

Charter Communications

Miss across the board

Maintain Rating: NEUTRAL | PO: 425.00 USD | Price: 382.34 USD

4Q: broadband results lower; capex guidance higher

Charter's 4Q was characterized by a net loss of 61k broadband subscribers (vs. -10k estimate) and a net gain of 546k (vs. 543k est.) mobile net adds with an EBITDA miss, while revenue and FCF were also lower than forecast. Notably, Charter also provided capex guidance for 2024-2027 that is in line with 2024 estimate, but higher for the outer year periods. Specifically, for 2024 CHTR has guided to capex of \$12.2-\$12.4bn (vs. \$12.3bn est.) and 2025 capex of \$12-12.5bn (vs. our \$11.4bn est.). Revenue was below our estimate – driven by lower than forecast residential revenue and commercial revenue. Charter EBITDA growth of 1.6% was below our 2.6% est. due to the revenue miss as cost controls were relatively solid in the Q. FCF of \$1.1bn was below our estimate of \$1.2bn despite lower than forecast capex of \$2.86bn (vs. \$3bn estimate).

EBITDA a bit below forecast

CHTR's 4Q revenue increased 0.3% (vs. 0.8% est.) and adj. EBITDA grew 1.6% (vs. 2.6% est.). In combination with lower than forecast broadband net adds in the Q, residential internet revenue was below our forecast as ARPU grew 2.2% Y/Y (vs. our 3% est.). Programming expense declined 10.6% better than our projected -9.8% decline, while non-programming cable and mobile expenses grew 4.5% (vs. 4.4% est.) in the Q. Margin grew 56bps Y/Y. Capex was \$2.86bn (vs. \$3bn est.), with capital intensity a 20.8% of total revenue (vs. 21.4% forecast). CHTR repurchased \$1.3bn in stock (vs. \$1.4bn est.).

Residential revenue was flat

Residential revenue was flat Y/Y (vs. +0.1% est.) to \$10.7bn driven by 3% internet revenue growth (vs. 3.7% est.) and an 8.1% video revenue decrease (vs. -6.5% est.). Advertising revenue decreased 23.3%, which was in-line with our forecast for a decline of 23.5%. Charter lost 62k (vs. -15k est.) residential broadband subscribers. Charter reported a loss of 248k (vs. -320k est.) residential video subs likely helped by Xumo and also we believe increasingly the NFL season. Residential mobile net adds were 532k (vs. 525k est.). CHTR reached 420k rural passings in the Q and rural customer relationships grew to 142k, however rural penetration declined for the first time to 33.8% (vs. 34.3% in 3Q).

Commercial revenue in-line

Commercial revenue grew 0.9% (vs. +1% est.) to \$1.78bn driven by -0.9% (vs. -0.3% est.) SMB revenue decrease and a 3.9% increase in Enterprise revenue (vs. +3.2% est.). Commercial HSD gains of 1k, voice net loss of -3k, video net loss of -9k and mobile net adds of 14k compared with our estimates of 5k, 3k, -10k, and 18k respectively.

Maintain Neutral

Overall, results were lower than forecast as broadband net loss was larger than forecast, while revenue, EBITDA and FCF were below our projections. Additionally, capex guidance beyond for 2025 is above our estimate, while penetration Q/Q gains in the rural footprint slowed.

02 February 2024

Equity

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Stock Data

Price	382.34 USD
Price Objective	425.00 USD
Date Established	30-Oct-2023
Investment Opinion	B-2-9
52-Week Range	315.02 USD - 458.30 USD
Mrkt Val (mn) / Shares Out (mn)	56,556 USD / 147.9
Free Float	63.5%
Average Daily Value (mn)	381.55 USD
BofA Ticker / Exchange	CHTR / NAS
Bloomberg / Reuters	CHTR US / CHTR.OQ
ROE (2023E)	26.3%
Net Dbt to Eqty (Dec-2022A)	0%
ESGMeter™	High

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Exhibit 1: Charter Communications 4Q24 results summary

Charter reported a larger than forecast net loss of broadband subscribers, while financial results were largely lower than forecast

Charter Communications

	4Q22A	4Q23A	Y/Y %	Old 4Q23E	Y/Y %	Variance
Video Revenue	4,251	3,905	-8.1%	3,976	-6.5%	(71)
Internet Revenue	5,637	5,805	3.0%	5,854	3.8%	(49)
Voice Revenue	379	393	3.7%	345	-9.0%	48
Mobile Service Revenue	461	626	35.8%	625	35.5%	1
Residential Revenue	10,728	10,729	0.0%	10,799	0.7%	(70)
Small and Medium Business	1,093	1,083	-0.9%	1,090	-0.3%	(7)
Enterprise	674	700	3.9%	695	3.2%	5
Commercial	1,767	1,783	0.9%	1,785	1.0%	(2)
Advertising Sales	558	428	-23.3%	427	-23.5%	1
Other	621	771	24.2%	770	24.0%	1
Total Revenue	13,674	13,711	0.3%	13,781	0.8%	(70)
Programming Expenses	2,800	2,504	-10.6%	2,525	-9.8%	(21)
Total Operating Costs (incl Prog. Exp.)	8,192	8,138	-0.7%	8,155	-0.5%	(17)
Adjusted EBITDA	5,482	5,573	1.6%	5,626	2.6%	(53)
Margin %	40.1%	40.6%	56 bps	40.8%	74 bps	-0.2%
Total Capex	2,920	2,856	-2.2%	2,955	1.2%	(99)
% of Revenue	21.4%	20.8%	(52) bps	21.4%	9 bps	-0.6%
Free Cash Flow	1,136	1,061	-6.6%	1,168	2.8%	(107)
Residential Video Net Adds	(145)	(248)	-71.0%	(320)	-120.7%	72
Residential Internet Net Adds	92	(62)	-167.4%	(15)	-116.3%	(47)
Residential Voice Net Adds	(232)	(248)	-6.9%	(250)	-7.8%	2
Residential Mobile Net Adds	600	532	-11.3%	525	-12.5%	7
SMB Video Net Adds	1	(9)	-1000.0%	(10)	-1100.0%	1
SMB Internet Net Adds	13	1	-92.3%	5	-61.5%	(4)
SMB Voice Net Adds	(1)	(3)	200.0%	3	-400.0%	(6)
SMB Mobile Net Adds	15	14	-6.7%	18	20.0%	(4)
Enterprise PSU net adds	2	5	150.0%	3	50.0%	2

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Price objective basis & risk**Charter Communications (CHTR)**

Our \$425 PO is based on an 7.2x 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, (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.

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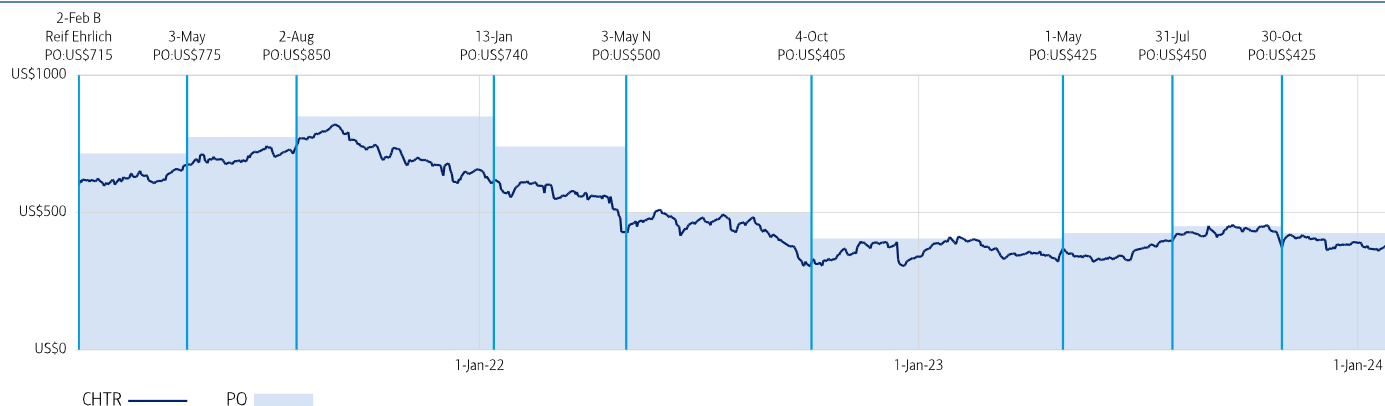
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Charter Communicatio (CHTR) Price Chart



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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)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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