusted)	995	193	165	8	(52)
% Change	128.0%	-80.6%	-14.4%	-95.0%	NM

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	964	220	20	44	(15)
Depreciation & Amortization	1,787	1,774	1,677	1,681	1,634
Change in Working Capital	(346)	(272)	(41)	(21)	(94)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	402	644	(10)	226	244
Capital Expenditure	(1,232)	(1,914)	(1,701)	(1,651)	(1,458)
Free Cash Flow	1,576	451	-55	279	311
% Change	-17.3%	-71.4%	NM	NM	11.6%
Share / Issue Repurchase	(805)	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(546)	(328)	21	(13)	(7)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	196	220	429	696	1,001
Trade Receivables	407	319	329	321	391
Other Current Assets	187	180	197	192	185
Property, Plant & Equipment	6,340	7,791	5,842	6,233	6,432
Other Non-Current Assets	26,085	23,477	23,187	22,766	22,766
Total Assets	33,215	31,987	29,985	30,208	30,774
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	2,735	2,247	3,163	3,381	2,956
Long-Term Debt	25,629	24,624	23,305	23,293	9,811
Other Non-Current Liabilities	5,721	5,596	5,400	5,400	5,400
Total Liabilities	34,086	32,467	31,868	32,074	18,167
Total Equity	(871)	(481)	(1,884)	(1,865)	12,606
Total Equity & Liabilities	33,215	31,987	29,985	30,208	30,774

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

Company Sector

Cable TV

Company Description

Altice USA is the fourth largest cable company, in the US, offering broadband, video and telephone service to over 9mn homes and currently providing services to over 5mn homes across 21 states - though the vast majority, roughly 75%, of the footprint is in New York and Texas. In addition to residential services, Altice USA also offers a variety of services for business customers as well as data-driven advance advertising capabilities.

Investment Rationale

In our view, Altice USA offers a solid subscription-based business model. However, given limited subscriber and top line growth, stalled mobile operations, more limited margin upside and lower scale as well as higher leverage relative to peers, we believe other opportunities within the cable/media industry offer investors more attractive equities.

Stock Data

Average Daily Volume 5,890,310

Quarterly Earnings Estimates

	2022	2023
Q1	0.43A	0.06A
Q2	0.23A	0.17A
Q3	0.19A	0.15A
Q4	-0.43A	-0.01E

Exhibit 1: Altice USA 4Q23 estimate revisions

We have modestly adjusted our broadband net loss forecast to -25k (vs. -20k prev.)

Fiscal Year Ends 12/31	4Q22A	4Q23E	4Q23E	Change	+ / -
ATUS: Actuals & BofA Estimates		BofA Old	BofA New	BofA New vs. BofA Old	
Net Adds					
Residential Video Subscribers	(53)	(70)	(70)	0	
Residential HSD Subscribers	(8)	(20)	(25)	(5)	-
Residential Voice Subscribers	(55)	(65)	(65)	0	
TOTAL Residential PSU Net Adds	(115)	(155)	(160)	(5)	-
SMB Customer Relationships Net Adds	(1.3)	2.0	2.0	0.0	
Mobile subscriber Net Adds	4	30	30	0	
Revenues					
Residential Video Revenue	\$782	\$732	\$736	\$3	+
% Chg. (YOY)	-8.1%	-6.3%	-5.9%		
Residential HSD Revenue	\$961	\$945	\$945	(\$1)	-
% Chg. (YOY)	-1.3%	-1.6%	-1.7%		
Residential Voice Revenue	\$79	\$70	\$70	\$0	
% Chg. (YOY)	-15.9%	-11.4%	-11.4%		
Mobile Service Revenue	\$15	\$25	\$25	\$0	-
% Chg. (YOY)	8.8%	65.6%	65.6%		
TOTAL Residential Revenue	\$1,837	\$1,772	\$1,775	\$3	
% Chg. (YOY)	-4.2%	-3.5%	-3.3%		
SMB/Enterprise Revenue	\$368	\$369	\$369	\$0	
% Chg. (YOY)	-9.3%	0.3%	0.3%		
News and Advertising	\$152	\$129	\$129	\$0	
% Chg. (YOY)	-10.8%	-15.0%	-15.0%		
Other (e.g., Data Analytics)	\$12	\$13	\$13	\$0	
% Chg. (YOY)	--	--	--		
TOTAL Altice Revenue	\$2,369	\$2,284	\$2,287	\$3	+
% Chg. (YOY)	-6.0%	-3.6%	-3.5%	0%	
Costs & Expenses					
TOTAL Costs (Direct + Operating)	\$1,456	\$1,401	\$1,397	(\$4)	-
% Chg. (YOY)	1.2%	-3.8%	-4.1%	-0.3%	-
Adjusted EBITDA	\$913	\$883	\$890	\$7	+
% Chg. (YOY)	-15.7%	-3.3%	-2.5%	0.8%	
% Margin	38.5%	38.7%	38.9%	0.3%	+
Capital Expenditure	\$543	\$291	\$291	\$0	
% of Revenue	22.9%	12.7%	12.7%		
Free Cash Flow	(\$82)	\$216	\$140	(\$76)	

Source: BofA Global Research estimates, company report

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Exhibit 2: Altice USA 2023 and 2024 estimate revisions

For 2024, we are modestly adjusting our estimates and now forecast -2.3% Y/Y revenue growth and 0.4% EBITDA decline Y/Y

Fiscal Year Ends 12/31	2022A	2023E	2023E	Change	+ / -	2024E	2024E	Change	+ / -
ATUS: Actuals & BofA Estimates	BofA Old		BofA New	BofA New vs. BofA Old		BofA Old	BofA New	BofA New vs. BofA Old	
Net Adds									
Residential Video Subscribers	(293)	(274)	(274)	0		(274)	(274)	0	
Residential HSD Subscribers	(103)	(107)	(112)	(5)	-	(55)	(65)	(10)	-
Residential Voice Subscribers	(241)	(256)	(256)	0	-	(256)	(256)	0	-
TOTAL Residential PSU Net Adds	(638)	(638)	(643)	(5)	-	(585)	(595)	(10)	-
SMB Customer Relationships Net Adds	(0.7)	1.9	1.9	0.0		7.0	7.0	0.0	
Mobile subscriber Net Adds	54	78	78	0		105	105	0	
Revenues									
Residential Video Revenue	\$3,281	\$3,054	\$3,057	\$3	+	\$2,794	\$2,797	\$3	+
% Chg. (YOY)	-6.9%	-6.9%	-6.8%			-8.5%	-8.5%		
Residential HSD Revenue	\$3,931	\$3,830	\$3,829	(\$1)	-	\$3,807	\$3,801	(\$6)	-
% Chg. (YOY)	0.1%	-2.6%	-2.6%			-0.6%	-0.7%		
Residential Voice Revenue	\$332	\$298	\$298	\$0		\$259	\$259	\$0	
% Chg. (YOY)	-17.9%	-10.4%	-10.4%	-	-	-13.1%	-13.1%	-	-
Mobile Service Revenue	\$62	\$78	\$78	\$0		\$106	\$106	\$0	
% Chg. (YOY)	NM	26.9%	26.9%	-	-	34.9%	34.9%	0.0%	
TOTAL Residential Revenue	\$7,606	\$7,260	\$7,263	\$3	+	\$6,966	\$6,963	(\$3)	-
% Chg. (YOY)	-3.2%	-4.6%	-4.5%	0.0%	+	-4.1%	-4.1%	-0.1%	-
SMB/Enterprise Revenue	\$1,474	\$1,465	\$1,465	\$0		\$1,506	\$1,506	\$0	
% Chg. (YOY)	-7.1%	-0.6%	-0.6%			2.8%	2.8%		
News and Advertising	\$520	\$448	\$448	\$0		\$496	\$496	\$0	
% Chg. (YOY)	-5.5%	-13.8%	-13.8%			10.5%	10.5%		
Other (e.g., Data Analytics)	\$46	\$47	\$47	\$0		\$48	\$48	\$0	
% Chg. (YOY)	-10.2%	1.2%	1.2%	-	-	3.0%	3.0%	-	-
TOTAL Altice Revenue	\$9,646	\$9,219	\$9,222	\$3	+	\$9,015	\$9,012	(\$3)	-
% Chg. (YOY)	-4.0%	-4.4%	-4.4%	0.0%		-2.2%	-2.3%	-0.1%	-
Costs & Expenses									
TOTAL Costs (Direct + Operating)	\$5,781	\$5,631	\$5,626	(\$4)	-	\$5,433	\$5,432	(\$1)	-
% Chg. (YOY)	2.1%	-2.6%	-2.7%	-0.1%	-	-3.5%	-3.4%	0.1%	+
Adjusted EBITDA	\$3,865	\$3,589	\$3,596	\$7	+	\$3,582	\$3,580	(\$2)	-
% Chg. (YOY)	-11.8%	-7.2%	-7.0%	0.2%		-0.2%	-0.4%	-0.3%	-
% Margin	40.1%	38.9%	39.0%	0.1%	+	39.7%	39.7%	0.0%	-
Capital Expenditure	\$1,914	\$1,701	\$1,701	\$0		\$1,651	\$1,651	\$0	
% of Revenue	19.8%	18.4%	18.4%			18.3%	18.3%		
Free Cash Flow	\$453	\$136	\$61	(\$76)	-	\$158	\$175	\$17	+

Source: BofA Global Research estimates, company report

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Price objective basis & risk

Altice USA, Inc. (ATUS)

Our \$2.85 PO for ATUS is based on a 7x multiple on our EV/2024E EBITDA, in line with historical cable multiples. Our multiple is supported by our discounted cash flow (DCF) analysis in which we use a weighted average cost of capital (WACC) of 7.8% and terminal growth rate of -1% and derive a forward EV/EBITDA multiple of 6.9x.

Upside risks to our price objective are (1) a sizeable and accretive acquisition which would boost slow organic growth, (2) faster broadband build-out and better growth than currently projected, (3) less regulation than currently anticipated, (4) a stall in the development of 5G as a fixed wireless offering and generally reduced broadband competition versus current forecast, and (5) a privatization/acquisition of the company at a premium to current prices.

Downside risks to our price objective are (1) increased competition in broadband markets from incremental fiber competition, (2) wireless broadband competition through the form of 5G, (3) increased government regulations, and (4) financial risks due to leverage.

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

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

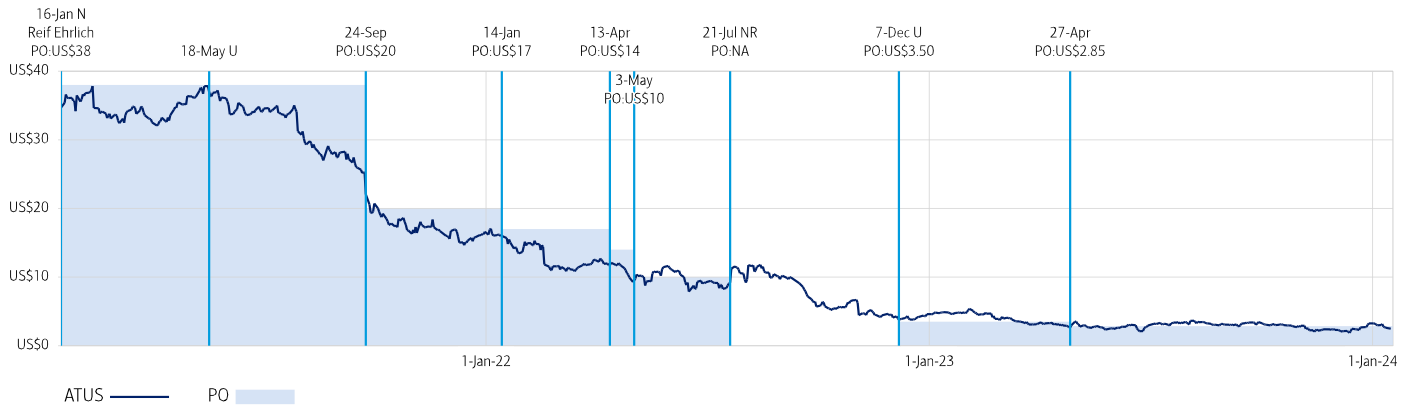
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Disclosures

Important Disclosures

Altice USA, Inc. (ATUS) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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