



Twenty-First Century Fox (FOXA)

Updated November 8th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$48	5 Year CAGR Estimate:	0.6%	Volatility Percentile:	70.5%
Fair Value Price:	\$36	5 Year Growth Estimate:	5.2%	Momentum Percentile:	98.2%
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Growth Percentile:	42.7%
Dividend Yield:	0.8%	5 Year Price Target	\$47	Valuation Percentile:	10.8%
Dividend Risk Score:	B	Retirement Suitability Score:	D	Total Return Percentile:	4.8%

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, and is currently valued at \$88 billion.

21st Century Fox has reported its first quarter (fiscal 2019) earnings results on November 7. The company reported revenues of \$7.2 billion for the quarter, which represents an increase of 2.6% compared to the previous year's quarter. Revenue growth was primarily driven by higher affiliate and advertising revenues at the Television and Cable segments. 21st Century Fox was able to generate earnings-per-share of \$0.52 during the quarter, an increase of 6% year over year.

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. 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. During November, Disney got a conditional OK from European regulators for the takeover. However, Disney has to divest its interest in several TV channels that are controlled by A&E, one of Disney's joint ventures.

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
Shares	2610	2620	2630	2380	2320	2190	2020	1870	1850	1850	1830	1650

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 but unspectacular 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. 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 will keep its stake in Roku.

The assets New Fox would retain are not high-growth businesses, but 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, which would allow for solid earnings-per-share 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	23.1	17.5
Avg. Yld.	1.3%	1.1%	1.0%	1.0%	0.6%	0.8%	0.8%	1.0%	1.3%	1.1%	0.8%	1.0%

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21st Century Fox trades at 23 times this year's earnings, which can be explained by the deal premium that has been offered by Disney. If the takeover falls through, 21st Century Fox' valuation would likely decline substantially. *New Fox* trades with an implied value of \$10 right now, it is not possible to say whether that is a fair valuation right now.

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%

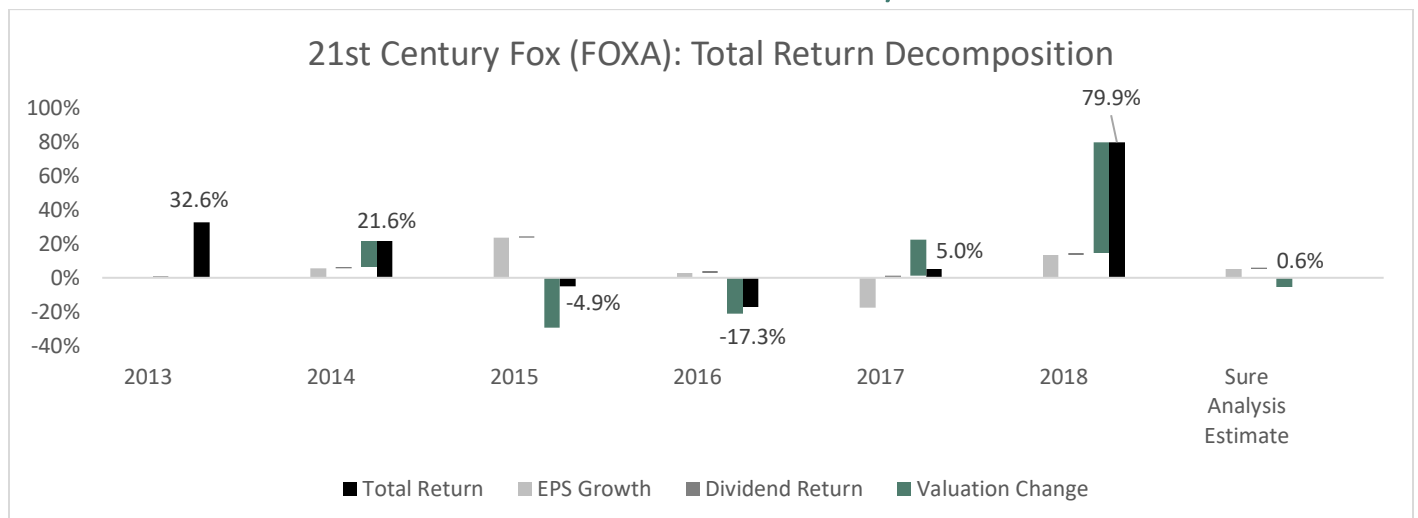
21st Century Fox produces a solid amount of gross profits relative to the assets it owns. The company finances close to two thirds of its assets via debt. Its interest coverage ratio is relatively solid, though, and its rather low amount of equity is, at least partially, due to its high pace of share 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 smaller size, 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 got very lucky when Disney and Comcast engaged in a bidding war for the majority of 21st Century Fox' assets. 21st Century Fox' share price has risen by more than 70% over the last year, which can only be described as a very compelling total return. It is not yet known whether the deal will actually go through, and what the value of *New Fox* would be if the deal happens. There would be significant downside potential if the deal gets derailed. We thus believe that it is best to secure these tremendous gains and to sell shares of 21st Century Fox at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	30423	32778	24232	25051	27675	31867	28987	27326	28500	30400
Gross Profit	10860	11763	8487	9388	10179	10759	10426	9907	10406	10631
Gross Margin	35.7%	35.9%	35.0%	37.5%	36.8%	33.8%	36.0%	36.3%	36.5%	35.0%
SG&A Exp.	6164	6619	3759	3719	4007	4129	3784	3460	3337	3759
D&A Exp.	1138	1185	777	711	797	1142	736	530	553	584
Operating Profit	3558	3959	3951	4958	5375	5488	5906	5917	6516	6288
Op. Margin	11.7%	12.1%	16.3%	19.8%	19.4%	17.2%	20.4%	21.7%	22.9%	20.7%
Net Profit	-3378	2539	2739	1179	7097	4514	8306	2755	2952	4464
Net Margin	-11.1%	7.7%	11.3%	4.7%	25.6%	14.2%	28.7%	10.1%	10.4%	14.7%
Free Cash Flow	1147	2940	2416	2270	2380	2286	3193	2879	3418	3676
Income Tax	-2229	679	673	1094	1690	1272	1243	1130	1419	-364

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	53121	54384	61980	56663	50944	54793	50039	48193	50872	53831
Cash & Equivalents	6540	8709	12680	9626	6659	5415	8428	4424	6163	7622
Acc. Receivable	N/A	N/A	6330	6608	5459	6468	5912	6258	6625	7120
Inventories	2477	2392	2332	2595	2784	3092	2749	3291	3101	3669
Goodwill & Int.	23307	22055	23284	20307	22319	26124	18833	19510	19366	18869
Total Liabilities	29489	28518	31333	31478	30819	33892	31853	33312	33934	33033
Accounts Payable	N/A	N/A	5773	5405	4434	4183	411	270	406	443
Long-Term Debt	14289	13320	15495	15455	16458	19058	19039	19553	19913	19523
Total Equity	23224	25113	30069	24684	16998	17418	17220	13661	15722	19564
D/E Ratio	0.62	0.53	0.52	0.63	0.97	1.09	1.11	1.43	1.27	1.00

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-5.9%	4.7%	4.7%	2.0%	13.2%	8.5%	15.8%	5.6%	6.0%	8.5%
Return on Equity	-13%	10.5%	9.9%	4.3%	34.1%	26.2%	48.0%	17.8%	20.1%	25.3%
ROIC	-8.3%	6.6%	6.4%	2.7%	18.4%	11.8%	21.5%	7.7%	8.3%	11.6%
Shares Out.	2610	2620	2630	2380	2320	2190	2020	1870	1850	1850
Revenue/Share	11.64	12.47	9.20	10.00	11.82	14.04	13.61	14.05	15.36	16.37
FCF/Share	0.44	1.12	0.92	0.91	1.02	1.01	1.50	1.48	1.84	1.98

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

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