Comcast Corporation (CMCSA)

Updated January 24th, 2020 by Kay Ng

Key Metrics

Current Price:	$45	**5 Year CAGR Estimate:**	12.3%	**Market Cap:**	$202.85B
Fair Value Price:	$50	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	03/31/20
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.3%	**Dividend Payment Date:**	04/22/20
Dividend Yield:	2.1%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	12
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	9.5%

Overview & Current Events

Comcast is a media, entertainment and communications company. Its business units include Cable Communications (High-speed Internet, Video, Business Services, Voice, Advertising, Wireless), NBCUniversal (Cable Networks, Theme Parks, Broadcast TV, Filmed Entertainment), and Sky, a leading entertainment company in Europe that provides Video, High-speed internet, Voice, and Wireless Phone Services directly to consumers. Comcast was founded in 1963, is headquartered in Philadelphia, PA.

Comcast reported its fourth-quarter and full-year earnings results on January 23. For the quarter, the company's revenues climbed 2%, adjusted EBITDA grew 3%, adjusted earnings-per-share (EPS) grew of 9.7%, and free cash flow (FCF) growth of 20% to $2.5 billion year over year ("YOY").

For the full year, Comcast reported revenues of $109 billion, which represents an increase of 15.3% YOY. 2019 results were helped by record additions of 1.1 million Cable Communications customer relationships and 1.4 million High-Speed Internet customers, as well as the closing of the acquisition of Sky during late 2018, which impacted Comcast's top-line results positively. Underlying organic revenue performance has been solid, as Cable Communications revenues rose 3.7% YOY with particular strength in the High-Speed Internet (revenue up 9.4% to $18.7 billion) and Business Services (revenue up 9.3% to $7.8 billion). NBCUniversal revenue fell 5%, but had solid growth of 4.4% from Theme Parks. Comcast's consolidated revenue growth helped increase adjusted EPS by 14.7% to $3.13 and adjusted EBITDA by 13.6% to $34 billion. FCF growth was 6.4% to $13.4 billion YOY.

This month, Comcast increased its quarterly dividend by 9.5% to $0.23 per share. Our initial EPS estimate for 2020 is $3.38 for 8% growth.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$0.65	$0.79	$1.14	$1.28	$1.47	$1.63	$1.74	$2.06	$2.55	$3.13	***$3.38***	***$4.97***
DPS	$0.19	$0.23	$0.33	$0.39	$0.45	$0.50	$0.55	$0.61	$0.76	$0.84	***$0.92***	***$1.42***
Shares[1]	5.55	5.41	5.26	5.19	5.06	4.88	4.75	4.64	4.60	4.62	***4.55***	***4.22***

There are several drivers for Comcast's earnings growth. The first one is ongoing revenue growth, driven primarily by Cable Communications revenues, which grew 3.7% in 2019, primarily due to a higher customer count and rate adjustments. The revenues have grown by single digits for the last 12 quarters on a YOY basis, and it seems reasonable to assume that growth will continue going forward. The Video segment is battling against the impact of cord-cutting, but so far higher revenues in the high-speed internet business more than offset this headwind.

Apart from revenue growth, Comcast's earnings were driven by margin increases in its core business. In 2019, its Cable Communications EBITDA margin increased by 1.4% to 40.1% against 2018. Furthermore, the company's share count will likely continue to decline, which will be a positive for Comcast's EPS, although Comcast plans to focus on deleveraging for some time following the takeover of Sky. Comcast has a very compelling earnings growth history. From 2010 to 2019, its earnings-per-share grew every year. Annual growth averaged 19% over those nine years. Over the last five years, its

1. Shares in billions.
Disclosure: Kay Ng owns shares of CMCSA.

growth has slowed down a bit, averaging 16% annually since 2014, which has still been a very compelling - and consistent - rate of earnings growth. However, margin expansion is slowing down. We estimate earnings growth will slow down to about 8% per year through 2025.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.3	14.9	14.0	16.9	18.2	18.1	18.2	18.6	13.3	14.5	***13.2***	***14.8***
Avg. Yld.	2.1%	1.9%	2.0%	1.8%	1.7%	1.7%	1.7%	1.6%	2.1%	1.9%	***2.1%***	***1.9%***

Comcast's shares are currently valued at roughly 13.2 times this year's estimated earnings, which is cheaper than its average price-to-earnings ratio of 16.1 from 2010-2019. However, because we estimate earnings growth rate will slow to 8% over the next five years, we believe a long-term multiple of close to 15 is more reasonable.

Safety, Quality, Competitive Advantage, & Recession Resiliency

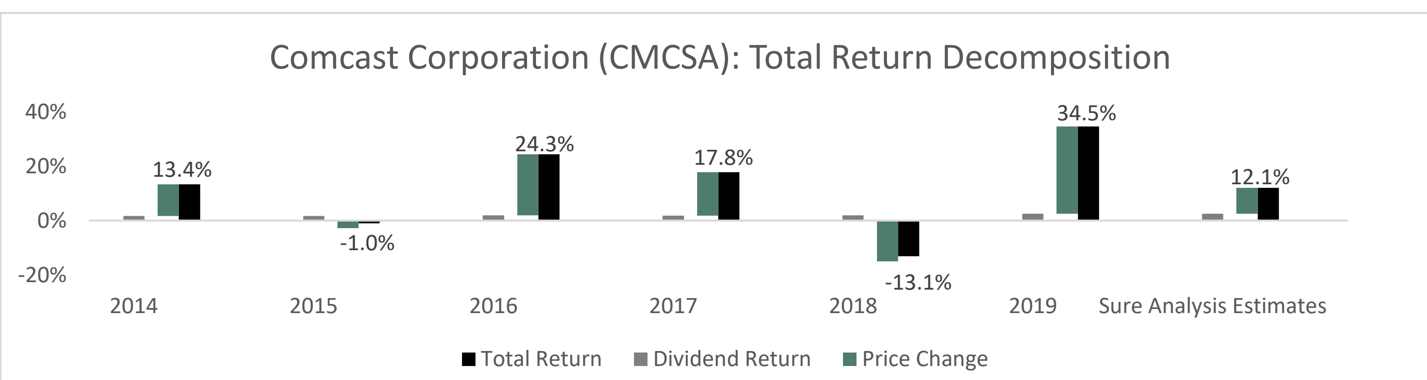
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	29%	29%	29%	30%	31%	31%	32%	30%	30%	27%	***27%***	***29%***

Comcast has had 12 consecutive dividend increases, and its dividend growth rate was compelling throughout the decade. The fast dividend growth was possible through a combination of solid earnings growth and a rising dividend payout ratio. Comcast's dividend payout ratio is still quite low, and we believe that the dividend looks very safe for the foreseeable future, as it is well-covered by both earnings and cash flows. Comcast is one of the largest players in the entertainment industry. New market entrants would have to spend many billions of dollars to establish themselves as a cable player or major entertainment network. As a result, competitive pressures are not very high. The whole cable industry is impacted by the nationwide cord-cutting trend, though, as some customers are ditching traditional pay-TV entirely. Comcast has so far been able to withstand this trend through growth from its other businesses. During the last financial crisis, Comcast grew its earnings-per-share, largely because the demand for its services is not cyclical.

Final Thoughts & Recommendation

Comcast has been a high-quality growth company over the last decade, having produced a highly compelling earnings growth rate and raising its dividend at a fast pace on top of that. The company should be able to weather the cord-cutting trend, but we do expect earnings growth to slow to 8% per year, which is still good growth. Adding in a dividend yield of 2.1% and valuation expansion of 2.3%, we think Comcast can deliver total returns of 12.3% per year through 2025. Sure Dividend rates the stock as a buy for investors seeking stable growth.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	37937	55842	62570	64657	68775	74510	80736	85029	94507	108942
Gross Profit	29,400	39,246	42,641	44,987	47,863	51,960	56,388	59,674	64,815	74,502
Gross Margin	77.5%	70.3%	68.1%	69.6%	69.6%	69.7%	69.8%	70.2%	68.6%	68.4%
SG&A Exp.	14,804	20,889	22,664	23,553	24,940	27,282	30,131	31,968	5,130	40,424
D&A Exp.	6,803	14,423	7,798	7,871	8,019	8,680	9,426	9,688	10,676	12,953
Operating Profit	7,980	10,721	12,179	13,563	14,904	15,998	16,831	18,018	19,009	21,125
Operating Margin	21.0%	19.2%	19.5%	21.0%	21.7%	21.5%	20.8%	21.2%	20.1%	19.4%
Net Profit	3,635	4,160	6,203	6,816	8,380	8,163	8,678	22,735	11,731	13,057
Net Margin	9.6%	7.4%	9.9%	10.5%	12.2%	11.0%	10.7%	26.7%	12.4%	12.0%
Free Cash Flow	5,682	8,084	8,217	6,555	8,403	9,616	9,004	10,106	12,588	13,269
Income Tax	2,436	3,050	3,744	3,980	3,873	4,959	5,298	-7,569	3,380	3,673

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (B)	119	158	165	159	159	167	119	158	165	159
Cash & Equivalents	5,984	1,620	10,951	1,718	3,910	2,295	5,984	1,620	10,951	1,718
Accounts Receivable	1,855	4,652	5,521	6,376	6,321	6,896	1,855	4,652	5,521	6,376
Inventories										
Good. & Int. Ass. (B)	78	110	109	109	109	115	78	110	109	109
Total Liabilities (B)	74	110	115	108	106	113	74	110	115	108
Accounts Payable		5,705	6,206	5,528	5,638	6,215		5,705	6,206	5,528
Long-Term Debt	31415	39309	40,458	47,847	48,081	52,621	31,415	39,309	40,458	47,847
Shareholder's Equity	44354	47274	49356	50694	52711	52269	44354	47274	49356	50694
D/E Ratio	0.71	0.83	0.82	0.94	0.91	1.01	0.71	0.83	0.82	0.94

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.1%	3.0%	3.8%	4.2%	5.3%	5.0%	3.1%	3.0%	3.8%	4.2%
Return on Equity	8.3%	9.1%	12.8%	13.6%	16.2%	15.6%	8.3%	9.1%	12.8%	13.6%
ROIC	4.9%	5.1%	7.0%	7.2%	8.4%	7.9%	4.9%	5.1%	7.0%	7.2%
Shares Out.	5.55	5.41	5.26	5.19	5.06	4.88	4.75	4.64	4.60	4.62
Revenue/Share	6.73	10.05	11.51	12.13	13.13	14.80	6.73	10.05	11.51	12.13
FCF/Share	1.01	1.46	1.51	1.23	1.60	1.91	1.01	1.46	1.51	1.23

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.