

## LatAm cable - follow the cash, not just the top line...and Malone might come knocking

October 28, 2019 by Soomit Datta

We took Millicom through the East Coast at the end of last week and, in addition to significant interest in this rather unique situation, we also detected rising interest in the LatAm cable “cohort” more broadly i.e. including Megacable and Televisa (both reporting late last week) and Liberty Latin America. We tend to find interest here correlates somewhat with US cable, so a strong print from Charter provides a positive sentiment in the space and encourages investors to look for the LatAm equivalent. In this sense, it’s helpful that Millicom’s CEO, Mauricio Ramos, is on the Board of Charter.

Investor interest in these names starts with the top line appeal. Millicom’s residential cable is growing 7% y/y in Q3. This is slightly disappointing and Mauricio ran through how this should be double-digit growth in theory (dilution from Colombian copper is the cause, which will become less relevant over time). Megacable is growing core cable 9% y/y (although EBITDA missed) and Izzy (Televisa) is growing 10% y/y, M&A adjusted (Televisa’s earnings, in fact, so shocked the market by being in-line – after recent disappointments – that the stock was up 10% at one point on Friday). Liberty LA has yet to report but residential fixed at the former CWC operations was +11% y/y in Q2 – this could be bettered this Q.

Interest then also comes from Malone’s omnipresence. Board representation (through his deputies) in Televisa, ownership directly in Liberty LA, bid talks with Millicom (through Liberty LA) earlier this year – and rumours over the Summer of a potential minority bid for Millicom through Liberty Global (in fact, given LLA bid rumours of over \$70 at the start of the year, it’s strange that a share price narrowing in on \$40 at Millicom hasn’t arisen interest...or maybe it has). Malone could also consider rolling up Liberty LA into Global – is there really any point in owning two telco quotes?

It’s tempting to buy a basket of all these stocks. It wouldn’t be such a terrible idea, in fact. The issue, however, is two-fold. Firstly, both Millicom (through Telefonica wireless acquisitions) and Liberty LA (through Puerto Rico) have both levered up the balance sheets: the former to 3.25x proportionate net debt to EBITDA end-2019 and the latter to 4.5x. Any headwind to combine assets with a cash contribution has been squeezed.

Secondly, and perhaps more importantly, there are very mixed cash profiles at the stocks. Our favourite names are Millicom (certainly down here, obviously noting the 37% stock overhang, but on fundamental value – see [LINK](#) from today’s note following last week’s roadshow) and Liberty LA (see [LINK](#) for the Puerto Rico deal, which investors are generally very enthusiastic about). Millicom is close to a cash yield of 10% (and growing OpFCF by 10% y/y) whilst Liberty LA will be closing in on a 10% cash yield in a couple of years’ time (2019 is the first year of positive cash flow after a troubled genesis).

We’d contrast this with the Mexican stocks. See [LINK](#) for recent note on Malone’s potential shopping in the market. Top line doesn’t translate into strong EFCF. At Televisa it is zero in 2019 (watch capex, the definition excludes intangibles; and note all cash yields need adjusting for lease costs post-IFRS 16). At MEGA it’s a little

better but translates into no better than a cash yield to equity of 3%. This is both a fundamental concern – this profile in the country doesn't improve for a number of years – and is potentially M&A impactful. Trying to manufacture an accretive transaction given high financing costs (inflation in Mexico is higher than Brazil!) becomes that much harder.

So we'd sooner own the stocks with the better current (Millicom) and near-term (Liberty LA) cash profiles. And you never know who might come knocking. Again.