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After placing a premium on big media over cable companies for years, investors are changing their tune. Large media companies like Walt Disney Co. and Viacom Inc. were long thought to have the more valuable set of assets, with a vast array of content from their TV networks and studios. The conventional wisdom was that cable operators like Time Warner Cable Inc. were the capital-intensive businesses with the “dumb pipes” into the home.

Investors valued the two industries accordingly, with media stocks trading at a significant premium to cable stocks. But sentiment starting changing several months ago as fears over the future of pay television set in, and the valuation gap began to narrow. “Cable’s growth prospects suddenly seem much more certain than those for media,” said MoffettNathanson analyst Craig Moffett.

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A year ago, big media companies had an average valuation of 10.4 times estimated earnings before interest, taxes, depreciation and amortization, or Ebitda. Now, that valuation multiple has fallen to about 8.1 as of Feb. 12, a touch below the average among cable companies, which has held relatively steady, according to data from FactSet and S&P Global Market Intelligence.

The shift in sentiment accelerated late last summer, when Disney said that

presidential on down, candidates file Pa. petitions

sports giant ESPN had suffered subscriber losses and lowered profit guidance for its cable networks. ESPN's problems heightened investors' worries about issues affecting the entire sector and stoked fears that cord-cutting was going to undermine the steady growth in networks' fees from pay-TV distributors. Media companies began to fall short of profit expectations or lower their guidance as subscriber and ratings declines, currency swings and the fickleness of the film business clouded their predictions for the future.

Last week's quarterly results from 21st Century Fox, Viacom, Time Warner Inc. and Disney showcased those vulnerabilities and exacerbated the monthslong swoon in media stocks. Since the start of August, Viacom has been hit the hardest, down 39%. Disney is off 23%, Time Warner has lost 28%, and 21st Century Fox is 26% lower, as of Tuesday's close.

Cable operators have been dinged by the changes in pay TV, too, but have weathered the storm far better than their media counterparts. Large cable stocks including Time Warner Cable, Comcast Corp., Charter Communications Inc. and Cablevision Systems Corp. were valued at an average of 8.4 times Ebitda as of Feb. 12, roughly the same as a year earlier. "Our view is that distribution at this point trumps content," said Marci Ryvicker, an analyst at Wells Fargo. "Content is so fragmented. You can watch Netflix, you can watch Amazon, Hulu, but you need your broadband pipe and there are only a few suppliers of that."

In fact, Comcast, Time Warner Cable and Charter last year had their best video subscriber results in roughly a decade. Their success seemingly came at the expense of satellite and phone companies, thanks to a bundle of services that includes broadband. Plus, merger announcements have swept the industry, pushing up cable stocks, while consolidation among content companies has yet to materialize.

Why isn't cable's success rubbing off on media companies that own TV channels? Cable operators can post strong results by stealing market share from rival satellite and telecom companies. Media companies, on the other hand, are dependent on growth of the overall pay-TV industry. MoffettNathanson estimates total U.S. pay-TV subscribers are contracting at a rate of 1% a year.

Media companies' latest earnings results helped drive home that it will be tough for them to collect more in "affiliate fees"—the slice of the cable-TV bill channel owners get. One culprit, critics say: their willingness to license a lot of programming to streaming players like NetflixInc., Hulu LLC and Amazon.com Inc. over the past several years. "They have fragmented their audiences to a point where they are getting less viewership," said Kevin Holt, chief investment officer at Invesco, which owns both cable and media stocks. "Now, the cable guys are coming back saying, 'hey, with your ratings down, why should I pay high single-digit (percentage) increases in affiliate fees?'"

Meanwhile, there are signs that consolidation in distribution is having an impact: Viacom blamed its weak subscription revenue forecast for this fiscal year partly on the increased negotiating leverage AT&T Inc. got from its acquisition of DirecTV. "Scale is of paramount importance in today's environment, with all the structural shifts going on," said Aryeh Bourkoff, chief executive of boutique investment bank LionTree LLC.

Charter Communications' proposed acquisitions of Time Warner Cable and Bright House Networks LLC, as well as Altice NV's deal for Cablevision, if approved, could bolster distributors' negotiating power. Still, Time Warner reaffirmed last week that it expects subscription fee growth in the "low teens" this year and next. Fox, for its part, said overall U.S. subscribers to its channels grew about 1% in the quarter thanks to its smaller networks gaining wider distribution, though its bigger ones have experienced subscriber losses.

Not long ago, the prevailing wisdom on Wall Street was that cable companies were vulnerable to less-expensive streaming services stealing away their pay TV customers, while content owners were in a stronger position because even Internet TV players would

need to license their content. Now those dynamics have changed. Even when Disney Chief Executive Robert Iger said last week that ESPN had a recent “uptick” in subscribers—after losing 7 million subscribers over the span of two fiscal years—he declined to predict if that would continue, “because we really don’t know.” Plus, content companies have pushed overseas in recent years, exposing themselves to foreign exchange headwinds that have cut into profits.

In contrast, cable operators have begun to reverse video customer losses, with Time Warner Cable and Charter reporting video subscriber growth last year for the first time in roughly a decade. The rising importance of broadband and on-demand TV to consumers is giving cable companies a leg up technologically in their fight for subscribers against satellite and telecom rivals. “Media keeps missing numbers,” while cable is beating and raising expectations, Ms. Ryvicker said. – ***Wall Street Journal***

The pay-TV industry lobbied Tuesday against a proposal to open cable set-top box standards, blasting it as a giveaway to West Coast technology companies that could take years to implement and burden consumers with extra costs. The Federal Communications Commission is expected to take its first vote on new set-top rules in Washington on Thursday.

At stake for Comcast Corp. and others in the cable- and satellite-TV industries is control over a $20 billion-a-year business and how consumers search for TV shows and movies in their living rooms. Proponents say the proposed rules would make it easier for consumers to watch online streaming and traditional TV programming on the same television.

Michael Powell, the CEO of the National Cable and Telecommunications Association, warned that the FCC proposal could lead to TV subscribers having two set-top boxes instead of one. "The consumer promises are illusory," Powell, a former head of the FCC, said in a conference call organized by the Future of TV Coalition.

Powell and others have said that the search-engine giant Google has been lobbying the federal government to open the set-top box industry so it could develop a video-search engine and sell ads around the results - similar to the way Google sells Internet ads off article searches. FCC spokeswoman Shannon Gilson said that "nothing in the proposal favors one company or requires consumers add any device. If consumers want to continue renting a set-top box from their service provider as they do today, they may continue to do that without change. This proposal lets innovators create - and then lets consumers choose."

The FCC has said that 99 percent of cable- and satellite-TV consumers lease set-top boxes from providers - such as Comcast or Verizon - because they don't have other choices. Charles "Chip" Pickering is chief executive officer of the Incompas trade association, which supports the FCC's proposed rules.

The association includes Google but also other Internet firms, smaller set-top box manufacturers, and technology companies, Pickering said. Incompas "is consumer-driven and a broad coalition of technology companies," he said, adding the competition in the set-top box industry is overdue. "If we can send a man to the moon, why do we still need two remotes?" he asked. Industry observers believe that FCC Chairman Tom Wheeler has the three votes on the five-member commission to pass Thursday's preliminary vote. A vote on the final rules won't take place until later this year, perhaps this summer. – ***Philadelphia Inquirer***

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