Charter Share Repurchases Likely Flat At $1BN In 2Q19

July 15, 2019 by Jonathan Chaplin

Advance/Newhouse (A/N) filed its most recent Charter ownership disclosure last week, and with it we estimate that Charter repurchased $1BN of stock in 2Q19. This would be commensurate with the amount of repurchases in Q1; however, it is lower than our prior estimate of $1.5BN. Mgmt. is targeting leverage of 4.5x EBITDA; we believe they remain committed to this target. We estimate that Charter should repurchase $7BN of stock in 2019 to land at 4.5x EBITDA; the company needs to accelerate repurchases to meet this target. The company could have repurchased more stock than what is implied by the A/N filing. If the $1BN in repurchases proves accurate, we see three possible reasons for lower-than-expected repurchases this quarter:

1. **It is a function of timing and repurchases are set to accelerate in the next two quarters.** Although Charter may have only repurchased $1BN of stock in the first two quarters of the year, they have historically repurchased as much as $4.7BN in a single quarter in 2017. They could still easily repurchase $2.5BN in the next two quarters, which would get them to our estimate of $7BN for the year.
2. **Growth in wireless is accelerating more than we expected.** As Charter ramps wireless subs, they face a near-term drag on EBITDA. Light buybacks in Q2 could signify a faster than expected ramp in subs. We are forecasting 222K adds for the quarter, which is already well ahead of consensus. Adds would have to be well ahead of our estimate to account for the lower repurchases. We would view faster growth in wireless as a positive; however, the Street may have a more mixed view.
3. **Charter hasn't accelerated materially in wireless yet, but they are leaving themselves flexibility to do so (or to do something else).** Charter has said that they would remain prudent with share repurchases in the first half of the year because they wanted to preserve capacity to accelerate their entry into wireless should they want to. Even if wireless doesn't accelerate materially in Q2, mgmt. may be preserving flexibility for an acceleration later in the year. In addition, we are also in a hot deal market; there are an unusual number of assets in play or potentially about to be in play; it would be sensible for mgmt. to retain flexibility until at least some of these processes have played out.

Bottom line: we think option #1 is most likely. We estimate that Charter could add ~1MM in wireless subscribers and still repurchase more than $7BN of stock while staying within leverage limits. Mgmt. may be preserving flexibility in case assets they can't ignore become available at prices they can't refuse; however, we think the odds of them buying assets are low, which means they should accelerate repurchases later in the year anyway and still get to $7BN in repurchases.

Or, to be more precise, mgmt. are unlikely to buy assets like spectrum or RSN's that the market would frown upon. If Altice, Cox or Mediacom became available at an attractive price, we have no doubt that mgmt. would pounce on them. We don't worry much about this, because we think the market would be delighted.
