



Fox Corporation (FOXA)

Updated September 4th, 2019 by Katherine Peach

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	7.9%	Volatility Percentile:	0.1%
Fair Value Price:	\$38	5 Year Growth Estimate:	4.2%	Momentum Percentile:	41.7%
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.9%	Growth Percentile:	36.6%
Dividend Yield:	0.7%	5 Year Price Target	\$47	Valuation Percentile:	80.7%
Dividend Risk Score:	NA	Retirement Suitability Score:	NA	Total Return Percentile:	51.6%

Overview & Current Events

Fox Corporation is a television broadcasting with a \$20 billion market cap. The company, known among insiders as "New Fox," was spun off from the former 21st Century Fox when The Walt Disney Co. (DIS) acquired the majority of that company's assets, including its cinema entertainment business, in 2019. Since the spinoff, Fox Corp. has been a much more focused company, with its operations centered on Cable Networks & Television.

On August 7, 2019, Fox Corp. reported quarterly results for the fourth quarter. Thanks to higher affiliate fees collected from satellite and cable operators, as well as online distributors, results beat analysts' expectations. The company reported adjusted profit for the quarter of 62 cents per share, beating Wall Street's estimates by an average of 3 cents per share. Revenue also rose for the quarter, by roughly 5%, to \$2.51 billion. The consensus had expected \$2.47 billion.

Fox Corp. credits this quarterly revenue growth to a 7.4% increase in the fees collected from its cable, satellite, and online distributors, to \$1.41 billion. Sales for Fox's cable network business grew by 2.2%, to \$1.3 billion. EBITDA clocked in at \$709 million, an 11% increase from the prior year quarter. This is due primarily to the fact that Fox Corp. has shed a lot of the costs it incurred as part of 21st Century Fox.

For the full year, the company reported total revenues of \$11.39 billion, a 12% year-over-year increase from \$10.15 billion in Fiscal 2018. Fox Corp. credited the increase to strong growth in its Television segment, which saw year-over-year revenue growth of 17%. For the year, affiliate fees had grown from \$4.9 billion to \$5.5 billion. The company reported total segment EBITDA of \$2.7 billion for the year – representing growth of 7.6% from Fiscal 2018. It's safe to say that the Disney sale was a positive move for Fox.

In August, Fox announce that it would purchase a 67% stake in online loan origination marketplace Credible Labs for \$265 million. Fox will also invest up to an additional \$75 million in growth capital over a period of about two years in the San Francisco-based company, which helps consumers find and refinance student loans. Fox also announced that it would purchase hit animation studio Bento Box Entertainment for a yet-undisclosed amount. Back in May, Fox announced it had purchased a roughly 5% equity stake in The Stars Group for more than \$236 million. With this purchase, Fox is joining forces with Stars to create a Fox-branded sports betting platform. This project, FOX Bet, launched in New Jersey on September 2nd, just in time for football season.

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	\$2.57	\$3.15
DPS	\$0.12	\$0.14	\$0.15	\$0.18	\$0.17	\$0.25	\$0.28	\$0.30	\$0.36	\$0.36	\$0.23	\$0.40
Shares	2610	2620	2630	2380	2320	2190	2020	1870	1850	1850	621	550

Since the last financial crisis, 21st Century Fox's profitability has recovered relatively quickly, with earnings-per-share rising by 14% annually between 2009 and 2018. The sale of the majority of the company's assets to Disney, which went hand in hand with the creation of the new Fox Corp., 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.

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Fox Corp. is a more focused company following the asset sale. Fox News, Fox Business, and Fox Sports, Fox Broadcasting and the company's other TV assets will remain highly relevant. It helps that Fox News really has no competition in the mainstream conservative news arena. The assets that Fox retained are not very cyclical or vulnerable to recessions, compared to, for example, the more cyclical filmed entertainment business.

Currently, Fox's biggest growth prospects are with FOX Bet. Analysts expect the sports betting industry to generate \$9 billion in gambling revenue over the next few years. Fox Corp. is in good position to grab a chunk of that. We foresee Fox shareholders continuing to benefit from a solid earnings-per-share growth rate.

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	12.8	14.8
Avg. Yld.	1.3%	1.1%	1.0%	1.0%	0.6%	0.8%	0.8%	1.0%	1.3%	1.1%	0.7%	0.9%

How 21st Century Fox was valued in the past is only somewhat reflective of how Fox Corp. should be valued in the future, due to the changes in the business model.

Fox Corp. is trading at a low double-digit valuation today, but we see the potential for margin expansion off the low current base.

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%	9%	13%

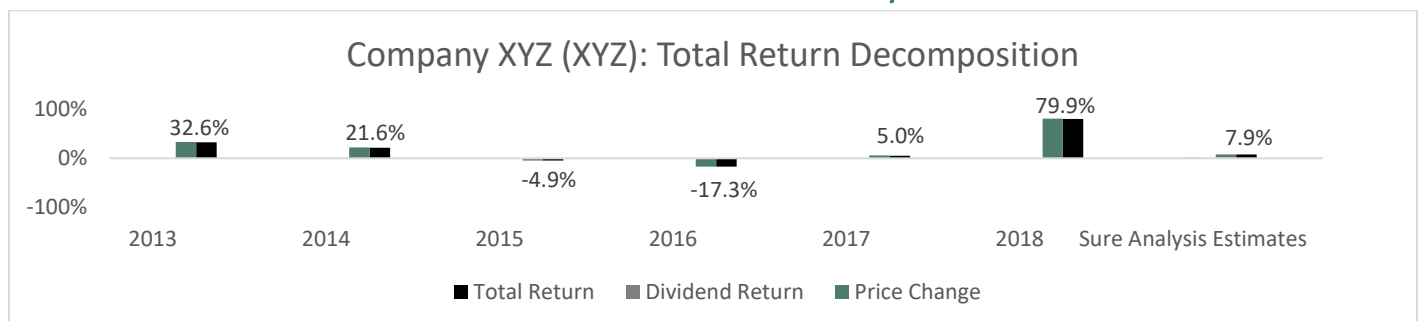
21st Century Fox paid out ~20% of its net profits in the form of dividends throughout most of the last decade. The payout ratio has been even lower during some of the last couple of years. Fox Corp. looks due to pay out 9% of its profits in 2019 with an estimated 2024 payout around 13%. The very low payout ratio means that the dividend looks very safe, although the low dividend yield is not especially attractive for income-focused investors.

Fox Corp.'s 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's 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 Corp. will likely be less vulnerable in future recessions.

Final Thoughts & Recommendation

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
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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