Fox Corp. (FOXA)

Updated May 21st, 2020 by Felix Martinez

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	3.1%	**Market Cap:**	$17.1B
Fair Value Price:	$35	**5 Year Growth Estimate:**	-3.0%	**Ex-Dividend Date:**	09/03/20[1]
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.8%	**Dividend Payment Date:**	10/02/20[2]
Dividend Yield:	1.7%	**5 Year Price Target**	$30	**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 $17.1 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.

May 6, 2020, Fox Corp. reported quarterly results for the third quarter of fiscal 2020 that beat Wall Street's expectations. The company reported total quarterly revenues of $3.44 billion, a 25% increase from the $2.75 billion of revenues reported in the prior-year quarter, reflecting revenue growth across all operating segments. For the Nine Months, total revenues are up 11.4%, from $8.9 billion to $9.9 billion. The advertising segment saw a 44% increase in revenues, which was led by the broadcast of Super Bowl LIV. For the quarter, net income decreased to $90 million from $539 million in 3Q19 or a decrease of (83.3)%. COVID-19 pandemic is affecting FOXA revenue. All sporting events have been canceled, which the company has broadcast rights to, and the production of certain entertainment content that has been suspended.

Earnings per Share (EPS) for the quarter was $0.13, or down (84.7)% from $0.85. The nine months for Fiscal Year (FY)2020 have earnings down as well from $1.84 to $1.42 YoY, or (22.8)%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	---	---	---	$1.50	$1.73	$2.21	$3.53	$2.57	***$2.34***	***$2.01***
DPS	---	---	---	---	---	---	---	---	---	$0.46	***$0.46***	***$0.46***
Shares[3]	---	---	---	---	---	620.0	620.0	620.0	620.0	621.0	***620.0***	***620.0***

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 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. The past five years saw earnings growth of 9.3%. However, we expect a negative earnings growth of (3)% for the next five years. The company pays a dividend semiannually, and since the company has just started paying out, we do not know if they will be growing dividends constantly. Thus we have a dividend growth rate of 0% for now.

Currently, Fox's most significant 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 an excellent position to grab a chunk of that. In the immediate term, Fox should see growth from the upcoming presidential election, which should bring improved ratings to its news network.

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[1] Estimated date

[2] Estimated date

[3] Share count in millions

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	---	---	---	20.1	20.2	17.3	25.3	14.4	***11.9***	***15.0***
Avg. Yld.	---	---	---	---	---	---	---	---	---	0.6%	***1.7%***	***1.5%***

The company has been valued at a relatively high PE of about 19.5 for the past five years. However, we think that a 15x valuation is fair for this company. Currently, the company is trading hands for a PE multiple of 11.9. This provides a modest valuation multiple expansion of 4.8%, and the company is under our fair price of $35.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	---	---	---	---	0.6%	***20%***	***23%***

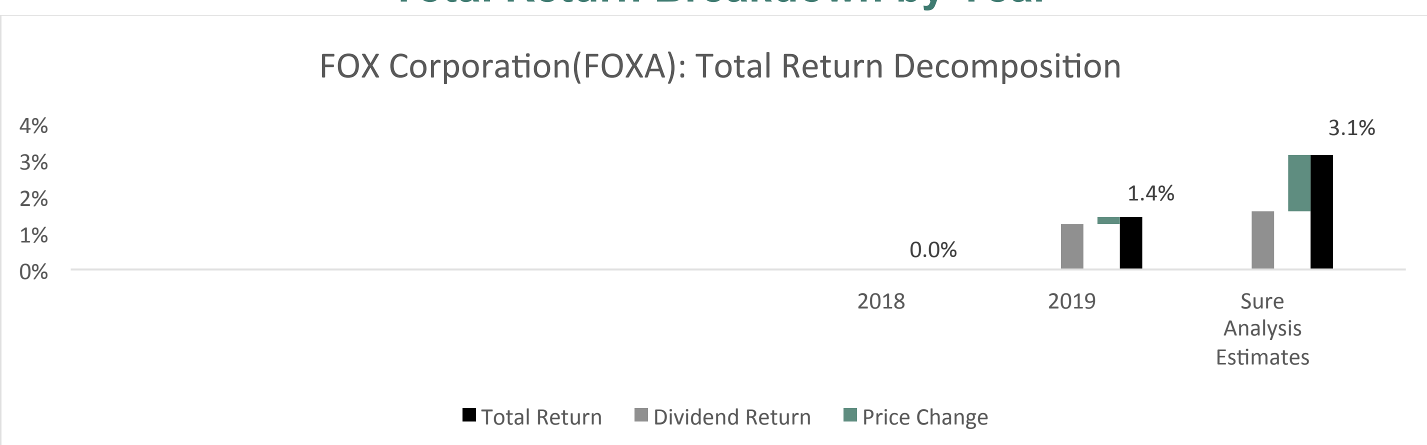
21st Century Fox paid out ~20% of its net profits in the form of dividends throughout most of the last decade. The payout ratio has been even lower during some of the previous couple of years. Fox Corp. is expected to pay out 20% of its profits in 2020, with an estimated 2025 payout conservatively continuing around 23%. The meager 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 most influential position, relative to peers, has always been in its news channels and sports 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. The company currently has a debt to equity ratio of 1.0, which is a solid balance sheet.

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 and sporting event starts again. Also, the growth of sports betting is a massive win for the company as well. Based on our estimates, shares are currently inexpensive, and Fox is likely slightly undervalued. However, the next five-year projected returns are estimated to be only 3.1%. Thus, we rate FOXA a HOLD.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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.