

Weekday Trader ■ by Teresa Rivas

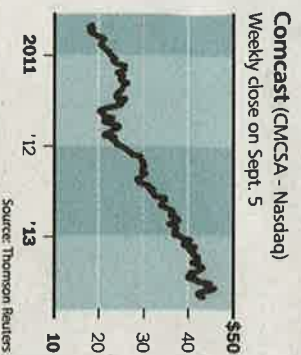
Tune In to Comcast

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Howard Stern, Heidi Klum, Mel B, and Howie Mandel on America's Got Talent.



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COMCAST, THE NATION'S LARGEST CABLE PROVIDER, has long been dogged by fear that consumers will cut the cord in favor of online alternatives. Yet far from foundering at a time when new technology is pouring into the industry and household formation (a traditional source of subscriber growth) has slowed, Comcast (ticker: CMCSA) has thrived in recent years, thanks to its Internet offerings and a focus on small businesses.

"The cable business is a subscription recurring revenue business that generates a lot of free cash flow, but the crux of the bull case for Comcast is the broadband hedge: No matter what the consumer wants to do online or how they decide to consume information and entertainment, they will need high-speed Internet access; and in most parts of the country, that's provided by a cable company," says Chris Maranghi, associate portfolio manager of the Gabelli Asset fund.

The traditional cable business is declining, but Comcast has managed to slow the loss of subscribers while signing up more people for its high-speed Internet and phone services, stealing share from the telecom firms even at a time when overall demand for traditional landlines is falling. These trends were on display July 31 when the company announced second-quarter results, reporting its best broadband subscriber growth in several years, a telling contrast to Time Warner Cable's (TWC) weak second-quarter showing.

"The growth in high-speed Internet and voice service is more than offsetting the loss of television subscribers," says Paul Desisto, senior portfolio manager at M&R Capital Management. "The net result is Comcast has more customers, who pay, on average, \$160 per month, so revenue is growing nicely."

Comcast's revenue per subscriber for high-speed Internet was \$43.05 in the second quarter, 10 cents higher than the first quarter and up from the mid-\$42 range for most of 2012. Total revenue per subscriber rose a strong 7.5% from last year, to

\$159.64, according to Argus Research. Comcast has a history of generating higher revenue per user than rivals Time Warner Cable and Cablevision Systems (CVC), but profit could still rise further as faster speeds allow providers to charge higher rates. As the industry migrates toward usage-based data, average revenue per user should climb further.

Comcast has another ace up its sleeve thanks to its acquisition of NBCUniversal at a favorable price earlier this year. NBCU accounted for \$6 billion of the company's \$16.3 billion in revenue for the second quarter. "Content is king," says Desisto, who believes the stock could climb as high as \$72 in the next two years, or 70% above its current level.

And content is about more than simply broadcasting *America's Got Talent* on Tuesday nights. As *Barron's* recently outlined, companies such as Amazon.com (AMZN) and [Netflix \(NFLX\)](http://Netflix (NFLX)) get the credit for innovation, but Comcast recently rolled out its X1 operating system, which offers viewers clear and intuitive interface for shows available on demand ("Don't Touch That Dial," Aug. 5). "Ultimately the cable companies win because they can sell more data," says Raymond James analyst Frank Louthan.

Comcast is also focused on selling high-speed Internet services to small and medium-size businesses. "Enterprise is a huge growth opportunity for Comcast," says Louthan. "Wi-Fi usage has grown substantially in small businesses while phone companies have been focused up-market, on larger companies. That personal touch from the cable company is allowing Comcast to take a lot of market share."

At Thursday's \$42.54, the shares are up smartly over the past year, rising about 23%, compared with 15% for the Standard & Poor's 500. But the consolidation speculation that boosted its peers largely passed Comcast by. Now, at about 15 times forward earnings, the shares look reasonably priced, and at 6.5 times earnings before interest, taxes, depreciation and amortization (Ebitda), Comcast is trading at a discount to the industry. Desisto says that at 7.1 times Ebitda, in line with its peer group, the stock would be worth more than \$70 in 2015. The company, which yields 1.8%, has

a long history of lifting its dividend, supported by robust free cash flow.

Looking ahead, Comcast seems well positioned to keep its subscribers even as the entertainment landscape alters, given its innovation and huge existing customer base.

Bill Smead, CEO of Smead Capital Management, says that Comcast has three powerful forces at its back going into the next few years: inertia, which keeps customers from switching providers; demographics, which show household formation is accelerating from recession lows; and information, gleaned from its existing customer base.

"Much like the Wizard of Oz could stand behind a curtain and dictate, these folks know more about what people watch on TV than anyone," says Smead. "It only makes sense that they're a better content provider for knowing that." ■

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