Bloomberg Intelligence

North America Cable & Satellite Covid-19 Outlook

BI Cable & Satellite, North America Dashboard


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1. Covid-19 Outlook: U.S. Cable & Satellite

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(Bloomberg Intelligence) -- THESIS: A pivot to broadband connectivity and a stable subscription model should keep U.S. cable companies in good stead even in a pandemic-driven economic downturn. The sector tends to be defensive, but Covid-19 has highlighted the importance of broadband access, and a superior offering will allow cable to more than offset any video-related revenue weakness. Profitability won't be hurt as the product mix shifts to the high-margin data segment, in our view, while elevated cord-cutting may be a blessing in disguise on lower programming costs.

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Key Topics

Comcast may be the worst affected by the outbreak amid headwinds to its NBCUniversal media businesses. Charter's and Altice USA's pure-play focuses put the two in a relatively strong position. Despite strong balance sheets, they may opt to slow buybacks to conserve liquidity. (03/31/20)

Key Topics

Revenue: Data Gain Eases Video Pain

Cable Sales Unhurt as Broadband Buffering Calms Video Suffering

Contributing Analysts Amine Bensaid (Media)

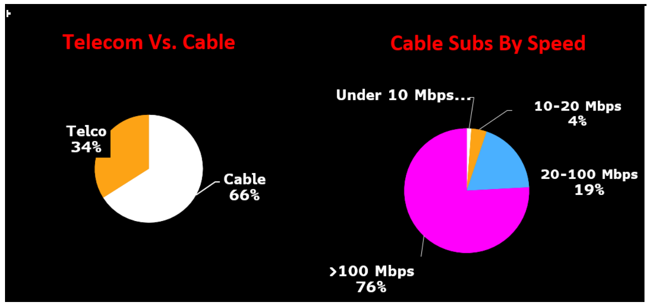
Cable operators will be shielded from Covid-19's adverse effects, conversely benefiting from their broadband focus as increased in-home access for work and entertainment due to social distancing prompt upgrades to gigabit internet speeds and fuel sales. This should more than offset the challenges in the video segment, which faces elevated cord-cutting amid a potential economic downturn. (03/27/20)

2. Zoom, Netflix Fuel Cable’s Dream Data Gig

Gigabit-speed broadband has been a key frontier for cable operators such as Comcast, Charter, Altice USA and Cox. Subscriptions for 1 gig have accounted for only 6% of high-speed data subscribers, likely limited by a cost that's almost double that of a standard 200-300 Mbps plan. This may change as consumption expands with subscribers being forced to stay home and use video conferencing apps such as Zoom for work. OpenVault reported a 81% surge in downstream consumption during the week of March 16, suggesting 792 MB of monthly consumption vs. the 440 GB average among broadband-only subscribers.

A number of broadband providers have also rolled out free internet offerings for low-income customers. While this won't move the sales needle, it may help spur modest subscriber gains. Data caps have also been lifted. (03/27/20)

Broadband Subscribers by Speed



Source: Bloomberg Intelligence

3. No Sports to Accelerate Cord-Cutting, Revenue Decline

The pay-TV bundle may have reached a point of no return, with cord-cutting set to accelerate over the next few months as the coronavirus shuts down live sporting events and drags on the economy. Regular sports viewers are considered to be the stickiest pay-TV subscribers, with almost 80% of them subscribing to a traditional pay-TV service. But with sports networks such as ESPN facing large programming gaps, fans may get frustrated and leave the bundle, especially if postponements extend several months.

Last year, the industry lost about 6.5% of its subscribers, with cable operators losing about 3.6% of their combined customer base, triggering a 1% revenue decline. This year's declines while worse, won't be insurmountable given broadband's growing slice in the revenue pie. (03/27/20)

Sports Hiatus Hurts Networks, Pay-TV

	Sports Events	Estimated 2020 Ad Revenue Impact	Household Ratings Impact
CBS	NCAA	*$365 Million*	-9.0%
Turner	NCAA, NBA	*~$960 Million*	
TBS			-20.0%
TNT			-25.0%
TruTV			-18.0%
ESPN	NBA	*$490 Million*	-14.0%
ABC	NBA	*~$200 Million*	
NBC Sports	NHL, NASCAR		

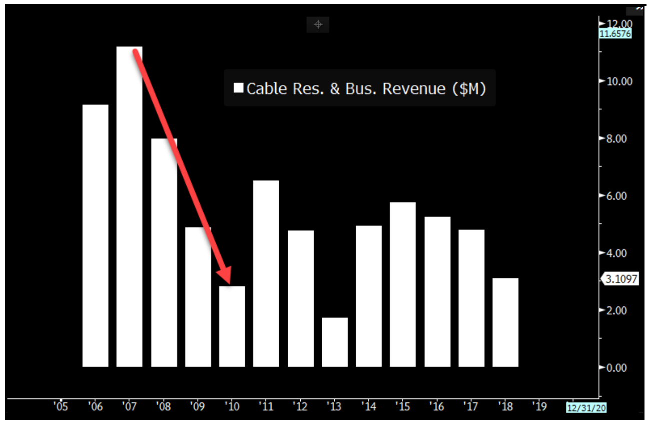
Source: Bloomberg Intelligence

4. Video May Be Weak Link for Stable Cable in Recession

While it's hard to predict with certainty that the Covid-19 outbreak will spark a recession, it's clear that pay TV is no longer as resilient as it used to be. With an average video package costing about $100, reduced disposable incomes may spark widespread cancellations of traditional video subscriptions. This could be particularly troublesome for satellite operators Dish and AT&T-owned DirecTV, since they rely almost wholly on video. Even when the pay-TV sector was considered to be recession-proof, the 2009 economic downturn did have an effect on revenue, with gains moderating to 5% in 2009 vs. 11% in 2007 and 8.1% in 2008, according to Kagan data.

The proliferation of streaming as a viable substitute will serve as a catalyst to exacerbate video declines. (03/23/20)

Cable Revenues Hurt in Recession



Source: Kagan

5. Comcast Weighed Down by NBC; Charter Cruises on Data

Comcast will be hurt the worst by Covid-19-related headwinds to its NBCUniversal unit from theme park closings, Olympics postponement, sports cancellations, movie delays and advertising exposure in the U.S. and Europe. While visibility is limited, a defensive broadband business should help the company weather the storm given U.S. cable makes up almost 55% of sales. In contrast, Charter and Altice USA's pure-play focus puts them at a competitive advantage even in the event of a recession, with growth in consumer broadband somewhat offset by declines in video subscribers and lower advertising. (03/27/20)

Comcast, Charter Lead Cable Operators

Name	2019 Q4	2019 Q3
High Speed Data Subscribers (000'...	81,250.3	81,846.3
Comcast Corp	28,629.0	28,186.0
Charter Communications	26,664.0	26,325.0
AT&T Inc	14,119.0	15,575.0
Verizon Communications Inc	6,956.0	6,961.0
Altice USA	4,187.3	4,180.3
Cable One Inc	695.0	619.0

Source: Bloomberg Intelligence

Cost Structure: Broadband Focus Bumps Margins

Cord-Cutting Means Cost-Cutting as Data, Skinny TV Fatten Margin

Covid-19 won't adversely affect cable operators' profitability, in our view, given a product mix that's shifting to high-margin broadband vs. low-profit video. Fewer video customers will slow programming-cost increases, while an insatiable appetite for broadband boosts margins. Cord-cutting sparked a 3% decline in 2019 programming costs, which may fall further in 2020 with sports cancellations. (03/30/20)

6. Cable's Content-Cost Climb May Cool Further

Incessant subscriber losses on traditional pay-TV systems have triggered a reset in the media industry, especially as competition from new virtual services intensifies. Pay-TV operators are pushing back aggressively on steep increases in programming expenses, their biggest cost component. Total programming expenses for Comcast, Charter, Altice USA, DirecTV and Dish fell 2.9% in 2019 vs. a 7%-plus increase in 2017. On a per-subscriber basis, programming costs are growing at a low-single-digit rate as video customer losses offset contractual rate increases.

As the coronavirus sparks a recession, reduced disposable income could trigger more video cancellations, alleviating cost pressures for traditional pay-TV operators. In addition, called off sporting events may prompt operators to adjust payments accordingly. (03/30/20)

Annual Pay-TV Programming Costs ($M)

	2018 Programming Costs	2019 Programming Costs	Yoy % Chg
DirecTV	15861	14386	-9.3%
Altice USA	2621	2722	3.9%
Charter	11124	11290	1.5%
Comcast	13249	13389	1.1%
Dish Network	6788	6440	-5.1%
Total	49643	48227	-2.9%

Source: Company Filings, Kagan

Source: Bloomberg Intelligence

7. Broadband Has 60%-Plus Ebitda Margin vs. Video's 9%

Even as cable operators steadily lose video subscribers, the ranks of data customers -- especially broadband-only ones -- are swelling quickly. Cord-cutters who swap their bundles for just data and a streaming service such as Netflix are creating a surge in broadband-only demand, easing the pain of the video exodus and putting cable operators in a sweet spot as they position to consolidate their data stronghold. The momentum of this shift favors cable, thanks to higher prices of unbundled broadband, in addition to a blistering 62% Ebitda margin on broadband vs. video's paltry 9%.

The Covid-19 outbreak has led to a surge in broadband consumption and may prompt users to upgrade to higher speeds or switch from a bundle to a broadband-only plan. (03/30/20)

Broadband vs. Video Margin (%)

	1Q16	1Q17	1Q18	1Q19
Video				
% Of Total Cable Revenue	44.0%	42.3%	40.9%	39.0%
Avg Ebitda Margin	15.0%	12.0%	10.0%	9.0%
Broadband				
% Of Total Cable Revenue	29.0%	31.0%	32.3%	34.0%
Avg Ebitda Margin	60.0%	62.0%	62.0%	62.0%
Voice				
% Of Total Cable Revenue	8.0%	7.4%	6.4%	6.0%
Avg Ebitda Margin	30.0%	27.0%	15.0%	9.0%

Source: Bloomberg Intelligence

Liquidity: Stable Cable Can Weather Storm

Stable Cable Has Adequate Liquidity to Weather Virus Outbreak

Pay-TV companies such as Comcast, Charter and Altice USA are well-positioned to withstand the economic impact of the coronavirus pandemic, given each provider's ample liquidity position and recurring free cash flow. Yet it may be challenging to finance new endeavors such as Dish's up to $19 billion of potential wireless-related cash outlays. (03/31/20)

8. Investment Grade Market Open, High Yield Volatile

Comcast (rated A3/A-) has about $24 billion of pro forma liquidity including $5.5 billion of cash at the start of the year, $9 billion equivalent raised from selling dollar, euro and sterling-denominated bonds, and $9 billion of untapped revolving credit lines. Charter has $10 billion of pro forma liquidity including cash and credit lines vs. about $3 billion for Altice USA.

The new issuance market is open for high grade issuers, yet it remains very volatile for junk-rated companies. Comcast, Disney (A2/A), ViacomCBS (Baa2/BBB) and Verizon (Baa1/BBB+) each sold bonds over the past two weeks. Yum! Brands (B1/B+) launched a bond deal on March 30, the first high yield new issue since Charter sold $2.5 billion of bonds on March 4. (03/31/20)

Liquidity Positions as of Dec. 31

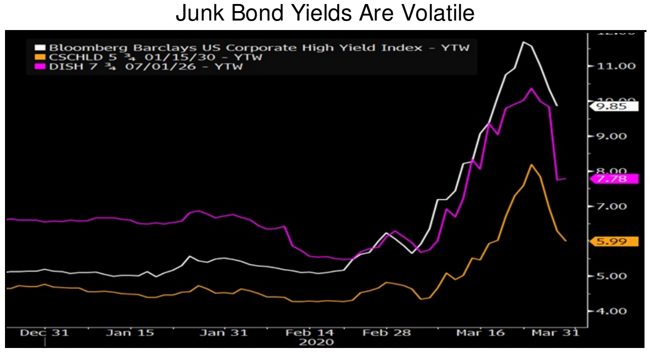
(in millions)	CMCSA US Equity	CHTR US Equity	ATUS US Equity	DISH US Equity
Most Recent Qtr	12/19 Q4	12/19 Q4	12/19 Q4	12/19 Q4
Currency	USD	USD	USD	USD
Total Enterprise Value	**263,850**	**201,488**	**38,154**	**22,694**
Cash & Equivalents	5,500	3,483	702	2,860
Revolving Credit Line Availibility	9,200	3,601	2,297	-
Total Liquidity	**14,700**	**7,084**	**2,999**	**2,860**
Short-Term Debt	4,452	3,504	171	1,171
Long-Term Debt	102,931	75,636	24,250	13,140
Total Debt	**107,383**	**79,140**	**24,420**	**14,311**

Source: Bloomberg Intelligence

9. Terms for Junk Financing Are Less Certain

Junk-rated communications companies such as Altice USA and Dish may have missed an opportunity to issue new bonds at low rates earlier this year. Altice USA's CSC Holdings subsidiary has several large, high-coupon bonds outstanding that are callable this year, including $1.68 billion of 10.875% bonds and $618 million of 7.75% notes. It could have extracted interest-cost savings by refinancing them. Dish also may have missed a chance to issue low-cost debt as it seeks financing for its up-to-$19 billion entry into the highly competitive wireless-services industry. (03/31/20)

Junk Bond Yields Are Volatile



Source: Bloomberg Intelligence

10. Wireless-Related Outlays of About $19 Billion

Dish faces total obligations of up to $25 billion over the next four years, including $18.5 billion that are wireless-related and $6.6 billion of debt maturities. The largest item is the company's plan to construct a nationwide wireless 5G network at a cost of about $10 billion. Dish has promised the FCC that it will provide facilities-based

5G service to 70% of the U.S. population by June 2023. If Dish fails to meet this commitment, it will have to make a voluntary contribution to the U.S. Treasury of up to $2.2 billion. (03/19/20)

Potential Dish Liquidity Sources, Uses

($ Millions)	Amount	Potential Timing
Cash and Short-term Investments	2,861	As of 12/31/19
Free Cash Flow	3,438	2020 - 2023
Total Potential Liquidity Sources	6,299	
National 5G Network Construction	10,000	Through 2023
Debt Maturities	6,600	2020 - 2023
Purchase of Sprint's 800 MHz Spectrum	3,590	Early 2023
AWS-3 Spectrum Re-auction Commitment	2,921	2020
Acquisition of Sprint pre-paid Business	1,400	Early 2020
SNR, Northstar Put Rights	630	4Q20
Total Potential Liquidity Uses	25,141	

Source: Bloomberg Intelligence

Subscribers: Virus Feeds Data Hogs

Broadband-Only Homes to Hit 40 Million, 3 Years Before Schedule

Contributing Analysts Amine Bensaid (Media)

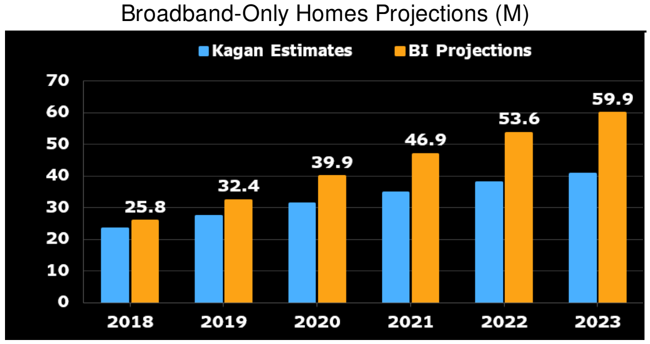
The number of U.S. broadband-only homes may hit 40 million by year-end, three years ahead of initial estimates, in our view, with faster cord-cutting and a broad switch to telecommuting and online learning amid Covid-19 that's aiding providers such as Comcast and Charter. More cord-nevers may take up wireline broadband and bundled users may switch to data-only plans. (03/31/20)

11. Data to Crush Estimates With Covid-19 Surge

Broadband-only homes will reach the 40 million mark by the end of 2020, in our view, as the virus outbreak serves as a catalyst for higher data consumption. Kagan projected a 75% surge in such homes to 41 million in 2023 from 2018, but the current run-rate of about 6.5-7.5 million additions a year suggests that the segment may more than double to 60 million in the next four years. High-speed data access is fueling streaming growth, with consumers giving up pay-TV bundles. The explosion of virtual services, in turn, is fueling data gains, as customers opt for just data alongside streaming.

Broadband-only homes are those without a traditional video package that subscribe to a wireline broadband product. The largest U.S. broadband providers include Comcast, Charter, AT&T, Verizon and Altice USA. (03/31/20)

Broadband-Only Homes Projections (M)

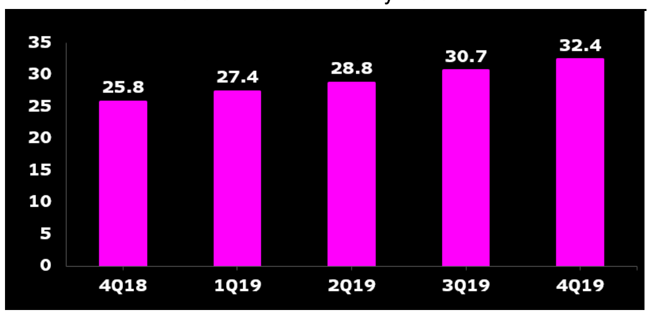


Source: Kagan, BI

12. 6.6 Million New Broadband-Only Homes in 2019

The addition of 3.6 million data-only subscribers in 2H was a record, following a solid 1H that saw 3 million gains. The number of new broadband-only subscribers closely tracks that of video-subscriber losses in 2019, which was just shy of the 6 million mark. We expect video erosion to remain high through 2020, especially with multiple sports cancellations caused by the virus outbreak and due to a potential economic downturn. With the total number of high-speed households reaching 100 million by the end of 2019, broadband-only customers, at 32%, account for a third. (03/31/20)

U.S. Broadband-Only Homes



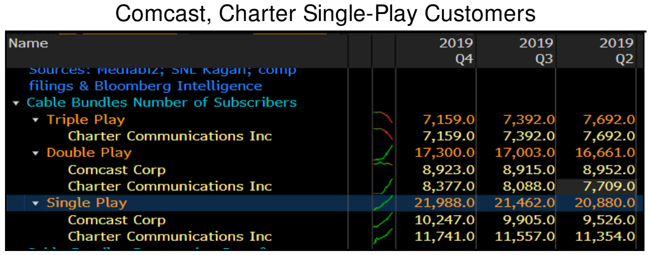
Source: Kagan

13. Comcast, Charter Have 22 Million Data-Only Users

Thanks mostly to DOCSIS 3.1 deployments, cable operators are in a sweet spot as they position themselves to consolidate their grip on the high-speed broadband market. Comcast and Charter together added over 2.5 million data customers in 2019 -- cementing cable's dominant almost-70% market share -- due to better offerings with faster speeds. Assuming single-play customers are broadband-only subscribers, Charter may be the market leader with 11.7 million data-only users. Comcast could have 10.2 million, suggesting that the two companies alone make up 68% of the broadband-only market.

While telecom tries to counter this dominance with the introduction of 5G, the threat to cable seems overblown, for now. 5G lacks ubiquity, and the costs associated with providing the service are prohibitive (03/31/20)

Comcast, Charter Single-Play Customers



Name	2019 Q4	2019 Q3	2019 Q2
Sources: MediaBiz; SNL Kagan; comp filings & Bloomberg Intelligence			
Cable Bundles Number of Subscribers			
Triple Play	7,159.0	7,392.0	7,692.0
Charter Communications Inc	7,159.0	7,392.0	7,692.0
Double Play	17,300.0	17,003.0	16,661.0
Comcast Corp	8,923.0	8,915.0	8,952.0
Charter Communications Inc	8,377.0	8,088.0	7,709.0
Single Play	21,988.0	21,462.0	20,880.0
Comcast Corp	10,247.0	9,905.0	9,526.0
Charter Communications Inc	11,741.0	11,557.0	11,354.0

Source: Bloomberg Intelligence

Use of Cash: M&A, Buybacks to Slow Down

Cable Buybacks May Slow Even With No Cash Crunch, M&A Unlikely

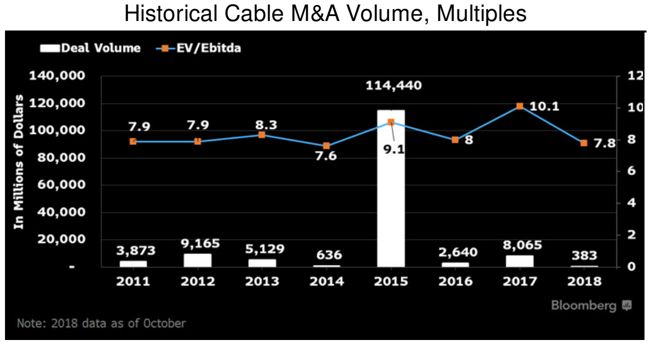
Cable operators have solid balance sheets and an equally strong free cash flow profile. Even so, large megadeals are unlikely and the pace of buybacks could also decline. Comcast had suspended share repurchases to focus on debt reduction, and Charter could slow its $7 billion buyback pace to conserve liquidity in difficult market conditions. (03/30/20)

14. All Quiet on the M&A Front

Even before the virus outbreak, legacy pay-TV operators were unlikely to pursue large M&A transactions in 2020, instead staying on the sidelines with much smaller deals. Comcast has been busy with its Sky integration, while Charter and Altice USA have mainly focused on their organic operations. Yet the regulatory approval of the Sprint-T-Mobile deal may embolden Charter to pursue Altice USA, given the latter's New York metro footprint as well as a attractive wireless partnership with Sprint. Comcast is gearing up to launch its Peacock streaming service and recently acquired Xumo, an advertising-based streaming platform, for more than $100 million, according to CNBC.

Altice USA recently purchased regional operator Service Electric for $150 million. (03/30/20)

Historical Cable M&A Volume, Multiples



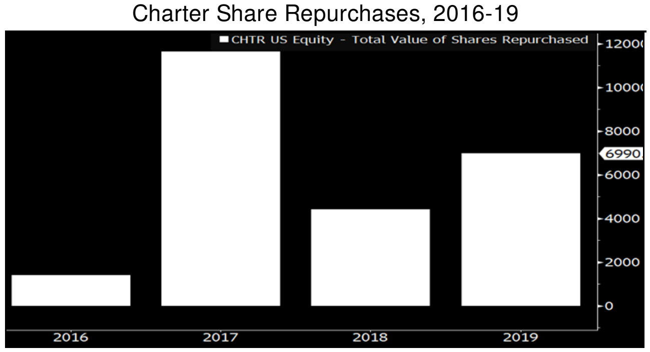
Source: Kagan, a unite of S&P Global Intelligence

15. Buybacks of $24 Billion Over Past Four Years

Charter could seek to slow its pace of buybacks and use free cash flow to reduce debt, following the lead of communications peers. While Charter's liquidity position is strong, with $6 billion of pro forma cash and expectations for about $6 billion of free cash flow this year, it may seek to bolster its credit profile given the large size of its debt load and its credit ratings. Charter has repurchased more than $24 billon of its shares since 2016, including $7 billion over the past year.

On March 20, AT&T canceled its $4 billion accelerated share-repurchase program scheduled to be executed during 2Q to maintain financial flexibility. (03/23/20)

Charter Share Repurchases, 2016-19



Source: Bloomberg Intelligence

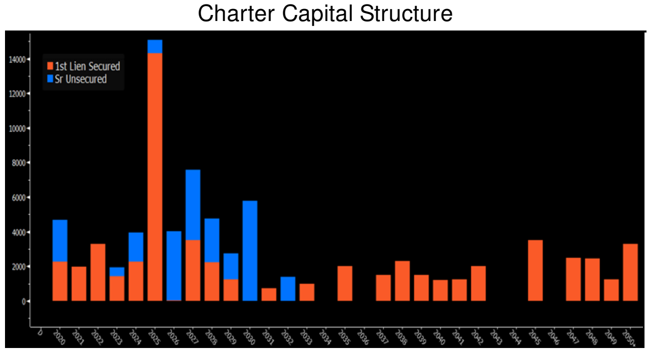
16. Pro Forma Cash Balance of About $6 Billion

Contributing Analysts Conor Cuddy

It's very important for Charter to maintain access to the investment grade bond market, in our view, given the size of the company's debt load and amount of bond maturities over the next several years. As a result, it's key for Charter to preserve its BBB- secured ratings from S&P and Fitch. While Charter must address $4 billion of debt due this year, it has about $6 billion of cash pro forma for the March 4 sale of $2.5 billion of unsecured bonds due in 2030-32. Charter's pro forma debt load is about $81 billion, including $56 billion of secured obligations with a 3.3x secured leverage ratio.

Charter's secured debt balance includes $10 billion of revolving and term loans, $31 billion of Charter bonds, $13 billion of legacy Time Warner Cable notes and $2 billion of legacy Time Warner Cable Enterprises obligations. (03/23/20)

Charter Capital Structure



Source: Bloomberg Intelligence

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