Comcast Corporation (CMCSA)

Updated October 25th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$36	**5 Year CAGR Estimate:**	9.5%	**Volatility Percentile:**	31.0%
Fair Value Price:	$37	**5 Year Growth Estimate:**	6.5%	**Momentum Percentile:**	46.5%
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Growth Percentile:**	58.3%
Dividend Yield:	2.2%	**5 Year Price Target**	$51	**Valuation Percentile:**	52.1%
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Total Return Percentile:**	46.7%

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 $164 billion.

Comcast reported its third quarter earnings results on October 25. The company generated revenues of $22.1 billion, an increase of 5% compared to the previous year's quarter. Revenue growth was driven by an 8% increase at NBCUniversal. Cable Communications saw a 3% revenue increase. EBITDA grew by 2.5%, slightly slower than revenues, which shows that margins declined slightly year over year. Due to lower taxes and a lower share count Comcast was able to grow its earnings-per-share by 28% year over year, though, as earnings-per-share rose to $0.65 during Q3.

Comcast has completed the acquisition of Sky in October. The impact of this takeover will be visible from Q4.

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***
Shares	5.76	5.68	5.55	5.41	5.26	5.19	5.06	4.88	4.75	4.64	***4.50***	***4.10***

Comcast has a very compelling earnings growth history. From 2008 to 2017 its earnings-per-share 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 Q3, 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 saw its revenues rise by 8% during Q3, primarily due to higher broadcast television revenues. Theme park revenues were down slightly year over year.

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 third quarter Comcast was able to grow its operating profits by roughly three percent, slightly less than the revenue growth rate. The outsized earnings-per-share growth of 28% can be explained by the positive impact of tax legislation changes primarily. Comcast's share repurchases, which have lowered the share count consistently over the last decade, played a role as well.

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	***14.9***	***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%***

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Comcast's share price has increased over the last couple of months, but shares still trade slightly below the long term median earnings multiple of 15.5. Comcast's valuation could increase further over the coming years, which provides a small multiple expansion tailwind going forward. Comcast's dividend yield of 2.2% is slightly higher than that of the broad market, in combination with a high dividend growth rate Comcast could turn into a solid income stock.

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%***

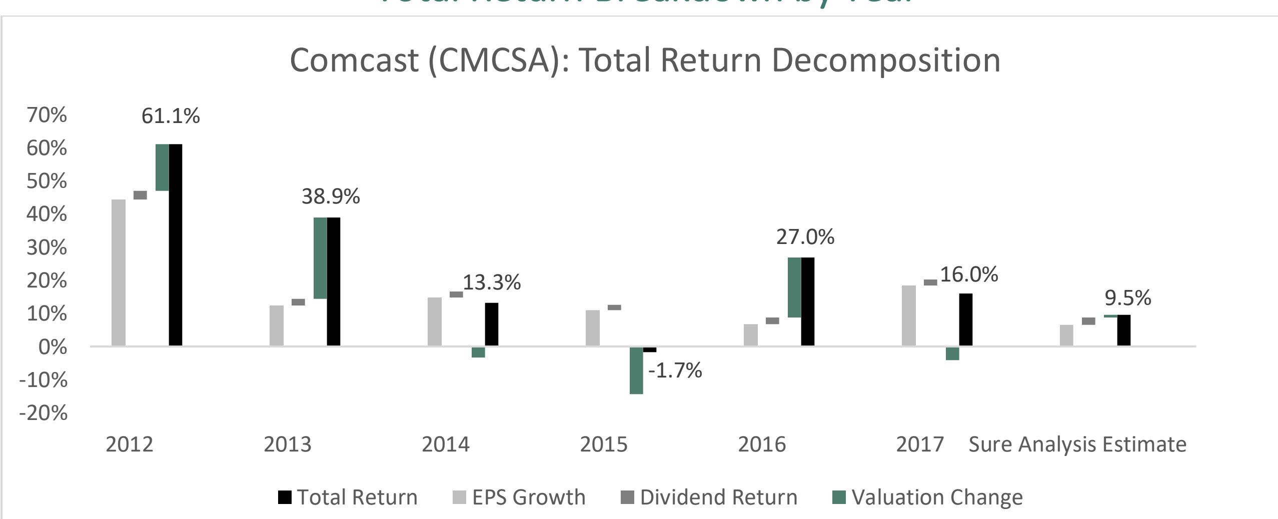
Comcast has managed to increase its gross profits to assets ratio over the last decade, which is one of the reasons why the company managed to grow its earnings at such a high pace. About two thirds of Comcast's assets are financed via debt, but the company is one of relatively few companies that has 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 impacted by the nationwide cord-cutting trend. An increasing number of customers are ditching traditional pay-tv for competing services such as Netflix, which is a headwind for Comcast and its peers. During the last financial crisis Comcast grew its profits, as demand for its services is not cyclical.

Final Thoughts & Recommendation

Comcast is an entertainment giant that has a highly compelling earnings and dividend growth record. Going forward its earnings-per-share growth rate will likely slow down, as cord-cutting impacts its cable segment. Through a combination of mid-single-digits earnings-per-share growth, some multiple expansion, and an above-average dividend yield Comcast should nevertheless be able to deliver solid total returns, which is why shares look like a buy at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	34423	35756	37937	55842	62570	64657	68775	74510	80403	84526
Gross Profit	20784	21376	29400	39246	42641	44987	47863	51960	55940	59142
Gross Margin	60.4%	59.8%	77.5%	70.3%	68.1%	69.6%	69.6%	69.7%	69.6%	70.0%
SG&A Exp.	7652	7662	14804	20889	22664	23553	24940	27282	29523	31330
D&A Exp.	6400	6500	6803	14423	7798	7871	8019	8680	9558	9825
Operating Profit	6732	7214	7980	10721	12179	13563	14904	15998	16859	17987
Op. Margin	19.6%	20.2%	21.0%	19.2%	19.5%	21.0%	21.7%	21.5%	21.0%	21.3%
Net Profit	2547	3638	3635	4160	6203	6816	8380	8163	8695	22714
Net Margin	7.4%	10.2%	9.6%	7.4%	9.9%	10.5%	12.2%	11.0%	10.8%	26.9%
Free Cash Flow	3954	4642	5682	8084	8217	6555	8403	9616	9004	10106
Income Tax	1533	1478	2436	3050	3744	3980	3873	4959	5308	-7578

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets ($B)	113.02	112.73	118.53	157.82	164.97	158.81	159.19	166.57	180.50	186.95
Cash & Equivalents	1195	671	5984	1620	10951	1718	3910	2295	3301	3428
Acc. Receivable	1626	1711	1855	4652	5521	6376	6321	6896	7955	8546
Goodwill ($B)	78.90	78.49	78.00	109.64	109.24	108.79	109.39	115.11	119.87	122.00
Total Liab. ($B)	72.44	69.76	73.96	110.16	115.18	107.76	106.12	112.60	124.33	117.50
Accounts Payable	N/A	N/A	N/A	5705	6206	5528	5638	6215	6915	6926
Long-Term Debt	32456	29096	31415	39309	40458	47847	48081	52621	61046	64556
Total Equity	40450	42721	44354	47274	49356	50694	52711	52269	53943	68606
D/E Ratio	0.80	0.68	0.71	0.83	0.82	0.94	0.91	1.01	1.13	0.94

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	2.2%	3.2%	3.1%	3.0%	3.8%	4.2%	5.3%	5.0%	5.0%	12.4%
Return on Equity	6.2%	8.7%	8.3%	9.1%	12.8%	13.6%	16.2%	15.6%	16.4%	37.1%
ROIC	3.5%	5.0%	4.9%	5.1%	7.0%	7.2%	8.4%	7.9%	7.8%	18.1%
Shares Out.	5.76	5.68	5.55	5.41	5.26	5.19	5.06	4.88	4.75	4.64
Revenue/Share	5.83	6.20	6.73	10.05	11.51	12.13	13.13	14.80	16.49	17.66
FCF/Share	0.67	0.80	1.01	1.46	1.51	1.23	1.60	1.91	1.85	2.11

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.