



# Fox Corporation (FOXA)

Updated May 21<sup>st</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$38	<b>5 Year CAGR Estimate:</b>	9.1%	<b>Volatility Percentile:</b>	0.1%
<b>Fair Value Price:</b>	\$43	<b>5 Year Growth Estimate:</b>	5.2%	<b>Momentum Percentile:</b>	41.9%
<b>% Fair Value:</b>	87%	<b>5 Year Valuation Multiple Estimate:</b>	2.7%	<b>Growth Percentile:</b>	48.7%
<b>Dividend Yield:</b>	1.2%	<b>5 Year Price Target</b>	\$56	<b>Valuation Percentile:</b>	73.0%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	41.7%

## Overview & Current Events

Fox Corporation (previously known as 21<sup>st</sup> Century Fox) is a media company that engages in film production and television broadcasting. Following an agreement to sell the majority of its assets to Disney, including its cinema entertainment business and many more business units, Fox Corporation is now a much more focused company, with its operations being centered on Cable Networks & Television. The company was founded in 1979, is headquartered in New York, and is currently valued at \$23 billion.

Fox Corporation reported its first quarterly results as a standalone company on May 8. The company reported that it had generated revenues of \$2.75 billion for the quarter, which was 12% more than the revenues that the company generated during the previous year's quarter. This number is adjusted for the assets that Fox Corporation sold, and only includes the business units that the company continues to possess. Cable Network revenues were up slightly, while Television revenues rose at a highly attractive pace of 20% year over year. Higher digital content licensing revenues, which drove revenues at its Television segment, were one of the major growth drivers for Fox' strong revenue performance during the fiscal third quarter.

Fox Corporation managed to grow its EBITDA by 7% year over year, which was slightly worse than the revenue growth rate. The vast majority of Fox' EBITDA is generated by the Cable Networks Programming business, which contributes about 7 times as much to the company's bottom line compared to the Television segment. Fox Corporation managed to generate earnings-per-share of \$0.76 during the third quarter (on an adjusted basis), which was up 3% year over year. It is a solid result for the company to produce some earnings growth despite the additional work surrounding the asset sale, but the fact that earnings-per-share growth was well below the revenue growth rate is not a positive.

Fox Corporation also declared a \$0.23 semi-annual dividend in May.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$0.60	\$0.95	\$1.15	\$1.28	\$1.35	\$1.67	\$1.72	\$1.42	\$1.61	\$1.98	<b>\$3.00</b>	<b>\$3.87</b>
<b>DPS</b>	\$0.12	\$0.14	\$0.15	\$0.18	\$0.17	\$0.25	\$0.28	\$0.30	\$0.36	\$0.36	<b>\$0.46</b>	<b>\$0.80</b>
<b>Shares</b>	2610	2620	2630	2380	2320	2190	2020	1870	1850	1850	<b>621</b>	<b>540</b>

21<sup>st</sup> Century Fox' profitability recovered relatively quickly following the financial crisis, as earnings-per-share rose by 14% annually between 2009 and 2018. The sale of a majority of the company's assets to Disney, which went hand in hand with the creation of the new Fox Corporation, means that the numbers in the above table for 2009-2018 are not very reflective of the company's current state, evidenced, for example, by the big change in its share count.

Fox Corporation is a more focused company following the asset sale. Fox continues to own strong assets in the segments where it is still active. Fox News, Fox Business, and Fox Sports, Fox Broadcasting and the company's other TV assets will remain highly relevant. The assets that Fox retained are not very cyclical or vulnerable to recessions, compared to, for example, the more cyclical filmed entertainment business. Fox Corporation's assets are not high-growth businesses, but stable cash cows that do not require significant capital expenditures. With its high cash flows, 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	12.7	14.5
Avg. Yld.	1.3%	1.1%	1.0%	1.0%	0.6%	0.8%	0.8%	1.0%	1.3%	1.1%	1.2%	1.4%

How 21<sup>st</sup> Century Fox was valued in the past is only somewhat reflective of how Fox Corporation should be valued in the future, due to the changes in the business model. Fox Corporation is trading at a low double digit valuation today, and we see some upside towards a mid-teens earnings multiple over the coming years.

## 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%	15.3%	20.7%

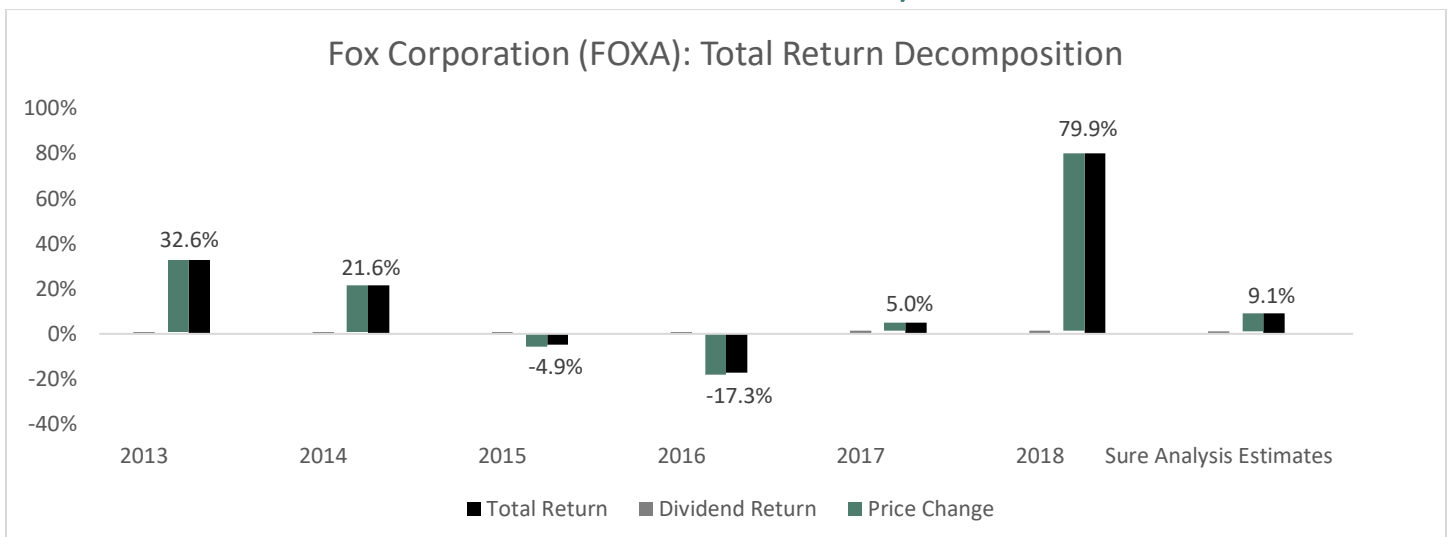
21<sup>st</sup> Century Fox paid out roughly 20% of its net profits in the form of dividends throughout most of the last decade. The payout ratio has been even lower during some of the last couple of years. Based on our current forecast, Fox Corporation will pay out roughly 15% of its net profits this year. The very low payout ratio means that the dividend looks very safe, although the low dividend yield is not especially attractive for income-focused investors.

Fox Corporation does not own a very diversified array of assets any longer, but its strongest position, relative to peers, has always been in its news channels and sport programming – assets the company continues to own after the deal with Disney. The sale of some assets could improve 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 Fox Corporation will likely be less vulnerable in future recessions compared to how the company performed during the last financial crisis, when it still owned some businesses that were more cyclical, and thus vulnerable to recessions.

## Final Thoughts & Recommendation

Following the sale of the majority of its businesses to Disney, the newly created Fox Corporation is a very different company compared to how it was in the past. Fox does not own any high-growth businesses, but its non-cyclical, cash-flow producing businesses could allow for sizeable shareholder returns going forward. Based on our estimates, shares are inexpensive, but due to the unknown performance going forward, we rate the stock a hold for now.

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

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	53121	54384	61980	56663	50944	54793	50039	48193	50872	53831
<b>Cash &amp; Equivalents</b>	6540	8709	12680	9626	6659	5415	8428	4424	6163	7622
<b>Acc. Receivable</b>	N/A	N/A	6330	6608	5459	6468	5912	6258	6625	7120
<b>Inventories</b>	2477	2392	2332	2595	2784	3092	2749	3291	3101	3669
<b>Goodwill &amp; Int.</b>	23307	22055	23284	20307	22319	26124	18833	19510	19366	18869
<b>Total Liabilities</b>	29489	28518	31333	31478	30819	33892	31853	33312	33934	33033
<b>Accounts Payable</b>	N/A	N/A	5773	5405	4434	4183	411	270	406	443
<b>Long-Term Debt</b>	14289	13320	15495	15455	16458	19058	19039	19553	19913	19523
<b>Total Equity</b>	23224	25113	30069	24684	16998	17418	17220	13661	15722	19564
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	-5.9%	4.7%	4.7%	2.0%	13.2%	8.5%	15.8%	5.6%	6.0%	8.5%
<b>Return on Equity</b>	-13%	10.5%	9.9%	4.3%	34.1%	26.2%	48.0%	17.8%	20.1%	25.3%
<b>ROIC</b>	-8.3%	6.6%	6.4%	2.7%	18.4%	11.8%	21.5%	7.7%	8.3%	11.6%
<b>Shares Out.</b>	2610	2620	2630	2380	2320	2190	2020	1870	1850	1850
<b>Revenue/Share</b>	11.64	12.47	9.20	10.00	11.82	14.04	13.61	14.05	15.36	16.37
<b>FCF/Share</b>	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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