Comcast (CMCSA)

Updated May 23rd, 2018 by Jonathan Weber

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	11.4%	**Quality Percentile:**	N/A
Fair Value Price:	$38	**5 Year Growth Estimate:**	6.5%	**Momentum Percentile:**	N/A
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.6%	**Total Return Percentile:**	N/A
Dividend Yield:	2.3%	**5 Year Price Target**	$51	**Valuation Percentile:**	

Overview & Current Events

Comcast is a media, entertainment and communications company that offers video, internet and phone services. It business units include Cable Communications (video, Internet, voice; Xfinity brand), Cable Networks (cable networks, regional sports, news, etc.), Broadcast Television (NBC, Telemundo), Filmed Entertainment and Theme Parks. Comcast was founded in 1963, is headquartered in Philadelphia, PA, and is currently valued at $148 billion.

Comcast's most recent quarterly results were announced on April 25. The company reported earnings per share of $0.62, an increase of 17% year over year (on an adjusted basis). Revenues totaled $23 billion, an increase of 11% versus the prior year's quarter. Comcast recently has made a bid for Sky, proposing a takeover that values Sky at $29 billion. Since 21st Century Fox is also trying to acquire Sky (and Fox' assets, in turn, will be purchased by Disney) the outcome of the acquisition is uncertain at this time.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.46	$0.63	$0.65	$0.79	$1.14	$1.28	$1.47	$1.63	$1.74	$2.06	***$2.42***	***$3.32***
DPS	$0.13	$0.15	$0.19	$0.23	$0.33	$0.39	$0.45	$0.50	$0.55	$0.61	***$0.76***	***$1.30***

Comcast has a very compelling earnings growth history. From 2008 to 2017 its EPS grew every year, the annual growth rate averaged 18% over those nine years. Over the last five years its growth has slowed down a bit, averaging 12.6% annually since 2012, which has still been a very compelling (and consistent) rate of earnings growth.

There are several drivers for Comcast's earnings growth. The first one is ongoing revenue growth, driven primarily by Cable revenues (which make up more than half of the company's top line). Those grew by four percent in the most recent quarter, due to a 3% increase in Comcast's customer count and some price increases. Cable revenues have grown by mid-single digits for the last ten quarters (on a yoy basis), although growth has slowed down a bit (from 6% to 4% over the last year). The Video segment has been a headwind for Comcast's Cable revenues, as the company lost about 90,000 customers in Q1 (industry-wide cord-cutting effects). NBCUniversal is growing faster, but from a smaller position: Its revenues rose by 21% during Q1, although the Winter 2018 Olympics had a big one-time impact, adjusted for that its growth would have been substantially slower.

Apart from revenue growth Comcast's earnings were driven by margin increases in the past, but more recently Comcast was not able to increase its margins further. Due to substantially higher programming and production costs and a rise in SG&A expenses its operating profit actually grew slower than its revenues, i.e. Comcast's margins declined slightly during the most recent quarter. The outsized earnings growth (17% EPS growth rate) can be primarily explained by the positive impact of tax legislation changes, with an unchanged tax rate its EPS would have grown by about six percent.

Comcast's dividend was grown by 19% annually over the last decade, which is highly attractive.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	20.9	11.8	14.3	14.9	14.0	16.9	18.2	18.1	18.2	18.6	***13.6***	***15.5***
Avg. Yld.	1.3%	2.0%	2.1%	1.9%	2.0%	1.8%	1.7%	1.7%	1.7%	1.6%	***2.3%***	***2.5%***

Comcast has not been trading at a high valuation over the last decade relative to the growth the company has generated. Its median P/E ratio is 17, but due to the fact that its growth has slowed down and that investors are a bit wary due to the impact cord cutting could have on the industry its valuation will likely be a bit lower going forward.

Comcast's dividend yield of 2.3% is higher than the S&P 500's dividend yield, coupled with a high dividend growth rate and a relatively low payout ratio Comcast has merit as a dividend growth investment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	18.4%	18.9%	24.8%	24.8%	25.8%	28.3%	30.0%	31.2%	31.0%	31.6%	***32.0%***	***32.0%***
Debt/A	64.1%	61.9%	62.4%	69.6%	69.7%	67.9%	66.7%	67.7%	68.5%	63.1%	***62.0%***	***60.0%***
Int. Cov.	2.7	3.2	3.8	4.3	5.6	5.3	5.8	5.9	5.9	6.0	***6.2***	***7.0***
Payout	28.3%	23.8%	29.2%	29.1%	28.9%	30.5%	30.6%	30.7%	31.6%	29.6%	***31.4%***	***39.2%***
Std. Dev.	39.5%	35.9%	25.3%	27.6%	16.2%	16.3%	13.7%	18.6%	14.6%	17.2%	***21.0%***	***20.0%***

Comcast has managed to increase its gross profits to assets ratio over the last decade, which is one of the reasons why the company managed to grow its earnings at such a high pace. Recently this ratio stopped improving at a substantial pace, in line with the trend of overall slower earnings growth (when adjusting for the tax rate impact). About two thirds of Comcast's assets are financed via debt, but the company is one of relatively few companies that has decreased its leverage a bit over the last decade, which should be a positive as interest rates keep rising (which makes refinancing debt more expensive). Comcast is not overleveraged, its interest coverage ratio has improved continuously and its net debt to EBITDA is 2.2, which points to strong debt coverage.

Comcast is, together with Disney, one of the biggest players in the entertainment industry. New market entrants would have to spend many billions to establish themselves as a cable player or major entertainment network, thus competitive pressures are not very high. The whole cable industry is, at least when it comes to Video services, impacted by the nationwide cord-cutting trend, as an increasing number of customers are ditching traditional pay-tv for competing services such as Netflix. During the last financial crisis Comcast grew its profits, as demand for its services is not cyclical and bound to disposable incomes or the strength of the economy.

Final Thoughts & Recommendation

Comcast is an entertainment giant that has recorded very compelling growth rates in the past. More recently its growth slowed down, though, due to higher expenses for programming and production and due to a declining customer count for its Video services. Comcast should still be able to grow its earnings going forward, but at a somewhat slower pace. All said, Comcast is a potential buy at current prices for conservative dividend growth investors looking for entertainment industry exposure.

Total Return Breakdown by Year