Twenty-First Century Fox (FOXA)

Updated August 9th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$45	**5 Year CAGR Estimate:**	1.6%	**Volatility Percentile:**	76.4%
Fair Value Price:	$36	**5 Year Growth Estimate:**	5.2%	**Momentum Percentile:**	97.1%
% Fair Value:	125%	**5 Year Valuation Multiple Estimate:**	-4.4%	**Valuation Percentile:**	19.6%
Dividend Yield:	0.8%	**5 Year Price Target**	$47	**Total Return Percentile:**	7.8%

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 $83 billion.

21st Century Fox reported its most recent quarterly results on August 8. The company earned $0.57 during the fourth quarter, a massive increase of 58% compared to the previous year's fourth quarter. Revenues grew at a strong pace as well, hitting $7.9 billion during Q4, which was 18% more than during the previous year's Q4. During fiscal 2018, 21st Century Fox has recorded revenue growth of 7% and earnings per share of $1.97, slightly more than during 2017.

The bidding war between Comcast and Disney over the majority of 21st Century Fox' assets was won by Disney. Disney will pay $71 billion, partially cash and partially by issuing shares of Disney, in order to acquire the Twentieth Century Fox Film and Television studios as well as certain cable and international assets. Disney will pay $38 per share of 21st Century Fox. Before this acquisition 21st Century Fox will spin off the businesses that will not be acquired by Disney. This so-called *New Fox* will include Fox Broadcasting Network, Fox TV stations, Fox News Channels, Fox Business Network, FS 1+2, and Big Ten Network. Shareholders of 21st Century Fox as well as of Disney have approved the acquisition. It could still get derailed by regulators, though. The takeover bid by Disney was the primary driver for 21st Century Fox' 62% share price gain year-to-date.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.60	$0.95	$1.15	$1.28	$1.35	$1.67	$1.72	$1.42	$1.61	$1.98	***$2.08***	***$2.68***
DPS	$0.12	$0.14	$0.15	$0.18	$0.17	$0.25	$0.28	$0.30	$0.36	$0.36	***$0.36***	***$0.48***

21st Century Fox' profits took a hit during the financial crisis, but the company remained profitable. Over the last five years 21st Century Fox' earnings per share grew by five percent a year, which is decent growth.

21st Century Fox will, after the asset sale to Disney, 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, and no Hulu. 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	15.8	13.4	13.2	14.1	20.0	19.7	20.1	20.2	17.3	25.3	***21.9***	***17.5***
Avg. Yld.	1.3%	1.1%	1.0%	1.0%	0.6%	0.8%	0.8%	1.0%	1.3%	0.7%	***0.8%***	***1.2%***

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

Shares of 21st Century Fox trade above fair value right now, driven by Disney's bid for the majority of its assets. If the deal does not get approved by regulators, investors should expect a substantial decline in 21st Century Fox' valuation.

Based on Disney's bid of $38 per share of 21st Century Fox *New Fox* is trading with an implied value of $7.50 per share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	20.5%	21.7%	13.7%	16.6%	20.0%	19.7%	20.8%	21.2%	21.1%	19.9%	***21.0%***	***21.0%***
Debt/A	55.6%	52.4%	50.5%	55.6%	59.5%	60.9%	62.4%	68.0%	65.3%	61.3%	***62.0%***	***62.0%***
Int. Cov.	-	4.8	4.6	5.8	9.7	5.8	9.5	4.7	5.0	3.8	***4.5***	***5.0***
Payout	20.0%	14.7%	13.0%	14.1%	12.6%	15.0%	16.3%	21.1%	22.4%	18.2%	***17.3%***	***18.8%***
Std. Dev.	57.2%	27.5%	24.4%	17.7%	16.2%	21.3%	25.4%	21.8%	27.3%	28.3%	***26.0%***	***24.0%***

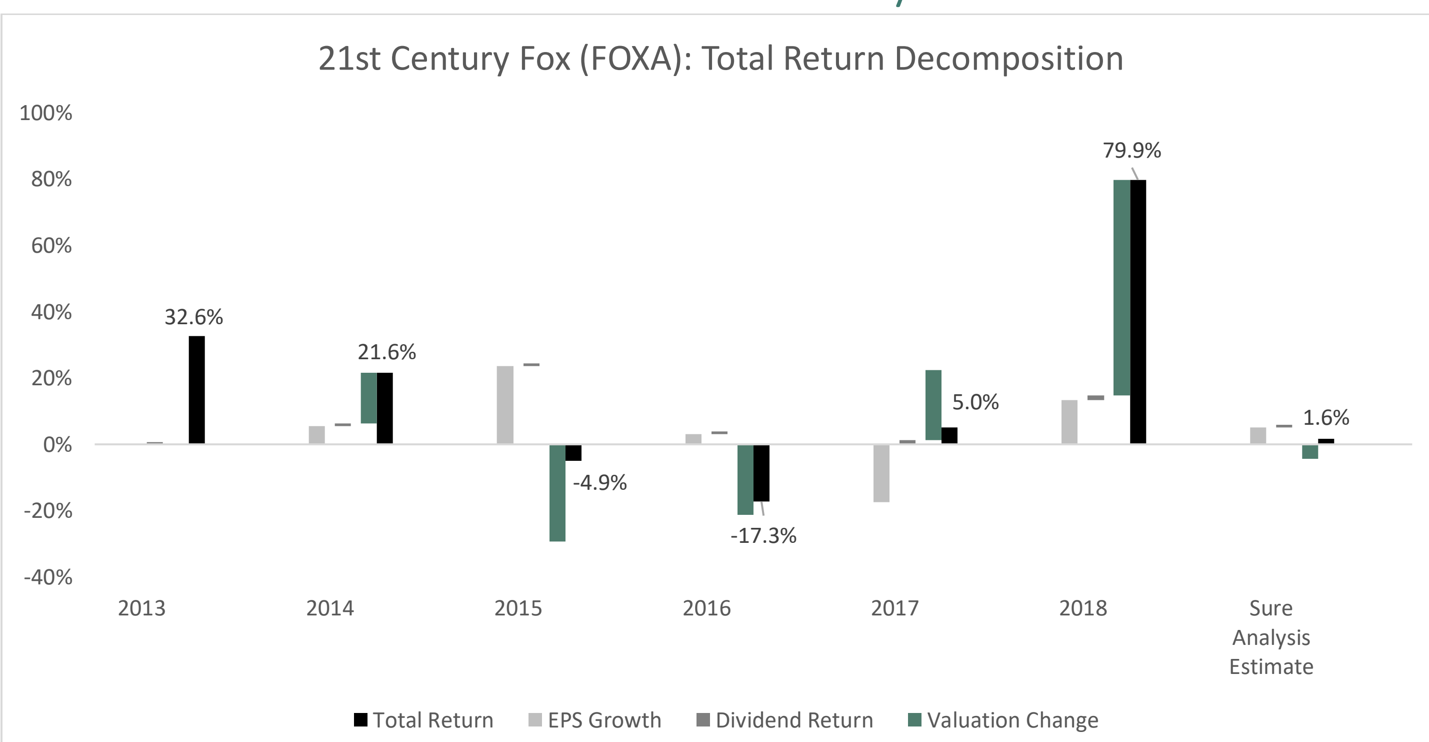
21st Century Fox produces a solid amount of gross profits relative to the asset it owns, and finances close to two thirds of its assets via debt. Its interest coverage ratio is relatively solid, though, and its rather low amount of equity is, at least partially, due to its high pace of share repurchases – 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 the deal with Disney. Due to its size, after all it isn't the biggest player in the market, it could get overwhelmed in non-sports programming by competitors like Netflix. Selling these assets 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 is not very cyclical, so New Fox would likely be less vulnerable in future recessions after selling more cyclical businesses.

Final Thoughts & Recommendation

21st Century Fox' shares rose massively during the last couple of months. Since it is not yet known whether the deal gets approved and since profits for New Fox are impossible to forecast, calculations in this report are based on all of 21st CF. Investors who hold a position in the company should sell now in order to lock in recent share price gains.

Total Return Breakdown by Year



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