Business

Why Comcast Leads the Pack

Low debt, consolidated markets, and cutting-edge technologies make this company a cable-biz marvel: An o
soon turn a profit

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By Jane Black

Investors have sought out cable stocks in 2001 as a result of the business model's perceived stability. Cable offer
growth. On average, cable companies add new subscribers at a rate of 1% to 2% per year and see annual gains i
flow of 10% to 12%. And the business isn't unduly affected by economic slowdowns. After all, even the most fea
laid-off workers aren't going to stop watching TV -- if anything, they'll watch more.

In the stolid cable business, Comcast (CMCSA) is a standout. The company, which has 8.4 million subscribers,
for smart acquisitions and low debt. Now it looks poised to move away from the cable pack. After years of huge
expenditures to upgrade its network, Comcast is ready to reap the benefits of a big broadband buildout. And it
an anomaly: a cable company that operates solidly in the black, even after depreciating the construction cost o
"Comcast understands its business very well," says Michael Goodman, an analyst with research firm Yankee Gr

CRITICAL INDICATOR.

On May 8, Comcast met analysts' expectations of $641 million in operating cash flow -- a key measure of financ
cable business. More important, the Philadelphia-based company increased its guidance for cash-flow growth f
Instead of 10% to 11%, Comcast now expects to reach 13% in 2001, a high growth rate for the cable biz and a crit
the company's strategy is yielding results.

For a cable stock, though, Comcast isn't cheap. It's trading at around $41 a share, or 14 times Standard & Poor's
operating cash flow per share. That represents a slight premium over its peers. First Call's target share price fo

ranges from $48 to $61. Chalk up the analysts' optimism to Comcast's solid financial condition and a smart

For starters, the company has one of the lowest debt-to-cash-flow ratios in the industry. That ratio is impo how quickly a company will be able to generate free cash flow -- actual profits, the Holy Grail of the cable companies operate in the red due to huge outlays on building and upgrading networks. For 2000, Comca low number in the cable biz. Dave Goldsmith, a cable analyst at Buckingham Research, believes Comcast company to become profitable. If and when it does, the stock could soar.

INCREMENTAL REVENUES.

The outlook is even brighter if you consider what Comcast is offering customers. By the end of 2001, it w 95% of the homes within its signal range with digital-cable service, and 77% of those homes with high-spe through its partnership with AT&T's @Home. Digital cable promises to provide more channels and a clear drive incremental revenues through more value-added service offerings.

Part of Comcast's strength comes from its early strategy of clustering its cable systems. About 52% of its c Atlantic supercluster, the corridor from Baltimore and Washington through Wilmington and Philadelphia Jersey. Contiguous systems and a more concentrated audience make it easier for Comcast to sell advertisi now pitch advertisers on its 2 million cable subscribers in the Philadelphia metropolitan area. That comp years ago. The clusters also keep down the costs of rolling out new services since they require fewer cont and maintain.

Among cable companies, Comcast has done a good job of translating upgrades into new customers. Alrea that's 542,000 consumers -- have signed up for the company's high-speed Internet service. That puts Com and Charter Communications, with 3.4% and 5.1%, respectively, and just behind Cox Communications, wi Poor's is projecting Comcast will have 800,000 high-speed subscribers by the end of 2001. That growth c by nearly 10% in the coming year.

IN VOD WE TRUST.

Comcast is also in the forefront of video on demand (VOD). This service will theoretically trump both pa
stores by allowing cable companies to offer a selection of thousands of movies that viewers can order and
getting off the couch. In April, Comcast purchased 79 VOD servers from VOD integrator Concurrent. Com
in eight still-undisclosed markets by the end of 2001.

"The numbers aren't huge yet, but by the end of the year, you'll see more video on demand in Comcast sy
Goodman says.

Still, Comcast could soon face serious competition. Satellite outfits grabbed 15 million customers in the U.
satellite service is digital by definition, providers can offer additional services such as VOD and interactive
cost. Furthermore, a deal that would see either Rupert Murdoch's News Corp. or EchoStar buying DirecT
pressure on cable companies by creating a mammoth satellite competitor.

HOOPS AND HOCKEY.

Comcast, though, has local programming that could fend off a strengthened satellite competitor, accordi
and satellite analyst at UBS Warburg. For example, the company owns Philadelphia's basketball team, the
Flyers hockey team. If you want to see these teams on the tube in Philly, you need Comcast. Finally, the c
cable systems from debt-laden AT&T. Small and midsize systems aren't in line with AT&T's strategy but, in
could be a good fit for Comcast, Eagan says.

Questions also remain about satellite's ability to become price-competitive against cable in the short term
look like a low-growth industry -- but that's misleading, especially when it comes to Comcast. Don't be sur
to life soon.

Edited by Alex Salkever

In this article

CMCSA
COMCAST CORP-A
56.89 USD ▼ -0.32 -0.56%

UBSG
UBS GROUP AG
14.29 CHF ▼ -0.23 -1.55%

CHTR
CHARTER COMMUN-A
624.23 USD ▼ -4.84 -0.77%

0699894D
FIRST CALL
Private Company

T
AT&T INC
29.54 USD ▼ -0.45 -1.50%