



The Walt Disney Company (DIS)

Updated May 15th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$133	5 Year CAGR Estimate:	7.2%	Volatility Percentile:	19.1%
Fair Value Price:	\$125	5 Year Growth Estimate:	7.1%	Momentum Percentile:	90.8%
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Growth Percentile:	73.2%
Dividend Yield:	1.3%	5 Year Price Target	\$176	Valuation Percentile:	39.0%
Dividend Risk Score:	C	Retirement Suitability Score:	D	Total Return Percentile:	34.9%

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 \$240 billion.

Disney reported its second quarter (fiscal 2019) earnings results on May 10. The company reported revenues of \$14.9 billion for the second quarter, which was up 2.5% from the prior year's level, beating the consensus estimate by \$390 million, or more than 2%. Disney's media networks segment revenues were unchanged from the prior year's level, while revenues from the park, experiences & consumer products segment were up 5% year over year. Studio Entertainment revenues declined by 15% compared to the prior year's second quarter. This segment has always been cyclical, though, thus the revenue decline is not a large negative. Revenues were also positively impacted by 11 days of contributions from the 21st Century Fox assets that Disney acquired towards the end of the second quarter. Disney unveiled its new Disney+ streaming service (priced at \$6.99 per month) during the second quarter, the market reacted very positively to this announcement. On top of that, Disney's newest Avengers movie has shattered several records following the end of the second quarter, which bodes well for Disney's third quarter earnings results.

Disney generated earnings-per-share of \$1.61 during the second quarter, which were down 13% year over year, but which were still ahead of the analyst consensus estimate of \$1.57.

Growth on a Per-Share Basis

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

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. During the second quarter, results from this segment were flat year over year, which is better than the declines that Disney had to report during some quarters throughout the last couple of years. 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 21st 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, the full impact of that should be visible in the third quarter and beyond. 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. New businesses, such as the upcoming Disney+ streaming service, should positively impact Disney's results in the long run as well.

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	12.5	15.7	15.1	13.6	17.1	18.6	20.9	17.7	18.5	16.5	17.5	16.5
Avg. Yld.	1.5%	1.1%	1.0%	1.4%	1.1%	1.3%	1.8%	1.4%	1.5%	1.4%	1.3%	1.4%

Disney's shares trade for seventeen and a half times this year's expected earnings. This is not a high valuation in absolute terms, but it represents a higher valuation compared to how Disney's shares were valued during 2018, and also compared to what we deem a fair valuation. We would rate Disney fairly valued if shares trade for 16.5 times annual net profits, as this 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%

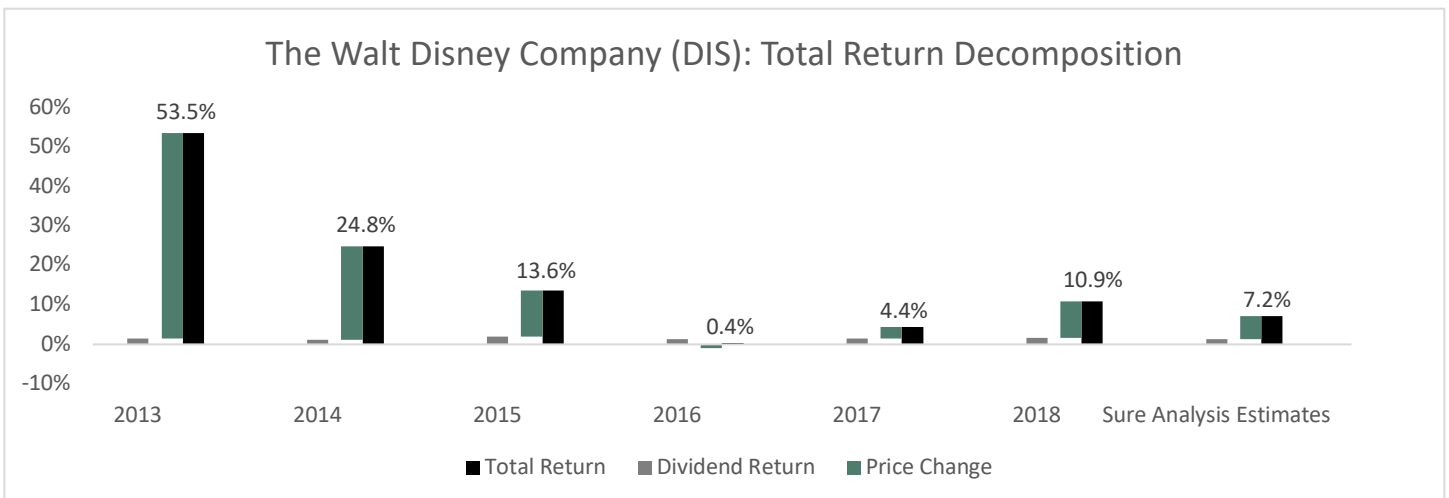
Disney's dividend payout ratio has never been especially high. The payout ratio peaked out below 40% in 2015. Right now, Disney pays out roughly one fourth of its annual net profits, which leaves ample cash for other purposes, such as capital expenditures, buybacks, or the repayment of the debt that 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 really 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 acquired via the 21st CF deal, such as the *Avatar* brand, 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

Following the acquisition of many of 21st Century Fox' assets, Disney has cemented its position as the global entertainment giant further. The company has delivered strong earnings and dividend growth rates in the past, although going forward, the company's growth will be less pronounced, we believe. Earnings-per-share should continue to grow meaningfully, though. Due to the above-average valuation, we rate Disney a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	63117	69206	72124	74898	81241	84141	88182	92033	95789	98598
Cash & Equivalents	3417	2722	3185	3387	3931	3421	4269	4610	4017	4150
Acc. Receivable	N/A	5454	5947	6152	6539	7274	7456	8305	7826	9334
Inventories	1271	1442	1595	1537	1487	1574	1571	1390	1373	1392
Goodwill & Int.	23930	29181	29266	30125	34694	35315	34998	34759	38421	38081
Total Liabilities	27692	29864	32671	32940	33091	35963	39527	44710	50785	45766
Accounts Payable	4002	4413	4546	4619	4899	5371	5504	6860	6490	9479
Long-Term Debt	12701	12480	13977	14311	14288	14795	17336	20170	25291	20874
Total Equity	33734	37519	37385	39759	45429	44958	44525	43265	41315	48773
D/E Ratio	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
Return on Assets	5.3%	6.0%	6.8%	7.7%	7.9%	9.1%	9.7%	10.4%	9.6%	13.0%
Return on Equity	10.0%	11.1%	12.8%	14.7%	14.4%	16.6%	18.7%	21.4%	21.2%	28.0%
ROIC	6.9%	7.9%	9.1%	10.4%	10.3%	12.0%	13.0%	14.1%	13.0%	17.5%
Shares Out.	1820	1900	1760	1800	1790	1720	1610	1580	1500	1480
Revenue/Share	19.28	19.54	21.42	23.26	24.84	27.75	30.70	33.94	34.94	39.44
FCF/Share	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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