Twenty-First Century Fox (FOXA)

Updated May 25th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$39	**5 Year CAGR Estimate:**	3.8%	**Quality Percentile:**	N/A
Fair Value Price:	$35	**5 Year Growth Estimate:**	5.2%	**Momentum Percentile:**	N/A
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.3%	**Total Return Percentile:**	N/A
Dividend Yield:	0.9%	**5 Year Price Target**	$45	**Valuation Percentile:**	N/A

Overview & Current Events

Twenty-First Century Fox (following: 21st Century Fox) is a media company that engages in film production and television broadcasting. Its operations include Cable Network Programming, Television, Filmed Entertainment and Direct Broadcast Satellite Television. The company was founded in 1979, is headquartered in New York, NY, and is currently valued at $72 billion.

21st Century Fox' most recent quarterly results (fiscal Q3) were announced on May 9, the company reported earnings per share of $0.49 and revenues of $7.4 billion. In recent months the share price of 21st Century Fox was not driven by underlying growth, though, but rather by what turns out to be a quite complicated M&A situation. 21st Century Fox is trying to acquire the 61% of Sky that it does not yet own, whilst 21st Century Fox has, at the same time, agreed to a $52 billion asset sale to Disney (paid in shares of Disney). Towards the end of May Comcast has stated that it wants to make an all-cash bid for assets of 21st Century Fox to make things even more complicated.

It is somewhat probable that either Disney or Comcast will acquire the majority of the assets 21st Century Fox owns, leaving shareholders with the proceeds of the deal (equity if Disney is the acquirer, cash if the assets are sold to Comcast) and the assets that will not be sold ("New Fox"): Fox Broadcasting Network, Fox TV stations, Fox News Channels, Fox Business Network, FS 1+2, Big Ten Network.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.18	$0.60	$0.95	$1.15	$1.28	$1.35	$1.67	$1.72	$1.42	$1.61	***$1.98***	***$2.55***
DPS	$0.12	$0.12	$0.14	$0.15	$0.18	$0.17	$0.25	$0.28	$0.30	$0.36	***$0.36***	***$0.48***

In the above table we see that 21st Century Fox has remained profitable during the last financial crisis, although it took the company a couple of years to get back to its pre-crisis profitability. Over the last five years 21st Century Fox' earnings per share grew by five percent a year, which is decent growth. In 2018 the company should be able to grow its profits by a wider margin, as tax rate changes will be a major tailwind this year.

21st Century Fox would, after an asset sale to either Disney or Comcast, be a more focused company with strong assets: Fox News, Fox Business and Fox Sports, along with Fox Broadcasting and other TV assets, but no Filmed Entertainment, no Star India, no Hulu, and the stake in Sky would be sold to the acquirer as well.

The New Fox therefore would be a significantly less diversified company, and many of the stakes in other companies (Hulu, Sky) would be sold. New Fox would, however, keep its stake in Roku. The businesses New Fox would retain are not high-growth businesses, but very stable cash cows that do not require significant capital expenditures. Those assets are also not cyclical (in contrary to the cinema business). With high cash flows New Fox could continue to repurchase shares at a rapid pace, something the company already has been doing, which would lead to solid EPS growth.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	16.8	15.8	13.4	13.2	14.1	20.0	19.7	20.1	20.2	17.3	***19.7***	***17.5***
Avg. Yld.	0.6%	1.3%	1.1%	1.0%	1.0%	0.6%	0.8%	0.8%	1.0%	1.3%	***0.9%***	***1.2%***

21st Century Fox currently trades at 19.7 times this year's earnings, slightly more than the company's historic valuation. Due to the takeover proposal by Disney (and another takeover offer by Comcast being likely) this premium valuation is not surprising, though.

Based on the fact that Disney has bid 0.27 shares of Disney for each share of 21st Century Fox we can calculate the implied value of New Fox, using a share price of $102 for Disney its takeover bid values the assets that will be acquired at $27.50, New Fox therefore would be valued at $11.50 (the difference between Disney's bid of $27.50 per share of 21st Century Fox and its current share price of $39). New Fox therefore would be valued at $21 billion in total.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	20.1%	20.5%	21.7%	13.7%	16.6%	20.0%	19.7%	20.8%	21.2%	21.1%	***21.0%***	***21.0%***
Debt/A	52.5%	55.6%	52.4%	50.5%	55.6%	59.5%	60.9%	62.4%	68.0%	65.3%	***64.0%***	***62.0%***
Int. Cov.	12.1	-	4.8	4.6	5.8	9.7	5.8	9.5	4.7	5.0	***5.0***	***5.0***
Payout	10.2%	20.0%	14.7%	13.0%	14.1%	12.6%	15.0%	16.3%	21.1%	22.4%	***18.2%***	***18.8%***
Std. Dev.	43.5%	57.2%	27.5%	24.4%	17.7%	16.2%	21.3%	25.4%	21.8%	27.3%	***29.0%***	***28.0%***

21st Century Fox produces a solid amount of gross profits relative to the asset it owns, and finances close to two thirds of its assets via debt. Its interest coverage ratio is relatively solid, though, and its rather low amount of equity is, at least partially, due to its high pace of share repurchases – over the last seven years the company has bought back 30% of its common shares.

21st Century Fox owns many different assets, but its strongest position (relative to peers) is in its news channels and sport programming – assets the company will continue to own after a deal with either Disney or Comcast. Due to its size (it isn't the biggest player in the market) it could get overwhelmed in non-sports programming by competitors like Netflix, selling these assets off (at attractive prices) thus is a move that will likely improve New Fox' position in the long run (as it allows the company to focus on the businesses it is best at, Cable & TV broadcasting). The TV business isn't very cyclical, so New Fox would likely be less vulnerable in future recessions after selling more cyclical businesses such as its cinema unit.

Final Thoughts & Recommendation

The multitude of proposed takeovers makes it hard to forecast what the future for 21st Century Fox will look like. If one of the deals happens, New Fox will be a low-growth, focused business with strong cash flows and (likely) high shareholder returns. If no deal happens 21st Century Fox would likely not provide attractive total returns going forward due to a relatively high valuation that would retract back to the norm after it becomes clear that there will be no deal.

Total Return Breakdown by Year