PHYS.ORG

Cable companies strike back at cord-cutting idea

February 16 2011, By RYAN NAKASHIMA , AP Business Writer

This Comcast logo is displayed on an installation truck in Pittsburgh, Tuesday, Feb. 15, 2011. Comcast Corp., a leading cable, entertainment and communications company, announced Wednesday, Feb. 16, that the company's planned annual dividend has increased 19% to $0.45 per share. (AP Photo/Gene J. Puskar)

(AP) -- Cable TV and other companies that provide subscription services are striking back at the notion that people are dropping their TV packages en masse to watch video over the Internet. Industry gains in the fourth quarter returned to normal following a spate of cancellations spurred by the end of discounted pricing.

Subscriber losses from top-ranked Comcast Corp. and No. 8 Cablevision Systems Corp. reflected one-time items, such as the defection of customers angry over a two-week blackout of Fox programs on Cablevision in October.

Comcast's loss of 135,000 video subscribers was about a third less than expected as it held onto more customers with better programming, and fewer people dropped service with the expiration of promotional prices offered during the 2009 transition to digital over-the-air broadcasts. Comcast ended with 22.8 million video customers, and Cablevision had 3.3 million.

Those losses were more than erased by gains at such rivals as AT&T Inc. and Verizon Communications Inc., which offer video services over phone lines. The phone companies reported fourth-quarter results last month, while Comcast and Cablevision announced them Wednesday.

Along with an expected gain of about 100,000 video subscribers combined at satellite operators DirecTV and Dish Network Corp., which report next week, the established pay TV industry is on track to add 200,000 to 250,000 TV subscribers in the final three months of 2010, according to Nomura Securities.

The gains are "another piece of evidence that cord-cutting is not impeding subscriber activity," said Nomura analysts Mike McCormack and Mike Liddell in a research note.

Cord-cutting refers to the phenomenon of people dropping pay TV packages with the growth of online video offerings through Hulu, Netflix and other services.

Cablevision said Wednesday it lost 35,000 video subscribers in the quarter, ending with 3 million when excluding the 306,000 subscribers it picked up by buying Bresnan Communications in mid-December. But it attributed almost all of the loss to its dispute with Fox. The two-week standoff, during which some World Series baseball games were blacked out to customers, saved it money in programming fees but cost it customers, the company said.

"We thought that taking the hit was worth it. But we thought it was a one-time kind of hit," Cablevision Chief Operating Officer Tom Rutledge told analysts on a conference call.

Last month, No. 4 video provider Time Warner Cable Inc. said it lost 141,000 video customers to end at 12.3 million, but AT&T's U-verse added 246,000 to nearly 3 million, and Verizon's FiOS added 182,000 to end at 3.5 million.

"The notion that people are disconnecting their pay TV connections in favor of Netflix has always been a good story but there's been very little evidence that it's actually happening in any material numbers," Bernstein analyst Craig Moffett said.

Netflix added 3.1 million customers in the last quarter, rising to more than 20 million, but its service is cheaper, doesn't include live programming and still requires paying for a separate Internet connection.

The results showed the traditional pay TV industry was not succumbing to such activity and has returned to normal following the end of discounted pricing, analysts said.

Some cable operators had offered TV services for as little as $10 a month in the summer of 2009 to ease the transition to digital that made analog rabbit ears useless for receiving over-the-air broadcasts. When those prices reverted to normal after a year, many people switched back to rabbit ears - just new ones capable of receiving digital signals.

Industrywide gains in video subscribers also signaled to some analysts that people could afford paying for TV again as the economy recovered.

"The real pressure on the pay TV operators has tended to be at the very low end of the market," Moffett said. "And that reflects more on issues of poverty than on issues of technology."

Boosted by better-than-expected subscriber numbers, Comcast reported net income of $1.02 billion, or 36 cents per share, in the three months ended Dec. 31, up from $955 million, or 33 cents per share, a year earlier. Earnings adjusted for unusual items came to 35 cents per share, beating the 32 cents expected by analysts polled by FactSet. Revenue rose 7 percent to $9.72 billion, beating expectations for $9.58 billion.

Cablevision's net income rose to $114 million, or 38 cents per share, from $78 million, or 26 cents per share. That was short of the 42 cents expected by analysts. Revenue rose about 6 percent to $1.87 billion from $1.77 billion, roughly in line with the $1.85 billion expected.

Comcast shares rose $1.09, or 4.5 percent, to $25.25 in afternoon trading Wednesday, while Cablevision shares fell 37 cents, or 1 percent, to $37.05.