



Fox Corp. (FOXA)

Updated February 14th, 2020 by Katherine Peach

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	4.7%	Market Cap:	\$22.7B
Fair Value Price:	\$39	5 Year Growth Estimate:	3.1%	Ex-Dividend Date:	03/03/20
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.8%	Dividend Payment Date:	04/01/20
Dividend Yield:	1.2%	5 Year Price Target	\$45	Years of Dividend Growth:	0
Dividend Risk Score:	B	Retirement Suitability Score:	D	Last Dividend Increase:	N/A

Overview & Current Events

The Fox Corp. is a television broadcasting company with a \$22.7 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.

Fox has been gobbling up a variety of different companies, from last year's purchase of a 67% stake in loan origination marketplace Credible Labs for \$265 million to a 5% equity stake in mobile gaming company The Stars Group for more than \$236 million. The latter purchase was in order to launch FOX Bet, a Fox-branded sports betting platform. FOX Bet launched in September 2019 in New Jersey, the first state to legalize sports betting. Since then, the platform has also become available in Pennsylvania.

In November 2019, the company announced an ambitious stock buyback program worth \$2 billion in share repurchases. The buyback will include both Class B and Class A shares.

February 5, 2020, Fox Corp. reported quarterly results for the second quarter of fiscal 2020 that handily beat Wall Street's expectations. The company reported revenues of \$3.78 billion, a 5.4% year-over-year improvement from the second quarter of fiscal 2019, as well as a figure that bested Wall Street's estimates by more than 3%. And net income jumped year-over-year from \$24 million to \$314 million. In addition, adjusted earnings for the quarter were recorded at 10 cents per share. Now, that's a 76.7% decline from the year-ago quarter. However, analysts had been expecting a loss of as much as 4 cents per share. The decline can be attributed to higher fees for the rights to broadcast NFL games and the costs associated with launching the new WWE "Smackdown" program. In addition, Fox no longer showing UFC matches, which took a bite out of the company's results.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.95	\$1.15	\$1.28	\$1.35	\$1.67	\$1.72	\$1.42	\$1.61	\$1.98	\$2.57	\$2.60	\$3.00
DPS	\$0.14	\$0.15	\$0.18	\$0.17	\$0.25	\$0.28	\$0.30	\$0.36	\$0.36	\$0.23	\$0.46	\$0.60
Shares	2620	2630	2380	2320	2190	2020	1870	1850	1850	620	620	600

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 2010-2018 are not very reflective of the company's current state, evidenced, for example, by the big change in its share count.

Fox Corp. is a more focused company following the asset sale. Fox News, Fox Business, Fox Sports, Fox Broadcasting, and the company's other TV assets will remain highly relevant. It helps that Fox News really has no mainstream competition in the 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

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shareholders continuing to benefit from a solid earnings-per-share growth rate. In the immediate term, Fox should see growth from the upcoming presidential election, which should bring improved ratings to its news network.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.4	13.2	14.1	20.0	19.7	20.1	20.2	17.3	25.3	14.4	14.4	15.0
Avg. Yld.	1.1%	1.0%	1.0%	0.6%	0.8%	0.8%	1.0%	1.3%	1.1%	0.6%	1.2%	1.3%

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 modest valuation multiple expansion off the low current base.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	14.7%	13.0%	14.1%	12.6%	15.0%	16.3%	21.1%	22.4%	18.2%	9	18%	20%

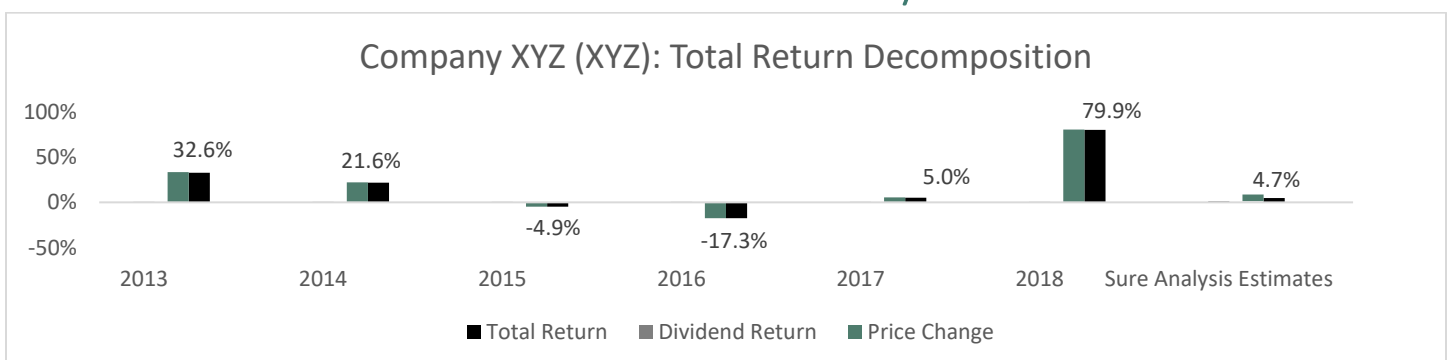
21st Century Fox paid out ~20% of its net profits in the form of dividends throughout most of the last decade. The payout ratio has been even lower during some of the last couple of years. Fox Corp. is expected to pay out 9% of its profits in 2019 with an estimated 2024 payout conservatively continuing around 9%. 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 kicked off 2020 with spectacular viewership numbers for Super Bowl LIV. More than 148.5 million people tuned in for at least part of the game on Fox. The company also took in about \$600 million in advertising revenue relating to the game. The year should only get better for the network, as the November presidential elections draw near. In addition, the growth of sports betting is a huge win for the company as well. Based on our estimates, shares are currently inexpensive, and it's likely that Fox is slightly undervalued. If you feel like gambling, this might be the time to cautiously buy in. For the majority of us who like to play it safe, continue to 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	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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