

## Cable/Satellite

# Moving to No Rating on ATUS as CHTR reportedly weighs takeover

Rating Change

## Press reports suggest CHTR is weighing takeover of ATUS

On 2/26, Bloomberg reported that Charter (CHTR) is weighing a potential acquisition of Altice USA (ATUS). According to the report, Charter has hired financial advisers and is studying the potential merits of a takeover. However, it's unclear whether the company has approached ATUS (according to CNBC). In our view, Charter's potential interest in ATUS would make strategic sense given: (1) the contiguous footprint in the NYC metro area between Charter's legacy Time Warner Cable systems and Altice USA's legacy Cablevision systems (Optimum East), while Optimum West matches up well with CHTR footprints; (2) potential for revenue and relatively limited cost synergies (programming costs, MVNO deal/ future negotiation, reduced marketing costs and other benefits from contiguous footprints), as ATUS cut costs for years and is now in investing mode; and (3) Altice's ops have improved in recent quarters indicating turnaround potential (which could be further supported by Charter's scale and operating strategy), while ~60% of ATUS' footprint will be fiber by 2025/2026.

## Hard to envision a significant premium takeout multiple

Conversely, ATUS is a highly penetrated operator (though fiber penetration remains low) that has lost broadband subs for three consecutive years, with losses expected to continue at least through 2024. Given arguably limited synergy potential due to years of ATUS cost cutting, declining subscribers and declining total revenue, as well as incremental investments to "Charter-ize" ATUS' operations, we do not believe that Charter would be interested in paying a significant premium to market for ATUS' assets.

## ATUS ownership said to be assessing takeout interest

ATUS founder and controlling shareholder Patrick Drahi has communicated (as reported in the press) that much of his empire is up for sale, and as such it would make sense that he is trying to understand any takeover interest for ATUS. A complete takeover of Altice could be just one potential scenario, with an alternative, among others, being for Charter to acquire only certain Altice USA footprints (in particular, the legacy Cablevision footprint).

## Potential transaction could add leverage, but only ~0.5x

If a transaction materializes, the small sliver of equity capital required for an all-cash takeover as well as the potential for an all-stock transaction, total leverage would likely remain under the 5x threshold for a ratings agency downgrade of CHTR. While we believe that a potential takeover would be valuable to ATUS, we would want to understand the rationale for CHTR if a transaction is announced, noting that the cable industry is now particularly challenged with future growth dependent on synergies and consolidation.

## Moving to No Rating on ATUS; maintain Neutral on CHTR

Given the press reports, we are moving to No Rating on ATUS as we believe that the shares are no longer trading on fundamentals, while we remain at Neutral on CHTR as we wait for more clarity around a potential deal. Investors should no longer rely on our previous fundamental equity opinion or price objective on ATUS.

27 February 2024

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Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Timestamp: 27 February 2024 05:36AM EST

## Thoughts on regulatory considerations

Depending on the terms of the acquisition, the potential combination of Altice USA and Charter would create the largest broadband provider in the US with ~35mn broadband subscribers and ~16mn video subs and 8mn mobile subs. While there is very limited footprint overlap, and competition has increased from both fiber and fixed wireless providers, Charter would maintain a significant share of the US broadband market, adding a potential wrinkle.

### Exhibit 1: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ATUS	ATUS US	Altice USA, Inc.	US\$ 2.49	-6-
CHTR	CHTR US	Charter Communications	US\$ 292.64	B-2-9

Source: BofA Global Research

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## Price objective basis & risk

### Altice USA, Inc. (ATUS)

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

### 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.

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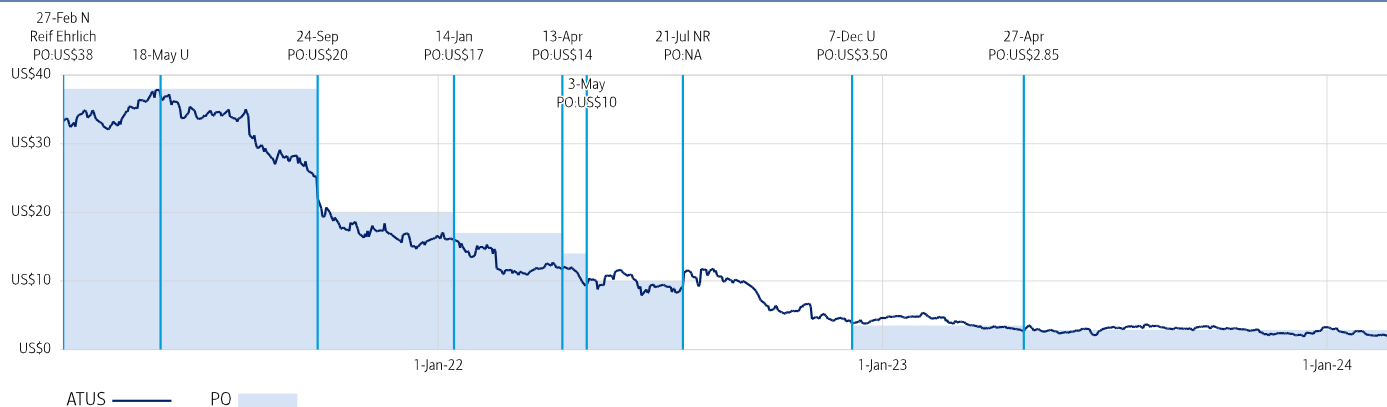
## US - Cable, Entertainment and Satellite Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	Charter Communications	CHTR	CHTR US	Jessica Reif Ehrlich
	Fox Corporation	FOXA	FOXA US	Jessica Reif Ehrlich
	Fox Corporation	FOX	FOX US	Jessica Reif Ehrlich
	Sphere Entertainment Co.	SPHR	SPHR US	Peter Henderson
	Warner Music Group Corporation	WMG	WMG US	Jessica Reif Ehrlich
<b>UNDERPERFORM</b>				
	iHeartMedia, Inc.	IHRT	IHRT US	Jessica Reif Ehrlich
	Paramount Global	PARA	PARA US	Jessica Reif Ehrlich
<b>RSTR</b>				
	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

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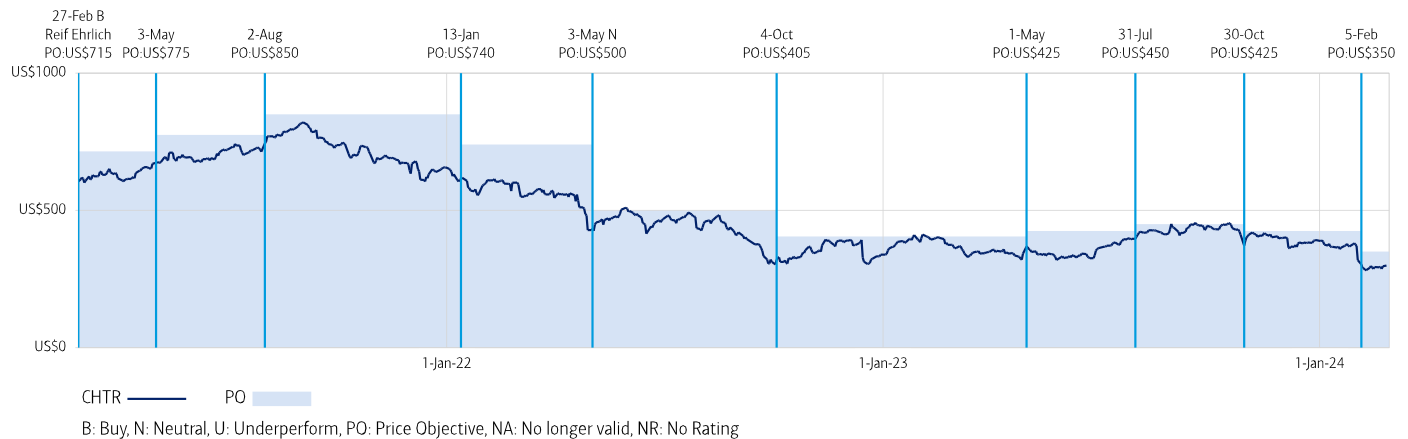
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## Altice USA, Inc. (ATUS) Price Chart



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## Charter Communicatio (CHTR) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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