

2 August 2018

United States

EQUITIES

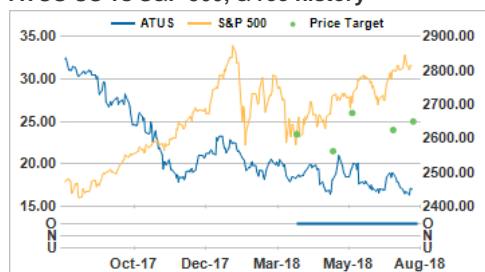
ATUS US Outperform
Price (at 20:50, 02 Aug 2018 GMT) US\$17.03

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	10,231
EBIT	m	867	1,213	1,261	1,491
Reported profit	m	1,521	-341	-125	56
Adjusted profit	m	1,521	-341	-125	56
Gross cashflow	m	4,452	2,417	2,841	3,127
CFPS	US\$	6.40	3.31	4.09	4.79
CFPS growth	%	nfm	-48.3	23.4	17.3
PGCFPS	x	2.7	5.1	4.2	3.6
EPS adj	US\$	1.97	-0.47	-0.18	0.09
EPS adj growth	%	nfm	nfm	62.0	nfm
PER adj	x	8.6	nfm	nfm	191.9
ROA	%	0.8	2.9	3.2	3.5
ROE	%	26.6	-6.4	-2.8	1.6
EV/EBITDA	x	8.9	8.4	7.7	7.0
Net debt/equity	%	378.7	421.3	510.1	638.2
P/BV	x	2.2	2.5	2.9	3.6

ATUS US vs S&P 500, & 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)

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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.

Please refer to page 6 for important disclosures and analyst certification, or on our website

www.macquarie.com/research/disclosures.

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
New				
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
Old				
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

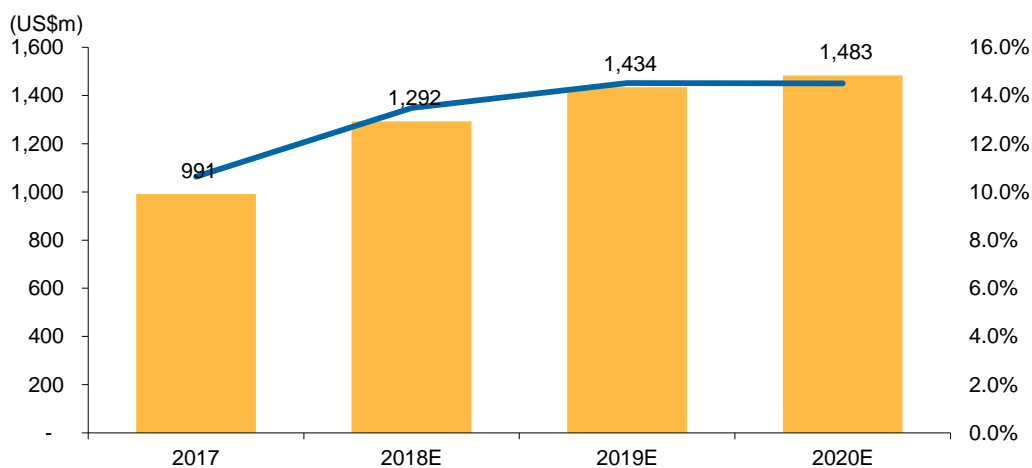
Source: Company data, Macquarie Capital (USA), August 2018

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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 (Ticker: ATUS)																		
Income Statement US\$ (millions)	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)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	8,728	9,039	9,323	2,330	2,364	2,408	2,481	9,583	2,399	2,436	2,485	2,561	9,880	2,476	2,521	2,577	2,656	10,231
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%	3.5%
Operating Expenses																		
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
Total operating expenses		5,558	8,456	2,017	2,029	2,130	2,194	8,370	2,134	2,136	2,154	2,195	8,619	2,147	2,161	2,183	2,250	8,740
Operating income		3,482	867	313	335	278	287	1,213	265	300	331	366	1,261	329	361	394	406	1,491
Other Income (Expense)																		
Interest expense		(1,443)	(1,601)	(374)	(385)	(354)	(354)	(1,468)	(354)	(354)	(354)	(354)	(1,417)	(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)	-	-	-	-	-	-	-	-	-	-
Total other expense		(1,551)	(2,198)	(503)	(439)	(354)	(354)	(1,650)	(354)	(354)	(354)	(354)	(1,417)	(354)	(354)	(354)	(354)	(1,417)
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
Net income		2,191	1,522	(129)	(98)	(60)	(54)	(341)	(70)	(43)	(19)	9	(123)	(20)	5	32	41	58
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
Weighted average shares (basic)		650	696	737	737	728	719	730	710	701	691	680	695	670	659	647	635	653
Weighted average shares (diluted)		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																		
Adjusted EBITDA																		
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
Adjusted EBITDA		5,437	4,008	981	1,006	1,050	1,080	4,116	1,053	1,075	1,121	1,180	4,428	1,142	1,162	1,213	1,250	4,767
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
Adjusted EBITDA less capex (accrued)		4,736	2,963	764	778	646	690	2,879	717	734	761	783	2,994	783	797	839	865	3,283
Capex (cash)		626	991	258	241	403	391	1,292	336	341	360	397	1,434	359	366	374	385	1,483
Adjusted EBITDA less capex (cash)		4,811	3,016	723	765	646	690	2,824	717	734	761	783	2,994	783	797	839	865	3,283

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

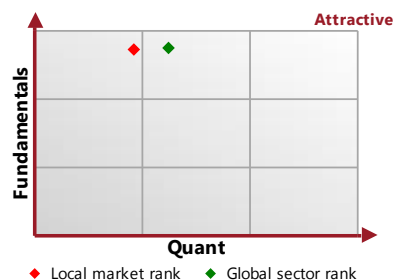
Macquarie Quant View

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

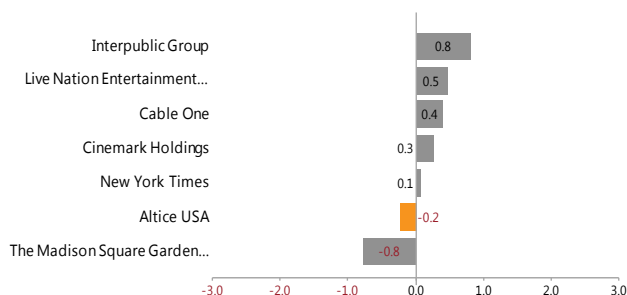
% of BUY recommendations 84% (21/25)
Number of Price Target downgrades 2
Number of Price Target upgrades 1



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)

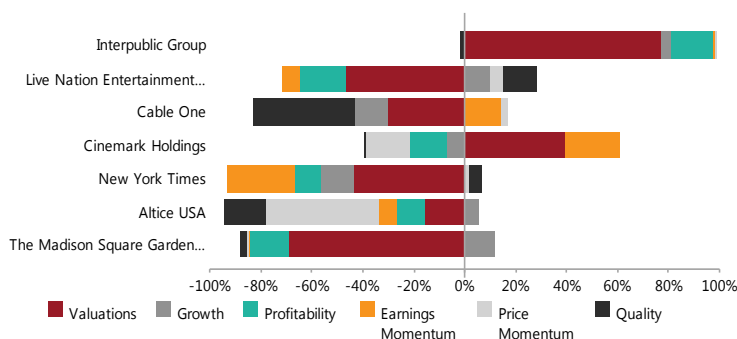
Macquarie Alpha Model ranking

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



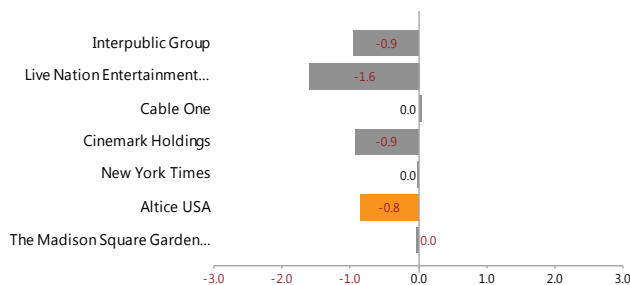
Factors driving the Alpha Model

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



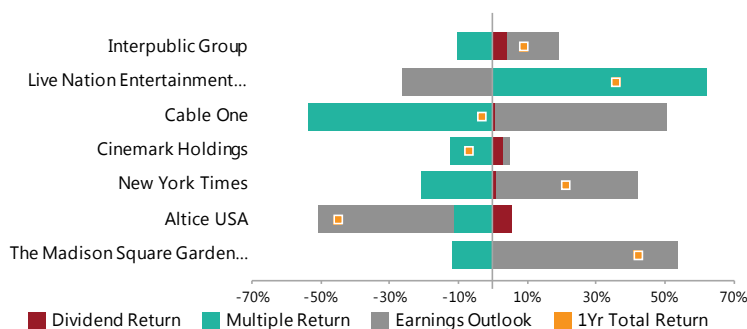
Macquarie Earnings Sentiment Indicator

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.



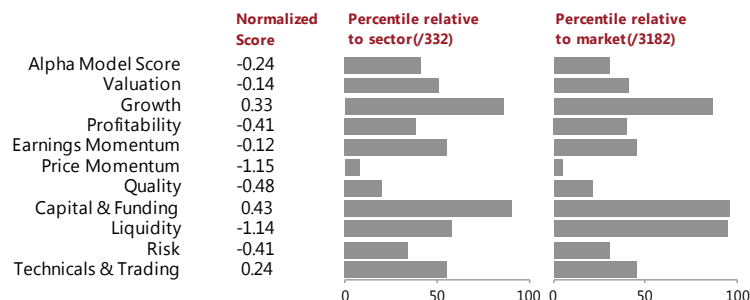
Drivers of Stock Return

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 (cpq@macquarie.com)

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield, which is currently around 9%.

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Mazi Macquarie – South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

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

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – 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.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

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

EPS = adjusted net profit / $efpowa^*$

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

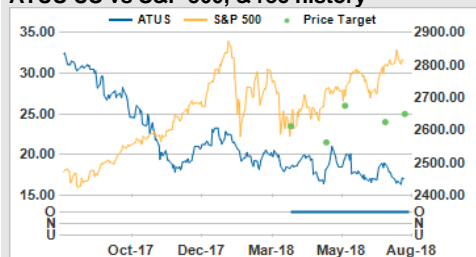
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

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

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

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:

ATUS US: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification:

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