

FLASH

Quick Take - Comcast (CMCSA): And Now We Know... Comcast Is Taking Share; And Lots of It

Ticker	Rating	CUR	7/29/2008 Closing Price	Target Price	YTD Rel. Perf.	EPS			EV/EBITDA			Yield
						2007A	2008E	2009E	2007A	2008E	2009E	
CMCSA	O	USD	19.18	30.00	19.0%	0.83	0.98	1.20	7.4	6.5	6.0	1.3%
T	O	USD	30.70	42.00	-12.2%	2.77	3.00	3.41	NA	NA	NA	4.8%
VZ	M	USD	34.13	37.00	-7.6%	2.37	2.60	3.05	NA	NA	NA	4.9%
SPX			1263.20			91.00	97.00	103.50	NA	NA	NA	2.4%

O – Outperform, M – Market-Perform, U – Underperform

Highlights

- **In the wake of extremely weak TelCo results, one question loomed above all others: *Is the broadband market dying, or is cable simply taking share?* Now we know.**
- **As it turns out, the TelCos' loss has been Comcast's gain.** Cable is taking share, and it is taking it in gulps. To be sure, broadband results were far from spectacular, but they bore no resemblance to the disastrously weak broadband results reported by AT&T (T, outperform, TP \$42) and Verizon (VZ, market perform, TP \$37).
- **Broadband was the highlight.** Consider; Comcast's 278K broadband net additions *alone* represent 75% of the broadband market reported thus far. A year ago, Comcast captured 38% of the broadband net additions reported by the "Big Three." When the book is closed on Q2 reporting, cable will likely have gained 85-90% of the broadband net additions. Cable's huge physical plant advantage – higher capacity and lower cost – is winning the day. Comcast's net adds were down 18% from a year ago, but actually *beat* our going-in expectations of 266K. Compare that to AT&T and Verizon, however, both of whom were down in the 90% range.
- **The same can be said of the voice market.** Comcast posted strong gains of 555K VoIP subscribers. The net gain (after accounting for Circuit Switched losses) was 499K, just 6% lower than the net reported in Q1. (Contrast that with the 33% deceleration for Verizon's FiOS video service from Q1 to Q2 on a still-rapidly growing footprint).
- **Even basic video was solid.** Losses of 132K were precisely in line with expectations for a seasonally weak second quarter, and represent a particularly strong showing in light of the weakness in video evident at the TelCos in their satellite and fiber-based offerings. The resilience in basics raises even greater concerns about the upcoming results to be reported from the satellite operators, who depend on cable weakness for their gains.
- **Financial results were very strong, and capital intensity was exceptionally low.** Capex was down 20% to just 15.2% of revenue, and Free Cash Flow was \$1.2bn, up a spectacular 216%. Cable margins continue to expand (41.5%, up 10 bps from last year and 10 bps better than expected), reflecting low churn (as housing velocity falls) and reduced activity levels as Comcast laps the mega-growth of the early VoIP roll-outs. Only cable advertising, which represents just 6% of revenues, came in noticeably light, in another reminder of just how weak the local ad market has become. A modest miss in cable

revenue was more than half attributable to the advertising number, and this miss was more than offset by better-than-expected results in the non-cable division.

- **Perhaps most importantly, Comcast remains unfazed by the weakening economy.** Comcast reaffirmed all guidance for the full year, serving as a clear reminder that – contrary to recent trading patterns and index inclusion – Comcast is most assuredly *not* a consumer cyclical.
- **Comcast's solid results – particularly coming in the wake of such weak Wireline results from the TelCos – reinforce our long held view that the battle on the ground is cable's to lose.** With the seasonal weakness of Q2 now in the rear-view mirror, Comcast looks well positioned for a stronger second half, with a political-led rebound in advertising and the basic subscriber catalyst of the Digital TV transition in February 2009 still ahead.
- **We continue to rate Comcast outperform, target price \$30.**

Exhibit 1
Comcast 2Q08 Variance Table

Comcast 2Q08 Variance Table									
	2Q 2008		Forecast Variance	2Q 2007 Actual	Annual Growth		1Q 2008 Actual	Sequential Growth	
	Forecast	Actual			Forecast	Actual		Forecast	Actual
Income Statement Metrics (\$ million)									
Consolidated									
Revenue	8,527	8,553	0.3%	7,712	10.6%	10.9%	8,389	1.6%	2.0%
EBITDA	3,347	3,351	0.1%	3,012	11.1%	11.3%	3,174	5.4%	5.6%
Cable									
Revenue	8,216	8,100	-1.4%	7,330	12.1%	10.5%	7,916	3.8%	2.3%
EBITDA	3,397	3,362	-1.0%	3,031	12.1%	10.9%	3,142	8.1%	7.0%
EBITDA Margin	41.4%	41.5%		41.4%			39.7%		
Free Cash Flow	618	1,163	88.1%	368	68.0%	216.0%	702	-11.9%	65.7%
Total Capex	1,539	1,300	-15.5%	1,604	-4.0%	-19.0%	1,431	7.6%	-9.2%
Cable Capex	1,520	1,254	-17.5%	1,586	-4.2%	-20.9%	1,355	12.2%	-7.5%
Adjusted EPS	\$ 0.23	\$ 0.21	-7.7%	\$ 0.19	21.8%	12.4%	\$ 0.24	-6.4%	-13.7%
Subscriber Detail (thousand)									
Basic Video									
Subscribers	24,555	24,553	-0.01%	24,222	1.4%	1.4%	24,691	-0.6%	-0.6%
Homes Passed	50,106	50,096	-0.02%	47,900	4.6%	4.6%	49,902	0.4%	0.4%
Penetration of Homes Passed	49.0%	49.0%	0.01%	50.6%			49.5%		
Net Additions	(136)	(138)		(95)	42.9%	45.3%	(57)	138.2%	142.1%
Video ARPU	\$ 64.97	\$ 63.98	-1.5%	\$ 61.45	5.7%	4.1%	\$ 63.53	2.3%	0.7%
Digital Video									
Subscribers	16,357	16,335	-0.1%	14,133	15.7%	15.6%	16,015	2.1%	2.0%
Penetration of Basic Subscribers	66.6%	66.5%		58.3%			64.9%		
Net Additions	342	320	-6.5%	824	-58.5%	-61.2%	494	-30.7%	-35.2%
High Speed Internet									
Subscribers	14,344	14,357	0.1%	12,438	15.3%	15.4%	14,078	1.9%	2.0%
Homes Passed	50,106	49,548	-1.1%	47,445	5.6%	4.4%	49,548	1.1%	0.0%
Penetration of Homes Passed	28.6%	29.0%		26.2%			28.4%		
Net Additions	266	278	4.6%	388	-31.5%	-28.4%	492	-46.0%	-43.5%
HSD ARPU	\$ 42.90	\$ 42.01	-2.1%	\$ 43.37	-1.1%	-3.1%	\$ 42.18	1.7%	-0.4%
Phone (Comcast Digital Voice)									
Subscribers	5,686	5,643	-0.8%	3,097	83.6%	82.2%	5,088	11.8%	10.9%
Homes Passed	44,764	45,143	0.8%	37,638	18.9%	19.9%	44,082	1.5%	2.4%
Penetration	12.7%	12.5%		8.2%			11.5%		
Net Additions	598	555	-7.2%	671	-10.9%	-17.3%	639	-6.4%	-13.1%
Phone ARPU	\$ 39.55	\$ 39.48	-0.2%	\$ 42.92	-7.9%	-8.0%	\$ 40.24	-1.7%	-1.9%
Advertising ARPU	\$ 6.06	\$ 5.40	-10.8%	\$ 5.49	10.3%	-1.6%	\$ 4.64	30.5%	16.3%
Total ARPU	\$ 111.53	\$ 109.66	-1.7%	\$ 101.02	10.4%	8.6%	\$ 106.74	4.5%	2.7%
Cable Capital Intensity	18.5%	15.5%	-16.3%	21.6%	-14.5%	-28.4%	17.1%	8.1%	-9.6%

Source: Company Reports, Bernstein Estimates and Analysis

Investment Conclusion

We continue to rate Comcast (CMCSA) Outperform, target price of \$30.

Valuation Methodology

We value Comcast on a sum-of-the-parts basis. Our target is based on a rolling 2009E EV/EBITDA multiple of 8x for the core cable business. We value other consolidated and non-consolidated operations (including entertainment and sports cable networks) and non-public equity investments on various bases as appropriate, generally based on their own industry norms, primarily including EV/EBITDA multiples and value per subscriber. Publicly traded investments are carried at current market value.

We value AT&T and Verizon on a combination of P/FE and EV/EBITDA multiples. Assigned multiples are based on historical performance, colored by the company's current allocation of capital.

For Verizon, we have assigned the company multiples in line with 12.3x our estimated 2009 EPS and an EV/EBITDA multiple of 6.0x our estimate of 2009 EBITDA.

We value AT&T on a combination of a target P/FE multiple of 12.3x, applied to our estimated 2009 adjusted earnings and reflecting AT&T's five year average relative PE multiple versus the broader market, and an EV/EBITDA multiple of 6.5x.

Risks

Risks to our price targets include the risk that our investment thesis for the cable and satellite group that the competitive pricing environment will be less aggressive than consensus expectations — as none of the RBOCs, DBS operators, or cable MSOs can economically justify aggressive pricing strategies on the basis of market share gain, market elasticity, or retention of other products in the bundle — is incorrect.

Notwithstanding our analysis of rational pricing strategies, players may adopt irrational pricing behavior. Alternatively, mere expectations of a more challenging pricing environment, even in the absence of evidence of price competition, may continue to weigh on the stocks for some time.

New technologies — including wireless broadband (Wi-Max), broadband powerline (BPL) — could emerge that result in additional competition for broadband, which could pressure margins. New pathways to the home for video or other entertainment could also reduce the value of cable's video-distribution bottleneck. Deep fiber deployment by the RBOCs will impact cable subscriber and revenue growth rates, and could occur more quickly, or have a more significant pricing impact, than we have forecast.

The risks to our target price for the TelCos include:

- A steeper, or more sudden, deceleration in wireless subscriber growth – as a consequence of wireless saturation or economic weakness – would lead to sharply slower growth, and would likely be met with severe multiple contraction, in our view.
- Faster-than-anticipated penetration of the Small and Medium Business market by the MSOs would undermine revenue and EBITDA recovery in the Enterprise segment.
- Additional spending on fiber expansion (FTTX) projects, or acquisitions targeting the Consumer Wireline segment (including AT&T for EchoStar) would yield lower ROIC and consequent multiple contraction.
- Overpayment in an acquisition, specifically Verizon overpaying for Vodafone's minority interest in Verizon Wireless, or AT&T overpaying for a variety of potential targets.

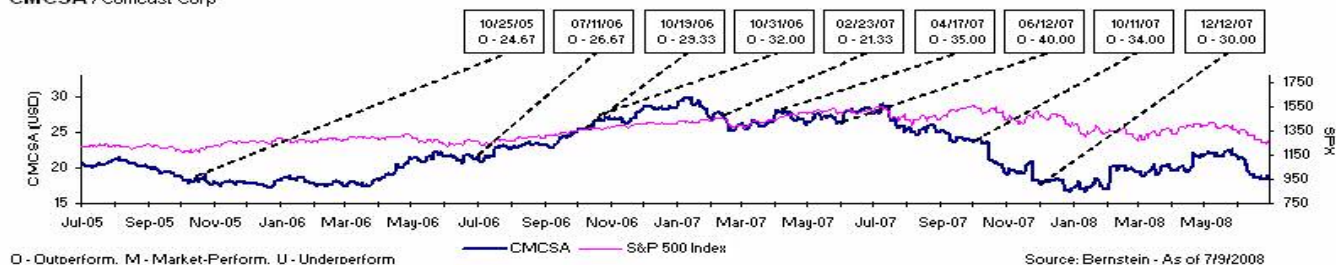
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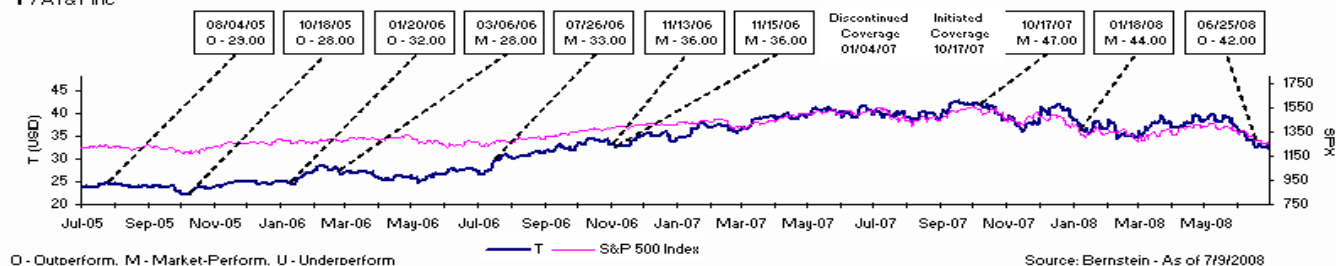
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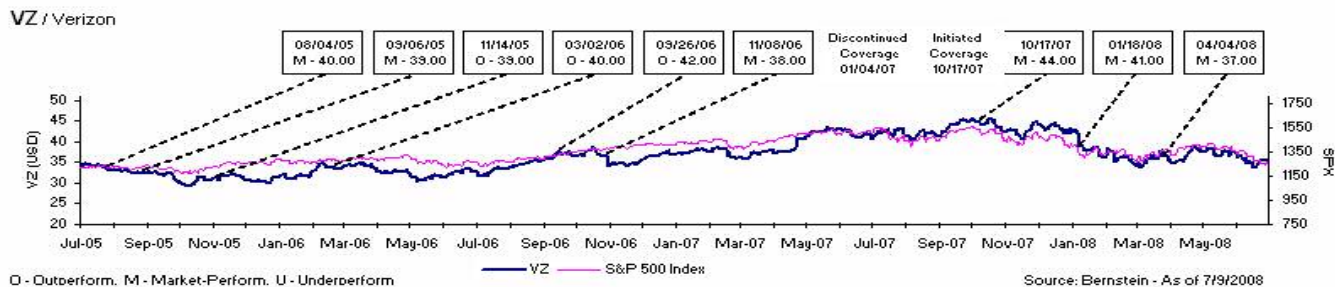
Ticker	Initiated Coverage	Rating
CMCSA	O - 05/29/03	
T	M - 10/17/07	O - 06/25/08
VZ	M - 10/17/07	

CMCSA / Comcast Corp



T / AT&T Inc





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