



# The Walt Disney Company (DIS)

Updated February 5<sup>th</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$113	<b>5 Year CAGR Estimate:</b>	10.8%	<b>Volatility Percentile:</b>	7.4%
<b>Fair Value Price:</b>	\$125	<b>5 Year Growth Estimate:</b>	7.1%	<b>Momentum Percentile:</b>	62.7%
<b>% Fair Value:</b>	90%	<b>5 Year Valuation Multiple Estimate:</b>	2.1%	<b>Growth Percentile:</b>	71.0%
<b>Dividend Yield:</b>	1.6%	<b>5 Year Price Target</b>	\$176	<b>Valuation Percentile:</b>	70.3%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	63.1%

## Overview & Current Events

Disney is a diversified entertainment conglomerate that operates in different industries, including media networks (primarily ESPN), parks & resorts (with assets such as Disneyland and Disneyworld), studio entertainment (with franchises such as the Marvel Universe and Star Wars) and consumer products. Disney was founded by Walt Disney and his brother Roy in 1923 and has since grown into a blue-chip company valued at \$168 billion.

Disney reported its first quarter (fiscal 2019) earnings results on February 5. The company reported revenues of \$15.3 billion for the first quarter, which was down 0.3% from the prior year's level. The revenue decline was not a surprise, though, analysts were actually forecasting a larger decrease of roughly 2%. Disney grew the revenues from its media networks segment by 7% year over year, which was a quite strong showing for the segment that had been struggling with the impact of cord-cutting during the last couple of quarters. Parks, experiences & consumer products revenues were up 5% year over year, but Studio Entertainment revenues declined by 27% compared to the prior year's quarter. This segment has always been cyclical, though, thus the revenue decline is not a large negative. Last year's Q1 revenues were positively impacted by the impact of a Star Wars movie, thus it was pretty clear that this year's Q1 revenues would be lower. Disney's management has stated that the company had two main focus areas in 2019: the closing of the acquisition of the majority of 21<sup>st</sup> Century Fox' assets and the subsequent integration of these assets, as well as the roll-out of Disney's direct-to-consumer video service later this year.

Disney generated earnings-per-share of \$1.84 during the first quarter, which were down 3% year over year, and which were well ahead of the consensus estimate. Analysts had forecasted an earnings-per-share decline of close to 20%.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$1.82	\$2.07	\$2.54	\$3.13	\$3.38	\$4.26	\$4.90	\$5.73	\$5.69	\$7.08	<b>\$7.58</b>	<b>\$10.68</b>
<b>DPS</b>	\$0.35	\$0.35	\$0.40	\$0.60	\$0.75	\$0.86	\$1.81	\$1.41	\$1.56	\$1.68	<b>\$1.82</b>	<b>\$2.48</b>
<b>Shares</b>	1820	1900	1760	1800	1790	1720	1610	1580	1500	1480	<b>1480</b>	<b>1450</b>

Disney has a strong earnings growth record. From 2008 through 2018 its earnings-per-share grew by 17.0% annually, but earnings grew from a low base due to the impact of the financial crisis. Disney's profitability is somewhat cyclical, as its studio entertainment division shows widely ranging profits depending on the movie lineup in each individual quarter.

Overall, Disney's different business units are all showcasing solid long-term growth with the exception of its media networks business. Cord cutting is hurting revenues and profits in that segment, but Q1's results from this segment were encouraging, primarily due to a solid performance of the Broadcasting sub-segment, which grew substantially, whereas the Cable sub-segment reported lower profits. Earnings-per-share growth has been driven by share repurchases in the past. Management has stated that the company will focus on bringing down debt levels after the acquisition of 21<sup>st</sup> Century Fox' assets, so there will likely not be any buybacks in the foreseeable future. The acquisition of Fox' assets will be accretive to Disney's earnings immediately. With the integration of the acquired intellectual properties into Disney's existing theme parks and other sales channels, Disney will most likely see a boost to all of its segments.

*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.*



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The year-over-year decline in Disney's dividend from 2015 to 2016 can be explained by the fact that Disney changed its dividend policy from making one payment a year to making two payments a year.

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.5	15.7	15.1	13.6	17.1	18.6	20.9	17.7	18.5	16.5	14.9	16.5
Avg. Yld.	1.5%	1.1%	1.0%	1.4%	1.1%	1.3%	1.8%	1.4%	1.5%	1.4%	1.6%	1.4%

Disney's shares trade for marginally below 15 times this year's expected earnings right now. This is not a high valuation in absolute terms, and it also represents a discount versus our fair value estimate. We see a fair valuation if shares trade for 16.5 times annual net profits, which would be more in line with the historic median earnings multiple.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	19.2%	16.9%	15.7%	19.2%	22.2%	20.2%	36.9%	24.6%	27.4%	23.7%	24.0%	23.2%

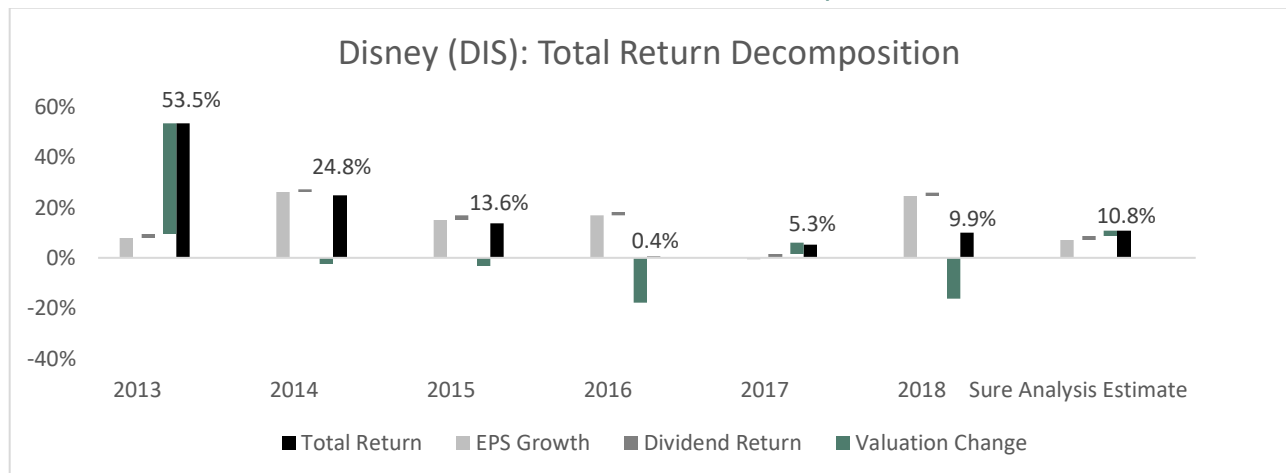
Disney's dividend payout ratio has never been especially high. The payout ratio peaked out below 40% in 2015. Right now, Disney pays out roughly one fourth of its annual net profits, which leaves ample cash for other purposes, such as capital expenditures, buybacks, or the repayment of debt that Disney will take on to acquire Fox' assets. We believe that the dividend will be very safe going forward, although the below-average dividend yield is not overly attractive.

One of Disney's significant competitive advantages is the excellent content and the strong brands the company owns. Whether it is the Disney brand overall, or franchises such as the Marvel universe and Star Wars, Disney controls properties that are recognized and admired all over the world. Disney is also very successful at building new franchises, such as the Pirates of the Caribbean franchise. The Intellectual Properties that Disney will acquire via the 21<sup>st</sup> CF deal, such as the *Avatar* brand, will strengthen the company further in this regard. This makes it very hard for competitors to steal market share from Disney. Disney managed to remain highly profitable during the last financial crisis.

## Final Thoughts & Recommendation

Disney is a global entertainment giant that has recorded highly compelling growth rates in the past. Going forward the company's growth will be less pronounced, but earnings-per-share should continue to grow meaningfully. We rate Disney a buy at current prices due to the below-average valuation and a compelling total return outlook.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	36149	38063	40893	42278	45041	48813	52465	55632	55137	59434
<b>Gross Profit</b>	5697	6726	7781	18810	20007	22393	24101	25639	24831	14837
<b>Gross Margin</b>	15.8%	17.7%	19.0%	44.5%	44.4%	45.9%	45.9%	46.1%	45.0%	25.0%
<b>SG&amp;A Exp.</b>	N/A	N/A	N/A	7960	8365	8565	8523	8754	8176	N/A
<b>D&amp;A Exp.</b>	1631	1713	1841	1987	2192	2288	2354	2527	2782	3011
<b>Operating Profit</b>	5697	6726	7781	8863	9450	11540	13224	14358	13873	14837
<b>Op. Margin</b>	15.8%	17.7%	19.0%	21.0%	21.0%	23.6%	25.2%	25.8%	25.2%	25.0%
<b>Net Profit</b>	3307	3963	4807	5682	6136	7501	8382	9391	8980	12598
<b>Net Margin</b>	9.1%	10.4%	11.8%	13.4%	13.6%	15.4%	16.0%	16.9%	16.3%	21.2%
<b>Free Cash Flow</b>	3566	4468	3435	4182	6656	6469	7120	8363	8720	9830
<b>Income Tax</b>	2049	2314	2785	3087	2984	4242	5016	5078	4422	1663

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	63117	69206	72124	74898	81241	84141	88182	92033	95789	98598
<b>Cash &amp; Equivalents</b>	3417	2722	3185	3387	3931	3421	4269	4610	4017	4150
<b>Acc. Receivable</b>	N/A	5454	5947	6152	6539	7274	7456	8305	7826	9334
<b>Inventories</b>	1271	1442	1595	1537	1487	1574	1571	1390	1373	1392
<b>Goodwill &amp; Int.</b>	23930	29181	29266	30125	34694	35315	34998	34759	38421	38081
<b>Total Liabilities</b>	27692	29864	32671	32940	33091	35963	39527	44710	50785	45766
<b>Accounts Payable</b>	4002	4413	4546	4619	4899	5371	5504	6860	6490	9479
<b>Long-Term Debt</b>	12701	12480	13977	14311	14288	14795	17336	20170	25291	20874
<b>Total Equity</b>	33734	37519	37385	39759	45429	44958	44525	43265	41315	48773
<b>D/E Ratio</b>	0.38	0.33	0.37	0.36	0.31	0.33	0.39	0.47	0.61	0.43

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	5.3%	6.0%	6.8%	7.7%	7.9%	9.1%	9.7%	10.4%	9.6%	13.0%
<b>Return on Equity</b>	10.0%	11.1%	12.8%	14.7%	14.4%	16.6%	18.7%	21.4%	21.2%	28.0%
<b>ROIC</b>	6.9%	7.9%	9.1%	10.4%	10.3%	12.0%	13.0%	14.1%	13.0%	17.5%
<b>Shares Out.</b>	1820	1900	1760	1800	1790	1720	1610	1580	1500	1480
<b>Revenue/Share</b>	19.28	19.54	21.42	23.26	24.84	27.75	30.70	33.94	34.94	39.44
<b>FCF/Share</b>	1.90	2.29	1.80	2.30	3.67	3.68	4.17	5.10	5.53	6.52

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

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