Comcast (CMCSA)

Updated July 26th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	10.3%	**Volatility Percentile:**	35.6%
Fair Value Price:	$38	**5 Year Growth Estimate:**	6.5%	**Momentum Percentile:**	13.5%
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.6%	**Valuation Percentile:**	81.0%
Dividend Yield:	2.2%	**5 Year Price Target**	$51	**Total Return Percentile:**	77.0%

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 $157 billion.

Comcast has announced its most recent quarterly results on July 26. The company earned $0.65 per share during the second quarter, an increase of 25% versus the prior year's quarter. Comcast grew its revenues by 2% to $21.5 billion in Q2. Operating cash flows rose to $12.5 billion during the first half of 2018, an increase of 17% versus 2017.

Comcast has lost the bidding war for 21st Century Fox' assets to Disney, which will acquire the majority of 21st Century Fox' businesses. Comcast is, however, still pursuing an acquisition of telecommunications company Sky.

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. Cable revenues grew by three percent during Q2, primarily due to a higher customer count. Cable revenues have grown by mid-single digits for the last ten quarters, but growth has slowed down a bit (from 6% to 3% over the last year). The Video segment is battling against the impact of cord-cutting, but so far higher revenues in the high-speed internet business could offset this headwind.

NBCUniversal did not see any revenue growth during Q2, as the impact of the Olympics, which drove revenues during Q1, has passed. Thanks to a strong contribution from cable networks profits at NBCUniversal grew by 4% nevertheless.

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 by much. During the second quarter Comcast was able to grow its operating profits by close to five percent, a couple percentage points above revenue growth. The outsized earnings per share growth of 25% can be explained by the positive impact of tax legislation changes, with an unchanged tax rate its EPS would have grown by about 8% during Q2, which still would not be a bad result at all.

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	***14.3***	***15.5***
Avg. Yld.	1.3%	2.0%	2.1%	1.9%	2.0%	1.8%	1.7%	1.7%	1.7%	1.6%	***2.2%***	***2.5%***

Disclosure: This analyst has no position in the security discussed in this article, and no plans to initiate one in the next 72 hours.

Shares of Comcast have never been especially expensive, the median earnings multiple over the last decade is 17. Due to uncertainties about the impact of cord-cutting we believe that a fair valuation is a bit lower than that. Shares trade at a small discount to our fair value estimate and offer a dividend yield of 2.2% right here.

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%***

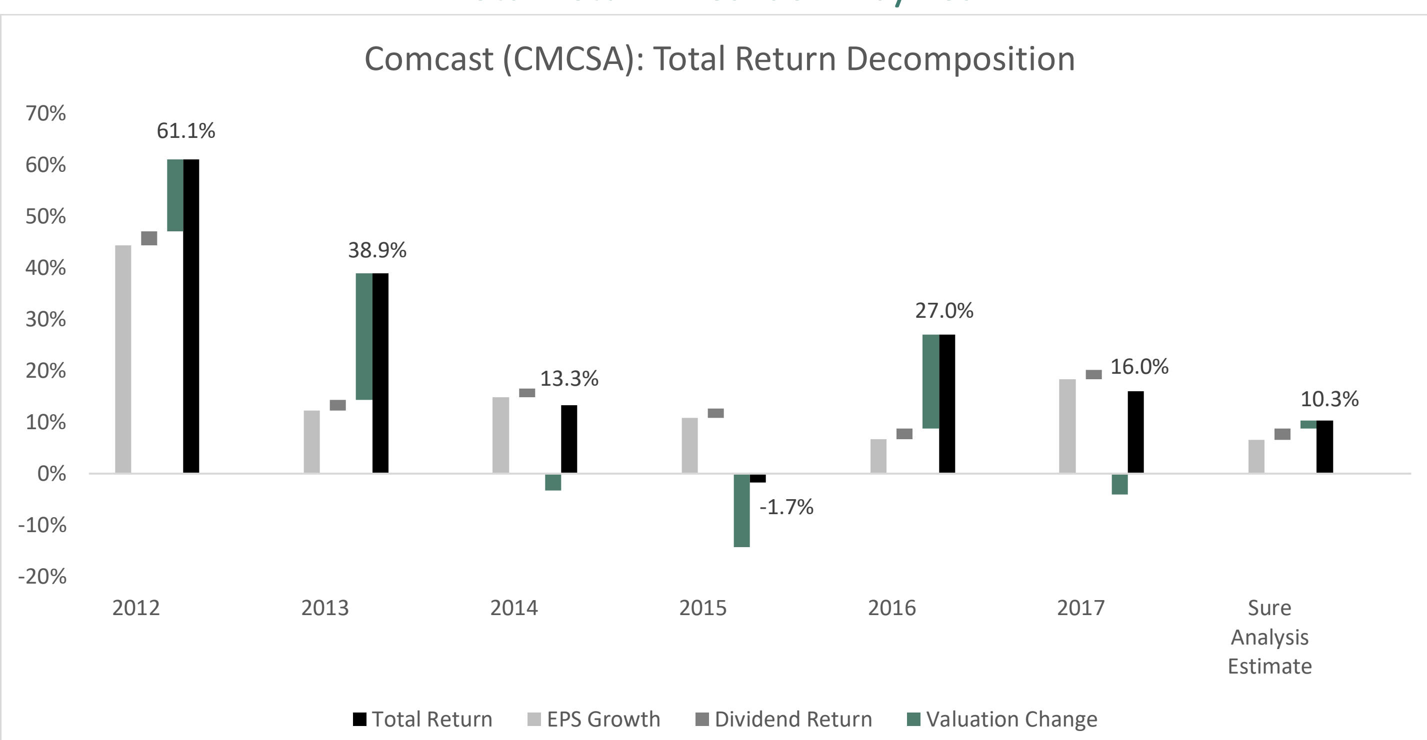
Comcast has managed to increase its gross profits to assets ratio over the last decade, which is one of the reasons why the company managed to grow its earnings at such a high pace. About two thirds of Comcast's assets are financed via debt, but the company is one of relatively few companies that has decreased its leverage over the last decade. This should be a positive as interest rates keep rising, which makes refinancing debt more expensive. With improving interest coverage and a net debt to EBITDA ratio of 2.2 Comcast is not overleveraged at all.

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. 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.

Final Thoughts & Recommendation

Comcast is an entertainment giant with a very compelling track record. In recent quarters growth has slowed down, though – at least when we adjust for tax rate changes. Due to an inexpensive valuation, strong dividend growth and a solid total return outlook shares still are a potential buy for those seeking exposure to the entertainment sector.

Total Return Breakdown by Year



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