

2 August 2018

United States

## EQUITIES

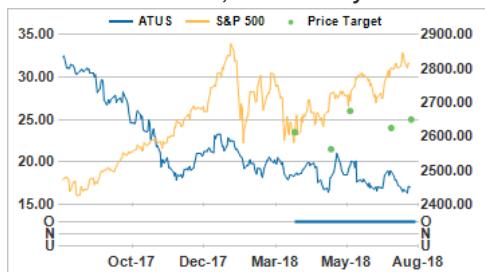
ATUS US  
Price (at 20:50, 02 Aug 2018 GMT)

Valuation	US\$	25.00
- FCF/sh		
12-month target	US\$	25.00
12-month TSR	%	+46.8
GICS sector		Media
Market cap	US\$m	12,552
30-day avg turnover	US\$m	88.1
Number shares on issue	m	737.1

## Investment fundamentals

Year end 31 Dec	2017A	2018E	2019E	2020E
Revenue	m	9,323	9,583	9,880
EBIT	m	867	1,213	1,261
Reported profit	m	1,521	-341	-125
Adjusted profit	m	1,521	-341	-125
Gross cashflow	m	4,452	2,417	2,841
CFPS	US\$	6.40	3.31	4.09
CFPS growth	%	nmf	-48.3	23.4
PGCFPS	x	2.7	5.1	4.2
EPS adj	US\$	1.97	-0.47	-0.18
EPS adj growth	%	nmf	nmf	62.0
PER adj	x	8.6	nmf	nmf
ROA	%	0.8	2.9	3.2
ROE	%	26.6	-6.4	-2.8
EV/EBITDA	x	8.9	8.4	7.7
Net debt/equity	%	378.7	421.3	510.1
P/BV	x	2.2	2.5	2.9
				3.6

## ATUS US vs S&amp;P 500, &amp; rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2018  
(all figures in USD unless noted)

## Analysts

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## Altice USA

### Its Own Magic Box

## Key points

- 2Q reflects the results of Altice's secret sauce to achieve industry-leading margins, but not at the expense of growth.
- 2H/19 is poised for ongoing improvement from Altice One, its fiber deployment/IP migration, and full MVNO wireless launch.
- Our '18 revenue growth is 2.8% towards the high end of guidance. With buybacks supporting our FCF/sh assumptions, our TP goes to US\$25.

## Event

Against much skepticism, Altice's differentiated strategy proved successful: subs beat and the path to margin expansion is clear. Now, we look to an improved 2H as the price hike and LT initiatives to retain/grow subs flow through. Moreover, 2Q margins of 42.5% and 43.6% ex one-time items/management fee led the industry. Altice remains our out-of-consensus buy.

## Impact

**As a result of the price increase, we model our 3Q/18 broadband and video net adds to 17k/78k and -33k/-112k.** 400Mbps/1Gbps speeds are now available to 88%/28% of the footprint, with average speeds of 162Mbps across the base (up 70%+ YoY). Video recovered from the 1Q Starz/weather impacts to Optimum, while the Altice One rollout to Suddenlink should accelerate 2H trends. We note Optimum is counter-seasonal with a stronger 2Q/weaker 3Q; we believe competition will likely ease in the Optimum footprint in 2H as DirecTV focuses on OTT products.

**We now model revenue growth of 2.8% at the high end of guidance.** This reflects: 1) the ~3% June price hike of which ~50% is expected to flow through; 2) Altice One, expected to be footprint-wide by year-end; and 3) the I-24 deal, reflecting its news-centric content strategy. We now model 3Q/18 resi. ARPU of US\$143.56/US\$142.01 and see this as a primary driver of a stronger 2H. We model 3Q/18 adj. EBITDA of US\$1.05bn/US\$4.12bn, supported by margins of 43.6%/43.0%; these assumptions reflect the elimination of its US\$30m p.a. management fee.

Unique to Altice are other initiatives like fiber/wireless. The FTTH build is on track for commercialization in 3Q; this should allow for up to 10Gbps speeds. Altice is also gearing up for mobile in '19 through its full Sprint MVNO. We expect this will have more attractive economics vs Comcast/Charter's and offer full control over its mobile offering's features, functionality, and customer experience. We model '18 capex US\$1.29bn, in line with guidance.

**Meanwhile, we await the promise of buybacks.** We model 3Q FCF of US\$245m/US\$1.27bn and buybacks of US\$150m/US\$300m. 2Q leverage came in at 5.3x with the payout of the US\$1.5bn dividend, on track to reach ~5.0x by year-end.

## Earnings and target price revision

Our '18/19 adj. EBITDA goes to US\$4.12bn/US\$4.43bn. Target price to \$25 from \$24.

## Price catalyst

- 12-month price target: US\$25.00 based on a FCF/sh methodology.
- Catalyst: sub trends, ARPU, Altice One, and FCF

## Action and recommendation

We're optimistic that Altice can deliver on 2H expectations for accelerating sub trends and margin expansion.

Against much skepticism, Altice's differentiated strategy proved successful: subs beat and the path to margin expansion is clear. Now, we look to an improved 2H as the price hike and LT initiatives to retain/grow subs flow through. Moreover, 2Q margins of 42.5% and 43.6% ex one-time items/management fee led the industry. Altice remains our out-of-consensus buy. We outline our estimate changes in Fig. 1.

**Fig 1 Our estimate changes**

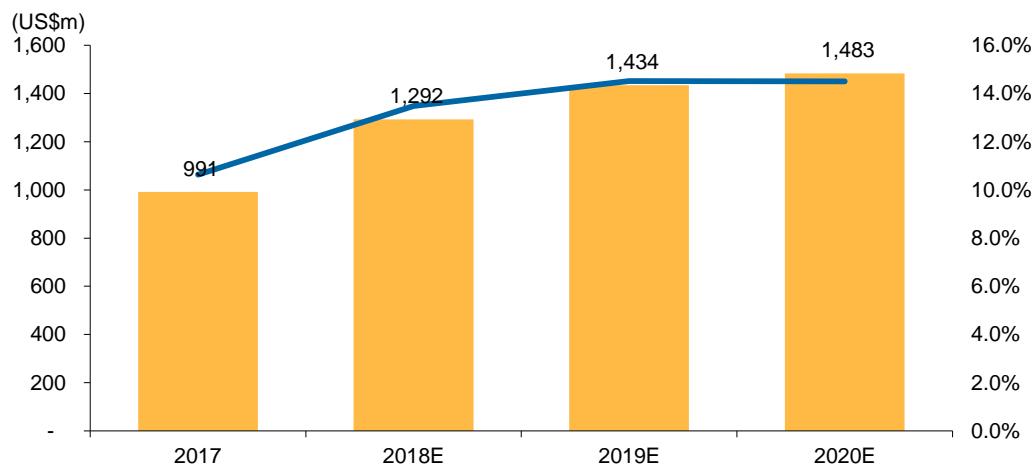
	3Q18E	2018E	2019E	2020E
<b>New</b>				
Pay TV	1,043	4,136	4,089	4,060
Broadband	716	2,887	3,189	3,526
Telephony	196	718	678	636
Business services & wholesale	347	1,372	1,444	1,516
Total Revenue	2,408	9,583	9,880	10,231
Adj. EBITDA	1,050	4,116	4,428	4,767
OpFCF	646	2,824	2,994	3,283
FCF	245	1,265	1,435	1,737
<b>Old</b>				
Pay TV	1,045	4,136	4,098	4,075
Broadband	714	2,857	3,158	3,493
Telephony	195	747	704	658
Business services & wholesale	347	1,373	1,430	1,480
Total Revenue	2,404	9,552	9,826	10,145
Adj. EBITDA	1,068	4,159	4,404	4,728
OpFCF	719	2,853	2,978	3,257
FCF	321	1,250	1,428	1,757

Source: Company data, Macquarie Capital (USA), August 2018

**As a result of the price increase, we model our 3Q/'18 broadband and video net adds to 17k/78k and -33k/-112k.** 400Mbps/1Gbps speeds are now available to 88%/28% of the footprint, with average speeds of 162Mbps across the base (up 70%+ YoY). Video recovered from the 1Q Starz/weather impacts to Optimum, while the *Altice One* rollout to Suddenlink should accelerate 2H trends. We note Optimum is counter-seasonal with a stronger 2Q/weaker 3Q; we believe competition will likely ease in the Optimum footprint in 2H as DirecTV focuses on OTT products.

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**Fig 2 Our capex estimates through '20**

Source: Company Data, Macquarie Capital (USA), August 2018

**Meanwhile, we await the promise of buybacks.** We model 3Q FCF of US\$245m/US\$1.27bn and buybacks of US\$150m/US\$300m. 2Q leverage came in at 5.3x with the payout of the US\$1.5bn dividend, on track to reach ~5.0x by year-end.

Fig 3 Altice Income Statement

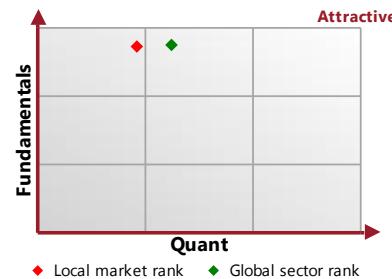
Altice		Income Statement US\$ (millions)																			
	(Ticker: ATUS)	2015	2016	2017	1Q18	2Q18	3Q18E	4Q18E	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E		
Pay TV		4,260	4,227	4,227	1,034	1,034	1,043	1,025	4,136	1,020	1,021	1,035	1,014	4,089	1,009	1,015	1,031	1,005	4,060		
Broadband		2,005	2,290	2,578	702	712	716	757	2,887	773	785	793	839	3,189	850	863	881	933	3,526		
Telephony		912	872	794	166	163	196	192	718	159	156	185	178	678	151	147	173	164	636		
Business services & wholesale		1,159	1,231	1,299	333	337	347	354	1,372	351	355	366	372	1,444	368	373	384	391	1,516		
Advertising		346	365	382	88	110	96	146	439	92	115	100	153	461	96	121	105	161	483		
Other		284	169	43	8	7	10	7	32	5	4	6	4	19	2	2	3	2	10		
Less: Newsday		(237)	(115)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
<b>Total revenues</b>		<b>8,728</b>	<b>9,039</b>	<b>9,323</b>	<b>2,330</b>	<b>2,364</b>	<b>2,408</b>	<b>2,481</b>	<b>9,583</b>	<b>2,399</b>	<b>2,436</b>	<b>2,485</b>	<b>2,561</b>	<b>9,880</b>	<b>2,476</b>	<b>2,521</b>	<b>2,577</b>	<b>2,656</b>	<b>10,231</b>		
YoY Change		3.6%	3.1%	1.2%	1.5%	3.5%	4.9%	2.8%	3.0%	3.0%	3.2%	3.2%	3.1%	3.2%	3.5%	3.7%	3.7%	3.7%	3.5%		
<b>Operating Expenses</b>																					
Programming and other direct costs		1,911	3,036	787	795	795	819	3,196	798	804	795	820	3,216	805	819	825	850	3,299			
Other operating expenses		1,706	2,337	583	576	584	602	2,344	568	577	589	581	2,316	550	560	559	576	2,245			
Restructuring and other expense		240	152	4	10	29	30	72	48	24	25	26	123	50	25	26	27	127			
D&A		1,700	2,930	643	649	722	744	2,758	720	731	745	768	2,964	743	756	773	797	3,069			
<b>Total operating expenses</b>		<b>5,558</b>	<b>8,456</b>	<b>2,017</b>	<b>2,029</b>	<b>2,130</b>	<b>2,194</b>	<b>8,370</b>	<b>2,134</b>	<b>2,136</b>	<b>2,154</b>	<b>2,195</b>	<b>8,619</b>	<b>2,147</b>	<b>2,161</b>	<b>2,183</b>	<b>2,250</b>	<b>8,740</b>			
Operating income		3,482	867	313	335	278	287	1,213	265	300	331	366	1,261	329	361	394	406	1,491			
<b>Other Income (Expense)</b>																					
Interest expense		(1,443)	(1,601)	(374)	(385)	(354)	(354)	(1,468)	(354)	(354)	(354)	(354)	(1,417)	(354)	(354)	(354)	(354)	(354)	(1,417)		
Gain (loss) on investments		142	237	(249)	(45)	-	-	(294)	-	-	-	-	-	-	-	-	-	-	-		
Gain (loss) on derivative contracts		(54)	(236)	168	42	-	-	211	-	-	-	-	-	-	-	-	-	-	-		
Gain (loss) on derivative interest rate swaps		(73)	5	(32)	(13)	-	-	(45)	-	-	-	-	-	-	-	-	-	-	-		
Loss on extinguishment of debt		(128)	(600)	(5)	(37)	-	-	(42)	-	-	-	-	-	-	-	-	-	-	-		
Other income (expense)		4	(4)	(12)	(1)	-	-	(12)	-	-	-	-	-	-	-	-	-	-	-		
<b>Total other expense</b>		<b>(1,551)</b>	<b>(2,198)</b>	<b>(503)</b>	<b>(439)</b>	<b>(354)</b>	<b>(354)</b>	<b>(1,650)</b>	<b>(354)</b>	<b>(354)</b>	<b>(354)</b>	<b>(354)</b>	<b>(1,417)</b>	<b>(354)</b>	<b>(354)</b>	<b>(354)</b>	<b>(354)</b>	<b>(354)</b>	<b>(1,417)</b>		
Income before income taxes		1,931	(1,331)	(190)	(104)	(76)	(68)	(437)	(89)	(55)	(24)	12	(156)	(25)	6	40	52	73			
Income tax benefit (expense)		260	2,853	61	6	16	14	97	19	11	5	(3)	33	5	(1)	(8)	(11)	(15)			
Tax rate		NM	NM	-32%	-5%	21%	21%	NM	21%	21%	21%	21%	NM	21%	21%	21%	21%	NM			
<b>Net income</b>		<b>2,191</b>	<b>1,522</b>	<b>(129)</b>	<b>(98)</b>	<b>(60)</b>	<b>(54)</b>	<b>(341)</b>	<b>(70)</b>	<b>(43)</b>	<b>(19)</b>	<b>9</b>	<b>(123)</b>	<b>(20)</b>	<b>5</b>	<b>32</b>	<b>41</b>	<b>58</b>			
Net loss (income) attributable to noncontrolling		1	1	(0)	(0)	1	1	1	1	1	1	1	2	1	1	1	1	2			
Net income attributable to common		2,190	1,521	(129)	(98)	(61)	(54)	(341)	(71)	(44)	(19)	9	(125)	(20)	4	31	41	56			
<b>Weighted average shares (basic)</b>		650	696	737	737	728	719	730	710	701	691	680	695	670	659	647	635	653			
<b>Weighted average shares (diluted)</b>		650	696	737	737	728	719	730	710	701	691	680	695	670	659	647	635	653			
EPS - basic		3.37	1.97	(0.17)	(0.13)	(0.08)	(0.07)	(0.46)	(0.10)	(0.06)	(0.03)	0.01	(0.17)	(0.03)	0.01	0.05	0.06	0.09			
EPS - diluted		3.37	1.97	(0.17)	(0.13)	(0.08)	(0.07)	(0.46)	(0.10)	(0.06)	(0.03)	0.01	(0.17)	(0.03)	0.01	0.05	0.06	0.09			
YoY change																					
<b>Adjusted EBITDA</b>																					
Net income (loss)		2,191	1,522	(129)	(98)	(60)	(54)	(341)	(70)	(43)	(19)	9	(123)	(20)	5	32	41	58			
Income tax (benefit)		(260)	(2,853)	(61)	(6)	(16)	(14)	(97)	(19)	(11)	(5)	3	(33)	(5)	1	8	11	15			
Other expense (income)		(4)	4	12	1	-	-	12	-	-	-	-	-	-	-	-	-	-			
Loss (gain) on interest rate swaps		73	(5)	32	13	-	-	45	-	-	-	-	-	-	-	-	-	-			
Loss (gain) on derivative contracts		54	236	(168)	(42)	-	-	(211)	-	-	-	-	-	-	-	-	-	-			
Loss (gain) on investments		(142)	(237)	249	45	-	-	294	-	-	-	-	-	-	-	-	-	-			
Loss on extinguishment of debt		128	600	5	37	-	-	42	-	-	-	-	-	-	-	-	-	-			
Interest expense		1,443	1,601	374	385	354	354	1,468	354	354	354	354	1,417	354	354	354	354	1,417			
D&A		1,700	2,930	643	649	722	744	2,758	720	731	745	768	2,964	743	756	773	797	3,069			
Restructuring & other		240	152	4	10	29	30	72	48	24	25	26	123	50	25	26	27	127			
SBC		14	57	22	12	20	20	74	20	20	20	20	80	20	20	20	20	80			
<b>Adjusted EBITDA</b>		<b>5,437</b>	<b>4,008</b>	<b>981</b>	<b>1,006</b>	<b>1,050</b>	<b>1,080</b>	<b>4,116</b>	<b>1,053</b>	<b>1,075</b>	<b>1,121</b>	<b>1,180</b>	<b>4,428</b>	<b>1,142</b>	<b>1,162</b>	<b>1,213</b>	<b>1,250</b>	<b>4,767</b>			
EBITDA margin		60.1%	43.0%	42.1%	42.5%	43.6%	43.6%	43.0%	43.9%	44.1%	45.1%	46.1%	44.8%	46.1%	46.1%	47.1%	47.1%	46.6%			
YoY Change		NM	-26%	4%	NM	2%	4%	3%	NM	NM	7%	9%	8%	NM	NM	8%	6%	8%			
Capex (accrued)		701	1,044	217	227	403	391	1,238	336	341	360	397	1,434	359	366	374	385	1,483			
<b>Adjusted EBITDA less capex (accrued)</b>		<b>4,736</b>	<b>2,963</b>	<b>764</b>	<b>778</b>	<b>646</b>	<b>690</b>	<b>2,879</b>	<b>717</b>	<b>734</b>	<b>761</b>	<b>783</b>	<b>2,994</b>	<b>783</b>	<b>797</b>	<b>839</b>	<b>865</b>	<b>3,283</b>			
Capex (cash)		626	991	258	241	403	391	1,292	336	341	360	397	1,434	359	366	374	385	1,483			
<b>Adjusted EBITDA less capex (cash)</b>		<b>4,811</b>	<b>3,016</b>	<b>723</b>	<b>765</b>	<b>646</b>	<b>690</b>	<b>2,824</b>	<b>717</b>	<b>734</b>	<b>761</b>	<b>783</b>	<b>2,994</b>	<b>783</b>	<b>797</b>	<b>839</b>	<b>865</b>	<b>3,283</b>			

Source: Company Data, Macquarie Capital (USA), August 2018

## Macquarie Quant View

The quant model currently holds a marginally negative view on Altice USA. The strongest style exposure is Growth, indicating this stock has good historic and/or forecast growth. Growth metrics focus on both top and bottom line items. The weakest style exposure is Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

195/332	
Global rank in Media	
% of BUY recommendations	84% (21/25)
Number of Price Target downgrades	2
Number of Price Target upgrades	1



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (United States) and Global sector (Media)

## Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



## Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



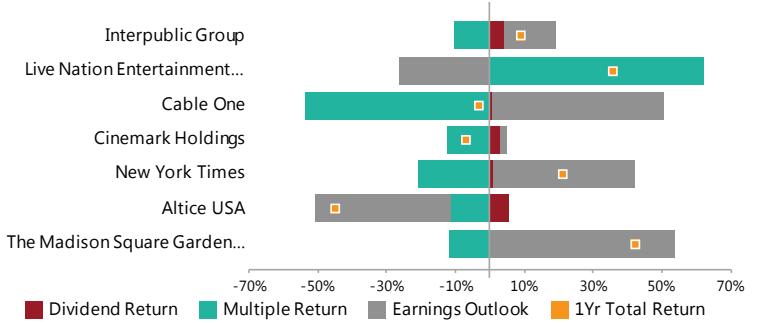
## Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



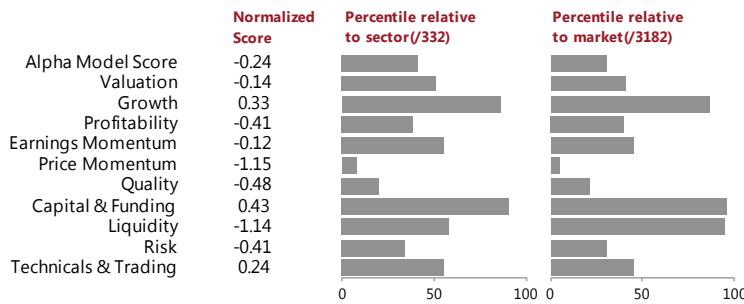
## Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



## How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



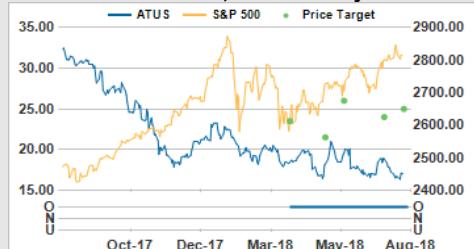
Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group ([cpg@macquarie.com](mailto:cpg@macquarie.com))

**Important disclosures:**

Recommendation definitions	Volatility index definition*	Financial definitions
<b>Macquarie - Australia/New Zealand</b> Outperform – return >3% in excess of benchmark return Neutral – return within 3% of benchmark return Underperform – return >3% below benchmark return	This is calculated from the volatility of historical price movements.	All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests
Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield, which is currently around 9%.	<b>Very high-highest risk</b> – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.	<b>EPS</b> = adjusted net profit / efpowa* <b>ROA</b> = adjusted ebit / average total assets <b>ROA Banks/Insurance</b> = adjusted net profit / average total assets
<b>Macquarie – Asia/Europe</b> Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%	<b>High</b> – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.	<b>ROE</b> = adjusted net profit / average shareholders funds <b>Gross cashflow</b> = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares
<b>Mazi Macquarie – South Africa</b> Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%	<b>Medium</b> – stock should be expected to move up or down at least 30–40% in a year.	All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).
<b>Macquarie - Canada</b> Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return	<b>Low</b> – stock should be expected to move up or down at least 15–25% in a year. * Applicable to Asia/Australian/NZ/Canada stocks only	
<b>Macquarie - USA</b> Outperform (Buy) – return >5% in excess of Russell 3000 index return Neutral (Hold) – return within 5% of Russell 3000 index return Underperform (Sell) – return >5% below Russell 3000 index return	<b>Recommendations</b> – 12 months <b>Note:</b> Quant recommendations may differ from Fundamental Analyst recommendations	

**Recommendation proportions – For quarter ending 30 June 2018**

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	52.87%	61.26%	48.86%	47.54%	69.86%	46.61%	(for global coverage by Macquarie, 3.51% of stocks followed are investment banking clients)
Neutral	34.10%	27.25%	36.36%	46.72%	21.92%	43.22%	(for global coverage by Macquarie, 2.10% of stocks followed are investment banking clients)
Underperform	13.03%	11.49%	14.77%	5.74%	8.22%	10.17%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

**ATUS US vs S&P 500, & rec history**

(all figures in USD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.  
Source: FactSet, Macquarie Research, July 2018

**12-month target price methodology**

ATUS US: US\$25.00 based on a FCF/sh methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
13-Jul-2018	ATUS US	Outperform	US\$24.00
31-May-2018	ATUS US	Outperform	US\$26.00
11-May-2018	ATUS US	Outperform	US\$21.50
03-Apr-2018	ATUS US	Outperform	US\$23.50

**Target price risk disclosures:**

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