The Walt Disney Co (DIS)

Updated November 16th, 2019 by Lyn Alden

Key Metrics

Current Price:	$145	**5 Year CAGR Estimate:**	5.9%	**Volatility Percentile:**	27.8%
Fair Value Price:	$113	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	81.6%
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Growth Percentile:**	90.8%
Dividend Yield:	1.2%	**5 Year Price Target**	$182	**Valuation Percentile:**	24.3%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	38.3%

Overview & Current Events

The Walt Disney Co (DIS) is a diversified entertainment conglomerate that operates in different industries, including media networks (primarily ABC and ESPN), parks & resorts (with assets such as Disneyland and Disneyworld), studio entertainment (including Disney Animation, Pixar, Marvel, Lucasfilm, and 20th Century Fox) and merchandise. The company was founded by Walt Disney and his brother Roy in 1923 and has since grown into a blue-chip company valued at approximately $261 billion. Disney's biggest growth initiative going forward is their launch of the Disney+ streaming service, which is a stand-alone service that can also be bundled with their ESPN+ streaming service and Hulu, which they own a controlling stake in.

On November 7th, 2019, Disney reported results for its fourth quarter and full year ended September 28th. Excluding certain items affecting comparability, diluted EPS from continuing operations for the year decreased -19% to $5.77 from $7.08 in the prior year. Operating income from their Media Networks and Parks segments were up for the year, while income from their Studio Entertainment segment was down due to tough comparisons. However, overall corporate profitability is down due to Disney's heavy investment in their new streaming service, Disney+.

This month, Disney launched Disney+ and received over ten million subscribers within the first day. So far, the demand for this platform appears to be strong.

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	$8.36	***$6.27***	***$10.10***
DPS	$0.35	$0.35	$0.40	$0.60	$0.75	$0.86	$1.81	$1.42	$1.56	$1.68	***$1.76***	***$2.83***
Shares[1]	1818	1897	1762	1800	1800	1700	1600	1600	1500	1488	***1800***	***1800***

Disney has grown earnings by 8.0% over the past five years. During the next few years, earnings growth is likely to be pressured as Disney pays down debt from its recent 21st Century Fox acquisition and invests heavily in its streaming business, which is expected to take years to become profitable on its own. Disney will be spending less money on stock buybacks, which are an easy source of per-share earnings growth and will instead be investing heavily into topline growth and debt repayment, which will likely translate less smoothly into consistent earnings growth. We estimate 10.0% forward earnings growth over the next five years as the consolidated company moves forward, which would only be 3.2% annualized growth over the six-year period from its peak 2018 earnings year.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Avg. P/E	12.5	15.7	15.1	13.6	17.1	18.6	20.9	17.7	18.5	12.6	***23.1***	***18.0***
Avg. Yld.	1.5%	1.1%	1.0%	1.4%	1.3%	1.1%	1.8%	1.4%	1.5%	1.6%	***1.2%***	***1.6%***

Disney has averaged a 16.2 P/E ratio over the past decade, and currently has a P/E ratio of over 23, in part due to investor optimism over the launch of its Disney+ streaming service. Considering that the service will take many years to

[1] Share count in millions

Disclosure: This analyst is long DIS.

become profitable, Disney's stock could revert to its mean rather than remain this elevated. We assign 18 as a fair P/E ratio given moderate growth prospects and a wide economic moat, and because the company is transitioning away from its stagnant television networks business and towards a global streaming model.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	19%	17%	16%	19%	22%	20%	37%	25%	27%	20%	***28%***	***28%***

As it approaches a century of being in business, Disney has a very wide moat thanks to its strong and diversified brands. The company dominates the box office, has the most popular theme parks in the world, and can repackage its premium content into toys, shows, events, and other deals. Disney's dividend yield is quite low, but due to the low payout ratio and the strength of the business, the dividend is safe and growing.

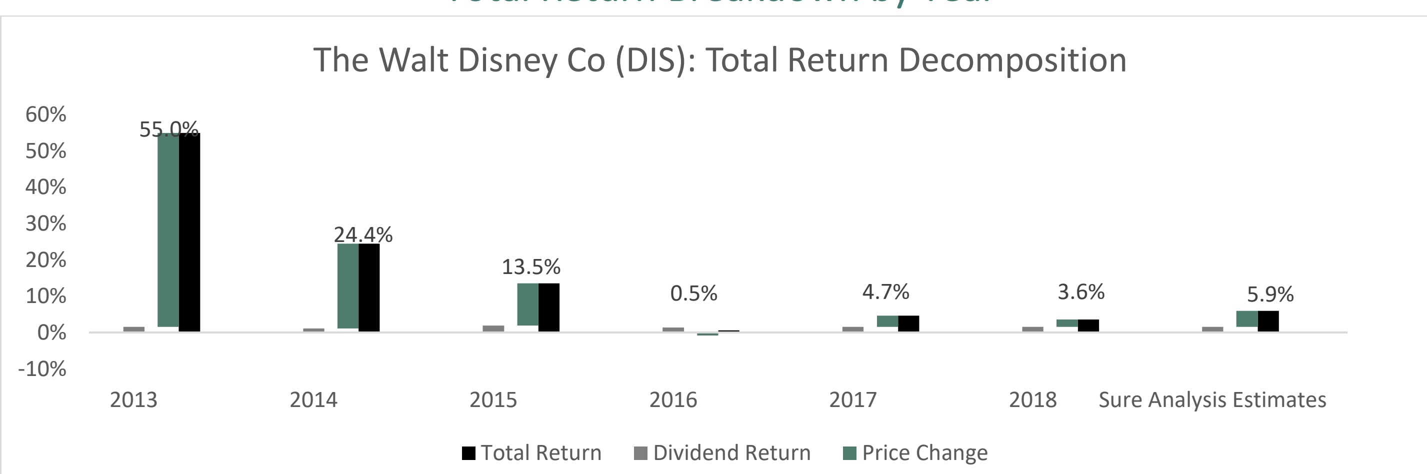
The company's media business is a stable but stagnant cash flow producer, while its studio results tend to be more cyclical depending on the popularity of their box office hits, and its new streaming focus is expected to be unprofitable for a few years before turning into a core growth driver for the company. Disney consistently generates double-digit returns on invested capital, which demonstrates the existence of a moat. Earnings dipped modestly during the previous recession, but the company remained profitable and recovered quickly.

The company has historically maintained a strong balance sheet, and currently has a credit rating of A. The acquisition of 21st Century Fox (including its film studio 20th Century Fox, a majority stake in National Geographic, and Star India, which is India's largest streaming service) added considerable debt and goodwill to the company, and they now have a debt/income ratio of approximately 4, which is well above the company's average. Disney has stated that debt repayment is now one of their significant priorities.

Final Thoughts & Recommendation

Disney is a strong and diversified business that is expected to generate approximately 6% returns per year over the next five years, but does not provide significant dividend income. Changes in valuation will likely play a significant role in the total return expectations, which are challenging to predict in advance. Investors should pay attention to the success or failure of Disney+, ESPN+, Hulu, and Star India, as these represent Disney's transition from cable networks to digital streaming and are a key part of the company's growth prospects and future cash flows. We consider the stock to be a hold.

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
Operating 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. Ass.	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.