Cable TV’s Cord-Cutting Woes Grow, Highlighting Divergence With Netflix

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As more consumers shift to streaming-video services like Netflix, traditional cable and telecommunications companies are losing subscribers—and revenue. Photo: Elise Amendola/Associated Press

By

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The pace of pay-TV cord-cutting is quickening, and earnings results this week for cable and telecommunications companies underscore how that fundamental shift in consumer behavior is giving even more power to tech giants like Netflix Inc.

Cable provider Charter Communications Inc., CHTR -11.68% the third-largest U.S. pay-TV provider by subscribers, said Friday it lost 122,000 video customers in the first quarter, a far worse outcome than the roughly 40,000 subscriber losses Wall Street analysts expected. In the year-earlier period, Charter lost 100,000 customers.

The results triggered a selloff that sent Charter shares down 12%, the stock’s largest single-day percentage decline since 2009. Charter’s results follow similarly negative reports on subscriber cord-cutting this week from its bigger rivals, Comcast Corp. CMCSA -4.56% and AT&T Inc. T -0.18%

As viewers flee traditional TV for streaming-video services, Netflix has arguably been the biggest winner, adding subscribers at home and abroad at a clip that has outpaced Wall Street's expectations.

Other tech companies are angling to capitalize on consumers' changing habits. Amazon.com Inc. AMZN 3.60% now has more than 100 million customers for its Prime subscription service, which includes a video offering the company has been pouring money into, including with a deal yesterday to keep streaming NFL games. Google Inc. is ramping up its YouTube TV streaming service, an online bundle of cable channels that competes with the likes of Hulu Live and Sony PlayStation Vue. And Facebook Inc. FB -0.33% and Apple Inc. AAPL -1.16% have each set aside as much as $1 billion for original programming meant to lure more viewers away from traditional TV.

Investors are growing increasingly concerned about such services stealing away market share, said Guggenheim Securities analyst Michael Morris, leading some to sell out of slow-growth traditional cable and telecom and buy into tech stocks.

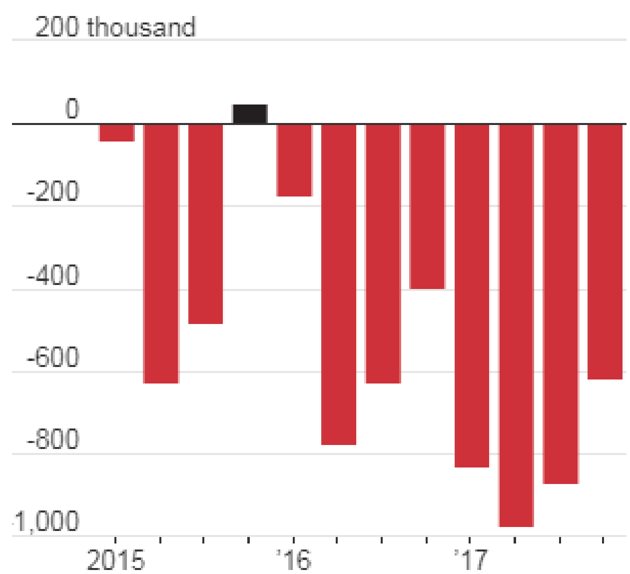
Life Without Cable

More U.S. households are dropping traditiona pay-TV subscriptions

Quarterly net subscriber additions and losses*

*Traditional pay-TV subscriptions, not including new online TV services

Source: MoffettNathanson estimates



"Companies like Amazon and Netflix are delivering game-changing convenience at incredibly efficient prices," Mr. Morris said. "As an investor, you say, ‘I don’t know how this plays out, but I do know it is very difficult to compete if my competitor is undercutting me on the pricing side.’ ”

The upheaval in the pay-TV economy is stark. From the beginning of 2015 through the end of last year, nine million Americans have either cut the cord or chosen not to buy a traditional cable package when they moved into new households, according to estimates from MoffettNathanson.

A Brief History of Cable: Creating and Cutting the Cord

The cable industry is undergoing a major transformation, as more Americans cut the cord on their cable subscriptions and flock to streaming services like Hulu and Netflix. So how did we get here? Illustration: Shaumbe Wright/WSJ

Comcast said Wednesday it lost cable TV customers for the fourth-straight quarter due to heightened competition from cheaper online TV services, and AT&T reported video revenue declines as growth to its streaming service DirecTV Now failed to offset higher-value satellite TV customer defections.

Verizon Communications Inc. VZ 3.64% said it lost 22,000 Fios video customers in the quarter, compared with a loss of 13,000 a year earlier, though the company has lessened its emphasis on its traditional TV product and tried to pivot to digital media in recent years.

The results have shaken investors' confidence that big telecom companies' broadband customer growth will offset declines from cord-cutting as time goes on. Charter said broadband customer growth decelerated, echoing a trend at Comcast and AT&T. Charter added 331,000 high-speed internet customers, compared with an addition of 428,000 a year ago.

Investors are also concerned that cable giants don't have the right assets and scale to hold their own against global tech giants. Comcast is trying to address that, in part, with a recent bid for European pay-TV operator Sky PLC, but its investors are lukewarm on the idea.

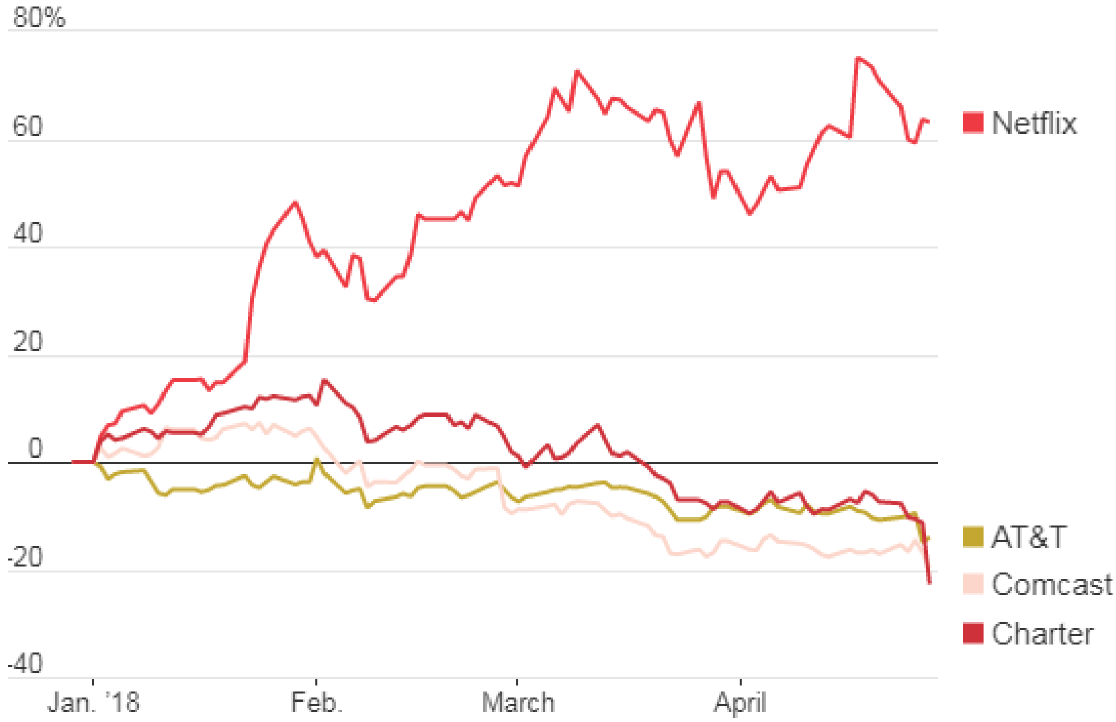
"Cable is currently out of favor, in large measure due to Comcast's extracurricular activities," wrote veteran Wall Street analyst Craig Moffett in a Friday research note.

Diverging Streams

Pay TV stocks have slid as investors worry about subscriber losses, while Netflix continues on a tear.

Year-to-date share performance

Source: FactSet



The growing worries about cable and telecom firms have erased chunks from the market values of Comcast, Charter and AT&T. Since the beginning of February, Charter has lost nearly $30 billion in market value, and AT&T has shed nearly $50 billion. Comcast's market value has declined nearly $50 billion since late January.

Charter's results Friday weighed down other industry stocks. Dish Network Corp. DISH -5.62% shares fell more than 5%, while Comcast lost more than 4% and Liberty Global LBTYA -6.09% PLC fell more than 6%.

Netflix, meanwhile, has continued to soar. Its already pricey shares are up more than 62% this year, adding $52 billion to its market value.

Traditional players like AT&T and Dish have aggressively marketed their streaming services DirecTV Now and Sling TV, respectively, but growth in those offerings hasn't offset mounting satellite-TV customer losses. Even with online cable TV services added into the mix, 4.5 million Americans have forgone buying pay-TV bundles since 2015, according to MoffettNathanson estimates.

Related

On a call with analysts Friday morning, Charter Chief Executive Tom Rutledge said the company's optimistic vision for its future growth hasn't changed. Charter executives continue to point to the ongoing integration of Time Warner Cable and Bright House Networks, both of which Charter bought in 2016, as a major source for much of the weakness in subscriber results.

Mr. Rutledge said the integration has some "lumpy aspects to it as we combine the companies in various ways," but he added "that integration is actually going quite well and pretty much as planned."

While subscriber results disappointed investors, Charter increased earnings 8% to $168 million in the quarter, and overall revenue grew 5% to $10.7 billion, helped by broadband revenue growth, cable bill increases and ad revenue growth. Earnings per share grew to 70 cents from 57 cents a year ago. Profit and revenue fell short of Wall Street estimates of 98 cents a share on $10.8 billion in revenue, according to analysts polled by Thomson Reuters.

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