



FEATURED OPTIONS RADAR REPORT



Charter Seen as Top Performer Through Mid-2021

Ticker/Price: CHTR (\$616)

Analysis:

Charter Communications (CHTR) a long-time favorite and best-in-class name seeing bullish activity over the past week with December \$670/\$590 bull risk reversals opening on 9/23 at a small net credit for 700X and December \$660/\$740 call spreads bought to open on 9/22. This follows the June 2021 \$760/\$920 call spread that opened 7500X on 9/16. CHTR also saw 1200 January \$780 calls bought on 8/26 and overall seen bullish activity. Shares started to come out of a range this week to new highs but sit back on its rising 21 MA after the market sell-off, an extended name, but also a strong bull trend. The \$129B provider of cable & internet services trades 10.8X FY21 EBITDA estimates, 32.4X Earnings, and 22.2X FCF. CHTR forecasts see steady 7-10% EBITDA growth the next few years. 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 the move. CHTR spoke at the Goldman Comunnacopia Conference last week noting its strategy remains "We want to drive penetration and get the favorable economics that increased penetration gets on a fixed infrastructure. So as our penetration goes up, our average cost to serve each customer goes down and every customer becomes more valuable on the increment. And so we're all about creating customers. And we continue to invest in the network. Fortunately, for us, we just came off a big infrastructure investment to take us to 1 gig everywhere, and so we have lots of capacity in the network." It thinks it is 50% penetrated in broadband and notes the boost from a continued decline in satellite TV businesses. Analysts have an average target of \$640 and short interest elevated at 6% of the float. Pivotal raised its target to \$800 on 9/11 citing strong customer and data trends. It thinks the market underestimates the value of the growth opportunities driven by best-in-class offerings. Argus moved its target up to \$700 citing its internet service is vital in the WFH environment. JPM took its target to \$725 after the latest quarter noting the strong results and broadband additions ahead of expectations. Hedge Fund ownership rose 11.8% in Q2 filings, notable top holders include Altarock, Jackson Square, Egerton, Veritas, and Third Point.

Hawk Vision:



Hawk's Perspective: CHTR is a best-in-class name to own and rarely gives much of a dip to buy, a 55 day MA test would be a gift.

Confidence Ranking: \$\$