Comcast

Communication Services
NASDAQ: CMCS.A
Market Outperform | Hold

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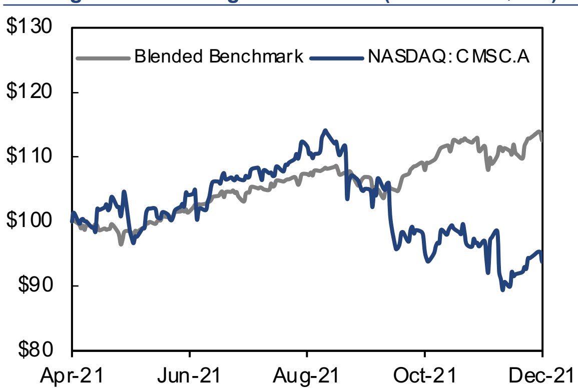
Return on Investment	
Current Share Price	$50.33
Target Price	$62.00
Dividend Yield	2.01%
Implied Return	25%
Conviction Rating	2

Market Profile	
52-Week Range	$46.29 - $61.80
Market Capitalization (US$B)	$230
Net Debt (US$B)	$91
Minority Interest (US$B)	$2
Enterprise Value (US$B)	$323
Beta (5-Year Monthly)	0.94

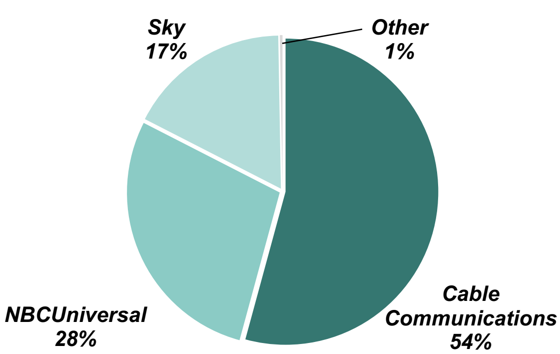
Metrics	2021E	2022E	2023E
Revenue (US$B)	$116	$122	$123
EBITDA (US$B)	$35	$38	$39
EPS (US$)	$3.22	$3.61	$3.97
EV/EBITDA	9.3x	8.5x	8.3x

Holding Period Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: LTM Revenue Segmentation



Source: Company Filings

Business Description

Comcast (NASDAQ: CMCS.A) is an international media and technology company. Its three main business segments are Comcast Cable, NBCUniversal, and Sky. The NBCUniversal (NBCU) segment can be further broken down into Media, Studios, and Theme Parks. The Company also owns the Philadelphia Flyers and the Wells Fargo Center arena. CMCS is newly focused on Peacock, its direct-to-consumer streaming service, which officially launched throughout the U.S. in July 2020.

Industry and Segment Overview

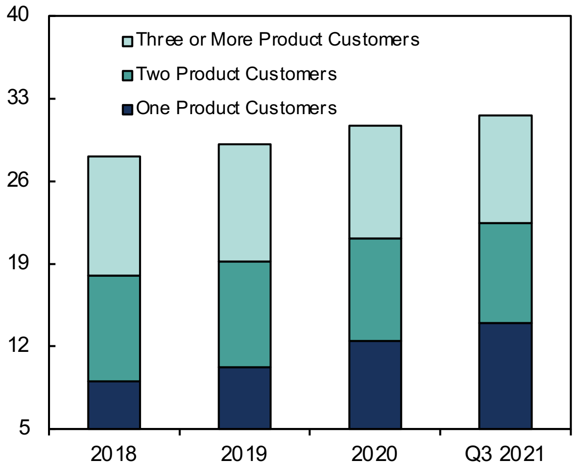
Cable Communications: Cable Communications is CMCS's core segment, comprising 54% of revenues. Through this segment, CMCS provides high-speed internet, video, voice, wireless, and security and automation services in the U.S. under the Xfinity brand to 31.6mm residential customers and 2.5mm business customers. While CMCS's cable communications segment stands to benefit from the long-lasting trend of positive broadband net additions, the emergence of fibre-to-the-home (FTTH) from telecom companies poses a major threat to cable's share of these additions. Over the last decade, cable has continually absorbed telecom's share of broadband (BB) through its far superior speeds compared to digital subscriber line technologies (xDSL); however, with FTTH providing faster and more reliable internet at a similar cost, cable loses the competitive advantage it once had. Currently, cable's competitive advantage over FTTH is its larger footprint, but estimates indicate that there will be 24.6mm new FTTH homes by 2025. Thus, the CPMT anticipates a dynamic between cable and FTTH over the next decade that will mirror the dynamic between xDSL and cable in the last decade. Observing precedent internationally in Western Europe and East Asia, where FTTH has been more readily adopted, cable's market share in broadband has decreased proportionally to increases in FTTH line builds nearly unanimously. With CMSC holding ~30% of the residential broadband market, this headwind will be inescapable. Another major challenge for cable companies has been the rise of streaming services, which have siphoned viewers away from traditional cable TV. Overall, with net additions outlook negatively impacted alongside declining video and voice customer growth, the cable communications segment appears to lack growth opportunities without significant capex contributions.

NBCU: NBCUniversal comprises three business segments: Media, Studios, and Theme Parks.

The Theme Parks segment had been negatively impacted due to park closures and capacity restrictions as a result of COVID-19. As of Q3 2021, Orlando and Hollywood parks have fully opened while parks in Japan and Beijing have been operating with capacity restrictions. Operations at theme parks will be negatively impacted in the short- and medium-term. Management indicates that it may also be difficult to determine demand for theme parks upon full capacity reopening due to potential changes in consumer habits post COVID-19.

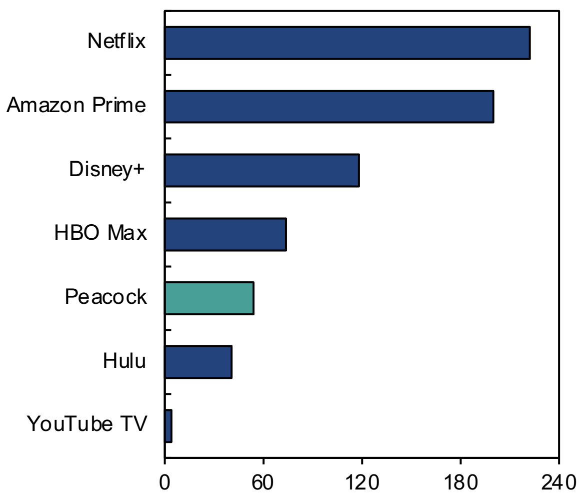
The Media segment largely consists of NBCU's television and streaming platforms, including national and international cable networks, the NBC and Telemundo broadcast networks, and (cont.)

Figure 2: Customer Relationship Mix (mm)



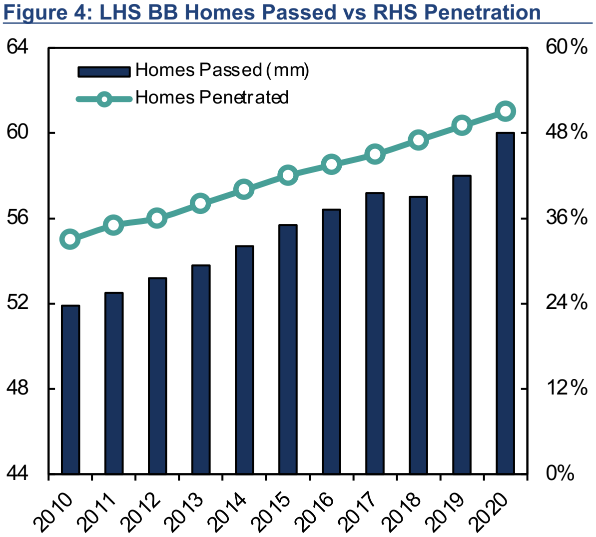
Source: Company Filings

Figure 3: Streaming Service Subscriber Counts (mm)



Source: Company Filings

Figure 4: LHS BB Homes Passed vs RHS Penetration



Source: Company Filings, Street Research

Peacock, NBCU's direct-to-consumer service. Revenue is primarily generated through the sale of advertising on television networks, digital properties, and the distribution of television network programming. The largest growing area in this segment is Peacock, with the monthly active users growing from 3.0mm to 17.5mm in the five quarters since its inception.

The Studios segment consists primarily of NBCU's film and television studio production and distribution operations. COVID-19 has severely impacted film entertainment and has changed consumption patterns from in-theater releases to digital releases. However, industry revenue is still expected to grow at a 6.2% 5-year CAGR, given new blockbuster releases and a resurgence of demand rebounded box office tickets as vaccines were distributed. Such releases for CMCS include *F9* and *The Boss Baby: Family Business*.

Sky: Sky is a leading European entertainment company that includes a direct-to-consumer business model that provides video, broadband, voice, wireless phone services, and a content business operating entertainment networks such as Sky News and Sky Sports Networks. Revenue generation can be largely attributed to business customers that subscribe to various services and the distribution of Sky's owned television networks on third-party platforms. Like NBCU, Sky was and may continue to be negatively impacted by the COVID-19 pandemic due to the shutdown of sports leagues and uncertain scheduling of events. As such, Sky lost many sports subscriptions and suffered significant costs from broadcasting at unpredictable time slots. While the timing of sports seasons generally returned to a normal calendar year by Q3 2021, it may take some time for Sky to rebuild its userbase.

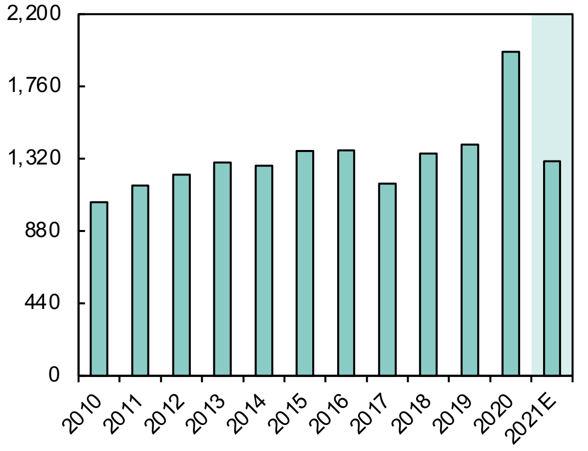
Mandate Fit

Quality Management: Brian Roberts has been CEO since 2002 and Chairman since 2004. He joined CMCS in 1974 as an intern and has worked in a plethora of roles throughout the Company. Brian Roberts currently owns all outstanding Class B shares of the Company, which have 15 votes per share; however, the Class B stock only accounts for ~1/3 of the total voting power of all common stock. The CPMT is concerned with Roberts' voting power (~1/3 of total voting shares) within the Company considering his position as CEO and Chairman. While the Company has maintained this "family firm" structure without severe issues in governance, the Trust is wary that recent stock price declines may cause short-term, negative-NPV decision making that will damage CMSC in the long run.

Competitive Advantage: With an evolving landscape in media communications, CMSC has demonstrated the value of its diverse product portfolio, with NBCU's Peacock platform benefitting from the trend towards over-the-top (OTT) streaming. However, the CPMT believes that the overall slowing growth and competition from FTTH weakens CMSC's long-term prospects, as currently, this is where its core business lies. A key advantage CMCS maintained was its broadband coverage across the U.S., covering ~36% of the country. While this positions the Company well to capture the remnants of this maturing industry, the CPMT recognizes that CMSC does not possess a similar competitive advantage in FTTH or OTT streaming, and it will find it difficult to compete due to the increasing barriers to entry in these spaces.

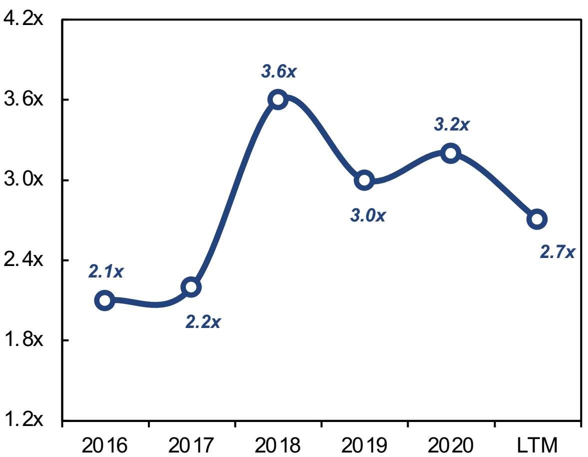
Strong Balance Sheet: With a LTM Net Debt/EBITDA ratio of 3.2x and US$11.8B in cash as of Q3 2021, CMCS has retained balance sheet health despite COVID-19 headwinds. While de-leveraging efforts following the US$40B acquisition of Sky in 2018 slowed over 2020 and 2021, CMCS is on track to use its cash balance and (cont.)

Figure 5: Broadband Net Additions (000s)



Source: Company Filings

Figure 6: LTM Net Debt/EBITDA



Source: S&P Capital IQ

FCF generation to reduce leverage to the low 2x range. Fitch affirmed an A- credit rating for CMCS in October 2020 with a stable outlook, while S&P and Moody's have given the Company investment-grade credit ratings of A- and A3, respectively. Furthermore, CMCS's size and maturity lower the Company's business risk, consequently granting it the potential to take more financial risk in the eyes of creditors.

Growing Free Cash Flow: CMCS has grown FCF at a 5% CAGR over the last five years. Going forward, the Company expects strong growth in cable, supported by broadband net additions, which increased by a record 1.97mm in 2020. CMCS has also expressed commitment to expand margins and lower capital intensity within its cable business (which comprised 75% of EBITDA in 2020), further supporting robust FCF generation. While NBCU and Sky were severely impacted by COVID-19, with EBITDA declining 23% and 37%, respectively, recovery in these segments will be a major driver of accelerating FCF growth over 2021 and 2022.

Valuation and Investment Thesis

The CPMT valued CMCS using a 50/50 blend of the Gordon Growth method (WACC of 7.5% and 2% terminal growth rate) and an EV/EBITDA exit multiple of 11.5x. This method returned an implied share price of $62.00, which, in addition to a 2% dividend yield, represents a holding period return of 24%. CMCS trades at ~9.3x on an NTM EV/EBITDA basis, which is ~9x below its media conglomerate peers, Disney (NYSE: DIS) and ViacomCBS (NASDAQ: VIAC). The CPMT believes that CMCS has limited growth potential; it will face severe headwinds within the sector in the long-term relating to FTTH competition, regulatory changes, and dilutive M&A opportunities. The Trust believe that management may focus on dilutive M&A opportunities within the Sky segment of the business to attempt to grow and maintain this slowly dying segment due to OTT products. Additionally, with a large shift toward FTTH, we believe there may be increased competition within the space which will require intensive capital expenditures that may impact FCFs in the future. Despite this, the Company is stable in aspects such as FCF generation, and the CPMT believes that it is currently undervalued relative to peers with a reversion due to take place. Thus, the CPMT recommends a hold to let short-term correction materialize while actively seeking other investment opportunities that will provide more growth in the long term.

Figure 7: NTM EV/EBITDA Over Time