

6 November 2018

United States

EQUITIES

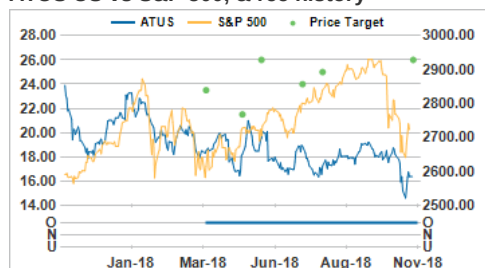
ATUS US Outperform
Price (at 21:50, 05 Nov 2018 GMT) US\$16.37

Valuation	US\$	26.00
- FCF/sh		
12-month target	US\$	26.00
12-month TSR	%	+58.8
GICS sector	Media & Entertainment	
Market cap	US\$m	8,011
30-day avg turnover	US\$m	73.5
Number shares on issue	m	489.4

Investment fundamentals

Year end 31 Dec		2017A	2018E	2019E	2020E
Revenue	m	9,323	9,580	9,905	10,259
EBIT	m	867	1,586	1,800	2,030
Reported profit	m	1,521	-132	298	480
Adjusted profit	m	1,521	-132	298	480
Gross cashflow	m	4,452	2,312	2,776	3,047
CFPS	US\$	6.40	3.16	4.06	4.91
CFPS growth	%	nmf	-50.6	28.5	21.0
PGCFPS	x	2.6	5.2	4.0	3.3
EPS adj	US\$	1.97	-0.18	0.44	0.78
EPS adj growth	%	nmf	nmf	nmf	77.3
PER adj	x	8.3	nmf	37.3	21.0
ROA	%	0.8	4.0	4.7	5.0
ROE	%	26.6	-2.9	10.7	39.3
EV/EBITDA	x	8.9	8.4	7.7	6.9
Net debt/equity	%	378.7	630.3	1,050.3	6,373.5
P/BV	x	2.1	3.4	5.2	27.6

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, November 2018
(all figures in USD unless noted)

Analysts

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Altice USA (ATUS US)

They Delivered

Key points

- There are many reasons we like this stock leading to a rise in our TP to US\$26 from US\$25:
- 1) low expectations for operational performance/margin expansion; 2) a footprint that is relatively immune to Verizon's 5G home broadband; and
- 3) A compounding FCF profile coupled with a management team that has a disciplined approach to capital allocation.

Event

Mgmt proved sceptics wrong: EBITDA growth is paramount to the stock and 3Q did not disappoint. The impact of June's price hike, prudent cost controls, and operational efficiencies led to a solid 3Q. Our new US\$26 TP (\$25) is based on 13x FCF.

Impact

Our '18 revenue growth is 2.8% toward the high-end of guidance, driven by:

#1 Improving resi. trends driven largely by Suddenlink. We believe the competitive backdrop bodes well for Altice: Fios was more muted vs 1H, AT&T was more disciplined, and we believe Altice is somewhat immune from the threat of Verizon's 5G home broadband. Meanwhile, the price increase exceeded expectations with 50%+ stickiness while Altice One is now available to 80%+ of the footprint.

We model 4Q net video losses of 22k and note that disruption at Optimum has largely normalized. For broadband, Altice continues to lead with speed as 80% of base now takes 100Mbps+ and 80% of '18 gross adds took 200Mbps+. We model 4Q broadband net adds of 27k. Ad has also taken off, growing 38% in 3Q. Initiatives driving double-digit growth include the launch of Athena by a4 and a partnership with AT&T's Xandr. Finally, we await Altice's '19 mobile launch where its full MVNO gives it control to dictate marketing, price, and packaging.

#2 Record margins at 44.3% with room to grow. Management expects high-single digit growth in programming/sub; Altice has high visibility given that it renewed 90% of its contracts over the last few years. We expect a continued focus on non-programming cost cuts and model '18/'19 margins of 43.2%/44.7%.

#3 We remain bullish on the FCF growth profile which we model at an 18% CAGR through '20. We now model '18 capex of US\$1.2bn in line with guidance given the phasing of fiber and Altice One rollouts. Management doesn't expect a meaningful amount of capex to be spent on the MVNO in '19. Finally, we model 4Q buybacks of US\$250m given the US\$500m 2H target and note that management continues to view the stock as attractive.

Earnings and target price revision

We model '18 revenue/adj. EBITDA of US\$9.6bn/US\$4.1bn.

Price catalyst

- 12-month price target: US\$26.00 based on a FCF/sh methodology.
- Catalyst: sub trends, ARPU, Altice One, FCF

Action and recommendation

We reiterate OP with a solid 3Q in the books.

Management proved sceptics wrong: EBITDA growth is paramount to the stock and 3Q did not disappoint. The impact of June's price increase, prudent cost controls, and operational efficiencies led to a solid 3Q. Our new US\$26 TP (previously \$25) is based on 13x FCF. We outline our estimate changes in Fig. 1.

Fig 1 Our estimate changes

US\$m	4Q18E	2018E	2019E	2020E
New				
Pay TV	1,032	4,155	4,121	4,083
Broadband	758	2,902	3,203	3,536
Telephony	159	650	611	572
Business services & wholesale	354	1,368	1,440	1,512
Total Revenue	2,469	9,580	9,905	10,259
Adj. EBITDA	1,086	4,143	4,425	4,747
OpFCF	691	2,916	2,988	3,310
FCF	346	1,299	1,460	1,747
Old				
Pay TV	1,025	4,136	4,089	4,060
Broadband	757	2,887	3,189	3,526
Telephony	192	718	678	636
Business services & wholesale	354	1,372	1,444	1,516
Total Revenue	2,481	9,583	9,880	10,231
Adj. EBITDA	1,080	4,116	4,428	4,767
OpFCF	690	2,824	2,994	3,283
FCF	353	1,265	1,439	1,737

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

Our '18 revenue growth is 2.8% toward the high end of guidance, driven by:

#1 Improving resi. trends driven largely by Suddenlink. We believe the competitive backdrop bodes well for Altice: Fios was more muted vs 1H, AT&T was more disciplined, and we believe Altice is somewhat immune from the threat of Verizon's 5G home broadband. Meanwhile, the price increase exceeded expectations with 50%+ stickiness while Altice One is now available to 80%+ of the footprint.

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Fig 2 Altice Income Statement

Altice (Ticker: ATUS)																		
Income Statement US\$ (millions)	2015	2016	2017	1Q18	2Q18	3Q18	4Q18E	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E
Pay TV	4,260	4,227	4,227	1,034	1,034	1,055	1,032	4,155	1,025	1,026	1,046	1,024	4,121	1,015	1,016	1,037	1,016	4,083
Broadband	2,005	2,290	2,578	702	712	730	758	2,902	772	784	807	840	3,203	848	862	895	931	3,536
Telephony	912	872	794	166	163	161	159	650	158	155	151	147	611	150	146	142	135	572
Business services & wholesale	1,159	1,231	1,299	333	337	344	354	1,368	351	355	362	372	1,440	368	373	380	391	1,512
Advertising	346	365	382	88	110	123	158	479	92	115	129	166	503	96	121	135	174	526
Other	284	169	43	8	7	5	7	26	8	7	5	8	28	8	7	5	8	29
Less: Newsday	(237)	(115)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	8,728	9,039	9,323	2,330	2,364	2,418	2,469	9,580	2,406	2,442	2,501	2,557	9,905	2,485	2,524	2,594	2,655	10,259
YoY Change		3.6%	3.1%	1.2%	1.5%	3.9%	4.4%	2.8%	3.3%	3.3%	3.4%	3.6%	3.4%	3.3%	3.4%	3.7%	3.9%	3.6%
Operating Expenses																		
Programming and other direct costs		1,911	3,036	787	795	791	815	3,188	808	816	813	839	3,275	823	830	830	858	3,341
Other operating expenses		1,706	2,337	583	576	569	588	2,315	570	571	563	580	2,285	552	560	563	576	2,251
Restructuring and other expense		240	152	4	10	17	17	47	17	17	18	18	69	17	18	18	19	72
D&A		1,700	2,930	643	649	536	617	2,444	601	611	625	639	2,476	621	631	648	664	2,565
Total operating expenses		5,558	8,456	2,017	2,029	1,912	2,037	7,995	1,997	2,015	2,018	2,076	8,106	2,013	2,040	2,060	2,116	8,228
Operating income		3,482	867	313	335	506	432	1,586	409	427	483	481	1,800	472	485	534	539	2,030
Other Income (Expense)																		
Interest expense		(1,443)	(1,601)	(374)	(385)	(388)	(355)	(1,503)	(355)	(355)	(355)	(355)	(1,420)	(355)	(355)	(355)	(355)	(1,420)
Gain (loss) on investments		142	237	(249)	(45)	112	-	(182)	-	-	-	-	-	-	-	-	-	-
Gain (loss) on derivative contracts		(54)	(236)	168	42	(80)	-	131	-	-	-	-	-	-	-	-	-	-
Gain (loss) on derivative interest rate swaps		(73)	5	(32)	(13)	(20)	-	(64)	-	-	-	-	-	-	-	-	-	-
Loss on extinguishment of debt		(128)	(600)	(5)	(37)	-	-	(42)	-	-	-	-	-	-	-	-	-	-
Other income (expense)		4	(4)	(12)	(1)	(0)	-	(12)	-	-	-	-	-	-	-	-	-	-
Total other expense		(1,551)	(2,198)	(503)	(439)	(376)	(355)	(1,672)	(355)	(355)	(355)	(355)	(1,420)	(355)	(355)	(355)	(355)	(1,420)
Income before income taxes		1,931	(1,331)	(190)	(104)	130	77	(87)	54	72	128	126	380	117	130	179	184	610
Income tax benefit (expense)		260	2,853	61	6	(96)	(16)	(46)	(11)	(15)	(27)	(26)	(80)	(25)	(27)	(38)	(39)	(128)
Tax rate		NM	NM	-32%	-5%	-74%	21%	NM	21%	21%	21%	21%	NM	21%	21%	21%	21%	NM
Net income		2,191	1,522	(129)	(98)	34	61	(132)	43	57	101	99	300	93	102	142	145	482
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)	35	60	(132)	42	57	100	99	298	92	102	141	145	480
Weighted average shares (basic)		650	696	737	737	733	719	732	705	692	677	661	684	645	629	612	596	620
Weighted average shares (diluted)		650	696	737	737	733	719	732	705	692	677	661	684	645	629	612	596	620
EPS - basic		3.37	1.97	(0.17)	(0.13)	0.05	0.08	(0.18)	0.06	0.08	0.15	0.15	0.44	0.14	0.16	0.23	0.24	0.78
EPS - diluted		3.37	1.97	(0.17)	(0.13)	0.05	0.08	(0.18)	0.06	0.08	0.15	0.15	0.44	0.14	0.16	0.23	0.24	0.78
YoY change																		
Adjusted EBITDA																		
Net income (loss)		2,191	1,522	(129)	(98)	34	61	(132)	43	57	101	99	300	93	102	142	145	482
Income tax (benefit)		(260)	(2,853)	(61)	(6)	96	16	46	11	15	27	26	80	25	27	38	39	128
Other expense (income)		(4)	4	12	1	0	-	12	-	-	-	-	-	-	-	-	-	-
Loss (gain) on interest rate swaps		73	(5)	32	13	20	-	64	-	-	-	-	-	-	-	-	-	-
Loss (gain) on derivative contracts		54	236	(168)	(42)	80	-	(131)	-	-	-	-	-	-	-	-	-	-
Loss (gain) on investments		(142)	(237)	249	45	(112)	-	182	-	-	-	-	-	-	-	-	-	-
Loss on extinguishment of debt		128	600	5	37	-	-	42	-	-	-	-	-	-	-	-	-	-
Interest expense		1,443	1,601	374	385	388	355	1,503	355	355	355	355	1,420	355	355	355	355	1,420
D&A		1,700	2,930	643	649	536	617	2,444	601	611	625	639	2,476	621	631	648	664	2,565
Restructuring & other		240	152	4	10	17	17	47	17	17	18	18	69	17	18	18	19	72
SBC		14	57	22	12	12	20	66	20	20	20	20	80	20	20	20	20	80
Adjusted EBITDA		5,437	4,008	981	1,006	1,071	1,086	4,143	1,047	1,075	1,145	1,158	4,425	1,131	1,153	1,221	1,241	4,747
EBITDA margin		60.1%	43.0%	42.1%	42.5%	44.3%	44.0%	43.2%	43.5%	44.0%	45.8%	45.3%	44.7%	45.5%	45.7%	47.1%	46.8%	46.3%
YoY Change		NM	-26%	4%	NM	4%	4%	3%	NM	NM	7%	7%	7%	NM	NM	7%	7%	7%
Capex (accrued)		701	1,044	217	227	392	395	1,231	337	342	363	396	1,438	348	353	363	372	1,436
Adjusted EBITDA less capex (accrued)		4,736	2,963	764	778	678	691	2,912	710	733	783	761	2,988	783	800	858	870	3,310
Capex (cash)		626	991	258	241	335	395	1,228	337	342	363	396	1,438	348	353	363	372	1,436
Adjusted EBITDA less capex (cash)		4,811	3,016	723	765	736	691	2,916	710	733	783	761	2,988	783	800	858	870	3,310

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

Macquarie Quant View

The Quant View page below has been derived from models that are developed and maintained by Sales and Trading personnel at Macquarie. The models are not a product of the Macquarie Research Department.

The quant model currently holds a neutral 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.

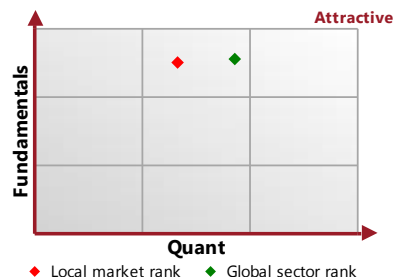
254/665

Global rank in
Telecommunication Services

% of BUY recommendations 88% (22/25)

Number of Price Target downgrades 1

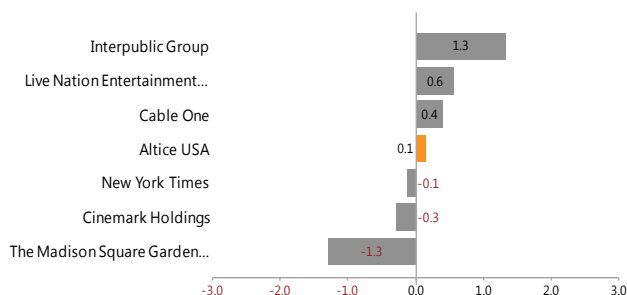
Number of Price Target upgrades 0



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 (Telecommunication Services)

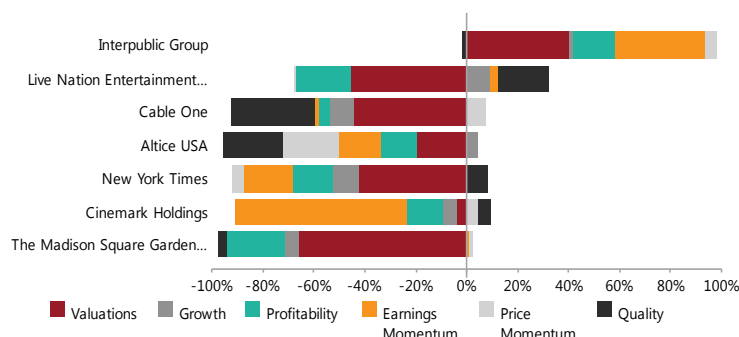
Macquarie Alpha Model ranking

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



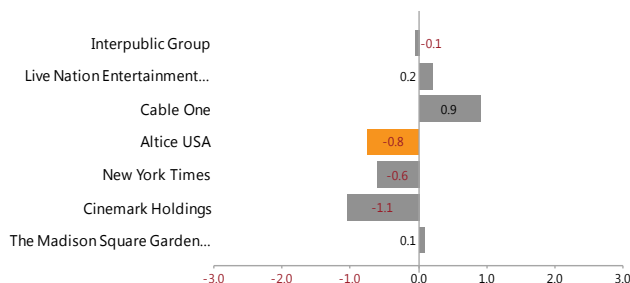
Factors driving the Alpha Model

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



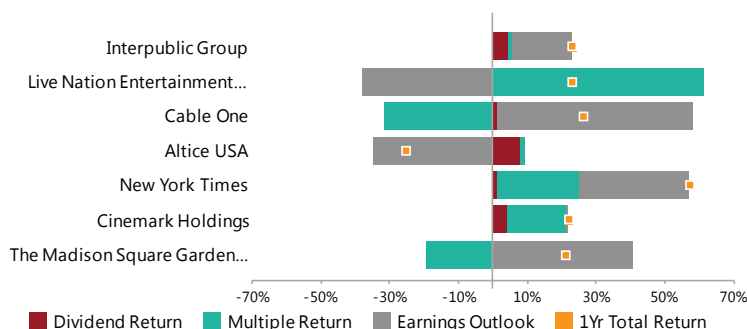
Macquarie Earnings Sentiment Indicator

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.



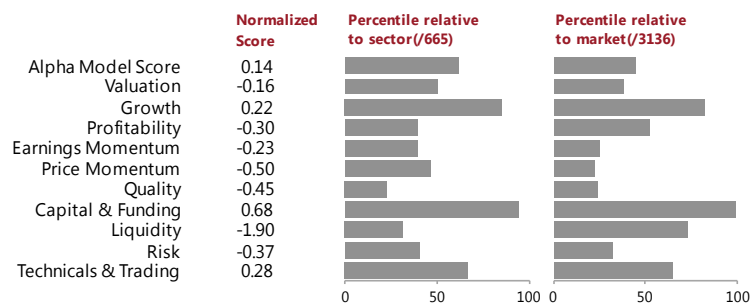
Drivers of Stock Return

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 Quant. 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

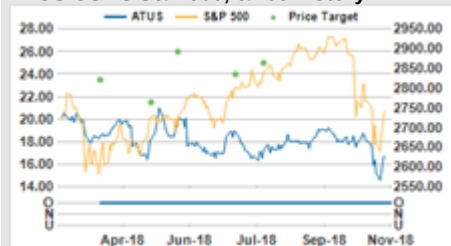
*equivalent fully paid ordinary weighted average number of shares

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

Recommendation proportions – For quarter ending 30 September 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.56%	59.51%	45.05%	46.88%	67.86%	46.70%	(for global coverage by Macquarie, 3.70% of stocks followed are investment banking clients)
Neutral	33.20%	28.92%	37.36%	47.70%	25.00%	42.73%	(for global coverage by Macquarie, 2.04% of stocks followed are investment banking clients)
Underperform	15.23%	11.57%	17.58%	5.42%	7.14%	10.57%	(for global coverage by Macquarie, 0.47% 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, November 2018

12-month target price methodology

ATUS US: US\$26.00 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
03-Aug-2018	ATUS US	Outperform	US\$25.00
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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