



Twenty-First Century Fox (FOXA)

Updated February 16th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	-0.2%	Volatility Percentile:	65.7%
Fair Value Price:	\$37	5 Year Growth Estimate:	5.2%	Momentum Percentile:	95.9%
% Fair Value:	135%	5 Year Valuation Multiple Estimate:	-6.1%	Growth Percentile:	47.1%
Dividend Yield:	0.7%	5 Year Price Target	\$47	Valuation Percentile:	10.2%
Dividend Risk Score:	B	Retirement Suitability Score:	D	Total Return Percentile:	4.7%

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 \$94 billion.

21st Century Fox reported its second quarter earnings results on February 6. The company reported revenues of \$8.5 billion for the quarter, which was 5.7% more than the revenues that the company generated during the previous year's second quarter. 21st Century Fox' revenue growth was negatively impacted by a 2% currency rate headwind, which makes the reported revenue growth rate of close to 6% an even stronger feat. 21st Century Fox generated higher revenues in its Cable Networks Programming segment as well as in its Television segment, but Filmed Entertainment revenues were down compared to the prior year's quarter, mainly due to the cyclical nature of this segment, where revenues depend on the movie lineup during each individual quarter. 21st Century Fox generated net profits of \$10.8 billion during the second quarter, which was more than the company's revenues. This was due to a huge gain on the sale of the company's investment in Sky plc, which is now owned by Comcast (ticker: CMCSA).

Segment EBITDA, which backs out that gain and which is more reflective of 21st Century Fox' underlying earnings power, rose 6% year over year, to \$1.57 billion. 21st Century Fox' earnings-per-share totaled \$0.37 during the second quarter.

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 during those troubled times. 21st Century Fox' profitability recovered relatively fast following the financial crisis, as earnings-per-share rose by 14% annually between 2009 and 2018. Once profits had recovered the earnings-per-share growth rate slowed down, though. Over the last five years 21st Century Fox' earnings-per-share grew by five percent annually, which is decent but unspectacular growth.

21st Century Fox will be a more focused company after the sale of the majority of the company's assets to Disney. 21st Century Fox will continue to own strong assets in the segments where it will remain active. Fox News, Fox Business, and Fox Sports, Fox Broadcasting and the company's other TV assets will remain highly relevant, but the company will no longer own its Filmed Entertainment assets, Star India, or Hulu. New Fox therefore will be a significantly less diversified company, but the assets that New Fox will retain are not very cyclical or vulnerable versus recessions. Many of the stakes in other companies (Hulu, Sky) will be sold, but New Fox will keep its stake in Roku.

The assets New Fox will retain are not high-growth businesses, but stable cash cows that do not require significant capital expenditures. With high cash flows New Fox could continue to repurchase shares at a rapid pace, which, coupled with low-single-digit revenue growth, would allow for a solid earnings-per-share growth rate.

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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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	24.0	17.5
Avg. Yld.	1.3%	1.1%	1.0%	1.0%	0.6%	0.8%	0.8%	1.0%	1.3%	1.1%	0.7%	1.0%

21st Century Fox trades at a relatively high valuation of 24 times net profits. This is not surprising, though, as Disney's offer to acquire the majority of 21st Century Fox' assets has lifted the company's share price tremendously. It seems very likely that the acquisition will happen, but in case it falls through, shares would likely decline substantially.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
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%

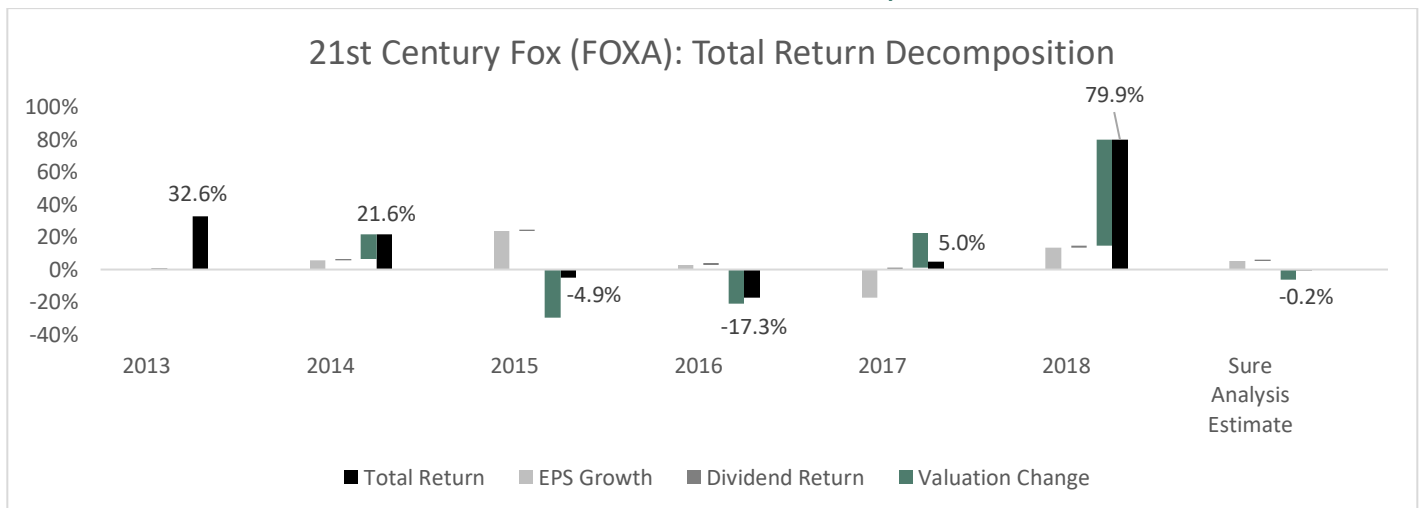
21st Century Fox pays out roughly 20% of its net profits in the form of dividends. The payout ratio has been even lower during some of the last couple of years. This makes the dividend payments look very safe, especially since 21st Century Fox did not have any problems in maintaining its dividend during the last financial crisis.

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 such as its Filmed Entertainment unit.

Final Thoughts & Recommendation

The price of 21st Century Fox' shares is not primarily based on the company's underlying results, but rather on the deal that Disney has proposed and that is likely to happen in the foreseeable future. 21st Century Fox' shares rose tremendously during the last year, but future upside seems limited, as we do not yet know how profitable New Fox will be. Shares would likely decline substantially if the takeover falls through. Overall, Fox's low projected returns cause it to earn a sell recommendation from Sure Dividend 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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