



Charter Attracts Bullish Positioning, Relative Strength Leader in Q3

Ticker/Price: CHTR (\$416.65)

Analysis:

Charter Communications (CHTR) with an opening seller of 500 January 2021 \$390 puts yesterday for \$1.89M and has seen plenty of bullish positioning. CHTR has 850 December \$425 short puts in OI and 500 of the \$425 calls bought. It also has seen 340 March \$375 calls open and high dollar hundred-lots in December \$370, \$375, \$390, and \$395 calls. CHTR is in a strong trend and shown impressive relative strength since gapping higher in earnings to start the year in January, and currently forming another higher base above its 55 and 89 day moving averages with a move above \$430 likely targeting \$475 upside. The \$93.5B provider of cable and internet services trades 10.4X EV/EBITDA and 26X FCF. CHTR forecasts are looking for 4-5% annual revenue growth and see EBITDA growth accelerating to 9% in FY20. CHTR continues to add customers and stabilize ARPU growth as it integrates the acquisitions of Time Warner Cable and Bright House. CHTR continues to win business through a better product and service and is at 52% homes passed penetration, an opportunity in another 24M homes. CHTR's EBITDA margins trail scaled peers by 300 to 600 basis points and has room to close that gap over time, though it is growing faster which has high costs and feels it is maximizing ROI. It notes the key to structurally higher margins in higher penetration of homes passed and sees broadband as the product that drives that. Analysts have an average target of \$430 on shares with short interest steady at 6.6% of the float. Benchmark started coverage on 8-15 at Hold with a \$422 target though a \$495 bull case assumes new products and improved pricing power complement its volume growth emphasis, while the bear case assumes broadband erosion to new 5G mobile alternatives from the major US carriers. It notes Charter's superior network affords growth opportunities that include 1) delivery of symmetrical broadband up to 10Gbps speeds especially via the new Full Duplex DOCSIS (FDD) standard, 2) new advanced Wi-Fi products that complement the Spectrum Mobile product launch over Verizon Mobile's network, and 3) the eventual advent of 8K video to leapfrog slow 4K adoption. KeyBanc upgraded shares to Overweight this morning with a \$515 target citing an ample opportunity to increase broadband penetration and sees significant FCF that can go towards repurchases. It also sees upside to recent price increases and sees mobile expansion as less of a drag to profitability next year. Hedge Fund ownership fell 6.9% in Q2 filings, Berkshire Hathaway a top holder along with Longview, Egerton, and Jackson Square.

Hawk Vision:



Hawk's Perspective: CHTR is an oft-misunderstood name but continues to act great and likely has upside well above \$500.

Confidence Ranking: \$\$