

ViacomCBS Inc. (VIAC)

Updated May 24th, 2020 by Felix Martinez

Key Metrics

Current Price:	\$20	5 Year CAGR Estimate:	12.5%	Market Cap:	\$12.3 B
Fair Value Price:	\$26	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	06/07/20 ¹
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	6.1%	Dividend Payment Date:	07/01/20 ²
Dividend Yield:	4.8%	5 Year Price Target	\$31	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	C	Last Dividend Increase:	23.1%

Overview & Current Events

ViacomCBS Inc. is an American multinational media conglomerate based in New York City. The corporation was formed via the re-merger of CBS Corporation and Viacom on December 4, 2019, the two of which were created from the split of the original Viacom in 2005. The company's content brands include CBS, Showtime Networks, Paramount Pictures, Nickelodeon, MTV, Comedy Central, BET, and CBS All Access, among others. The company has six different revenue segments, where Advertising, Affiliate, and Content Licensing are the most significant source of revenue for the company. ViacomCBS is a \$12.3 billion market capitalization company that generated more than \$27 billion in revenues in fiscal 2019.

The company reported First-quarter on May 07, 2020. For the quarter, the company reported revenues of \$6,669 million vs. \$7,100 million in 1Q19 or a decrease of (6)%. Operating income saw a decrease of (49)% for the quarter. Vs 1Q19. Non-GAAP EPS of \$1.13 was reported, which was (23)% decrease compared to \$1.46 that was reported in the first quarter of 2019. In April, the company raised \$2.5 billion of capital through a 5- and 10-year bond offering. This will help the company to have cash available to navigate through the COVID-19 pandemic. The company also had a strong start to the year, with Q1 2020 Operating Cash Flow of \$356 million and Free Cash Flow of \$305 million, marking a significant sequential improvement from Q4 2019. With more consumers at home, ViacomCBS streaming platforms had its best month, with accelerated subscriber growth and consumption, reinforcing consumer demand for its content.

Consensus estimates expect the company's earnings-per-share to be \$3.76 for FY2020. This is a (29.1)% lower then our last report estimate of \$5.30. Thus we will use the new FY2020 estimate of \$3.76 for our valuation calculation.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.11	\$1.94	\$2.55	\$3.02	\$2.96	\$3.31	\$4.11	\$4.40	\$5.87	\$5.01	\$3.76	\$4.36
DPS	\$0.20	\$0.35	\$0.44	\$0.48	\$0.54	\$0.60	\$0.66	\$0.72	\$0.72	\$0.78	\$0.96	\$1.23
Shares³	694.0	681.0	659.0	624.0	561.0	489.0	448.0	647.0	621.0	617.0	617.0	617.0

Over the last decade, Viacom had a revenue compound annual growth rate (CAGR) of 2.6% and an 18.2% CAGR in earnings-per-share (EPS). With the merger of Viacom and CBS now completed, the company is positioned as one the most significant content producers and providers in the world. This allows the company to be in a solid position as content demand continues to grow. We estimate a five-year expected growth rate of 3% as management continues to integrate both companies. Net Margin was slightly lower for FY2019 at 11.8%, compared to a FY2018 net margin of 13.5%. The company had to freeze its dividend during 2018 as it was preparing this merger. Before that, it had a 5-year dividend growth of 7.63%. We expected the company to start to grow its dividend at a growth rate of 5% over the next five years.

¹ Estimated Date

² Estimated Date

³ Share count is in millions.

Disclosure: This analyst has a long position in the security discussed in this research report

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	17.2	14	14.9	21.1	18.7	14.2	15.5	13.4	8.4	8.4	5.2	7.0
Avg. Yld.	1.1%	1.3%	1.2%	0.8%	1.0%	1.3%	1.0%	1.2%	1.7%	1.9%	4.9%	4.0%

Over the past decade, Viacom shares have traded with an average P/E of 14.6. However, over the past five years, it has averaged a P/E of 12.0. For our fair value estimate, we will use a P/E of 7 given current headwinds. This represents a huge upside as the current P/E of VIAC is 5.2 based on the 2020 EPS estimate of \$3.76.

This extremely low valuation has been caused by the higher merger expense that was mentioned in the overview section, the Coronavirus outbreak, and the overall market downturn. We view this valuation as an absolute bargain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

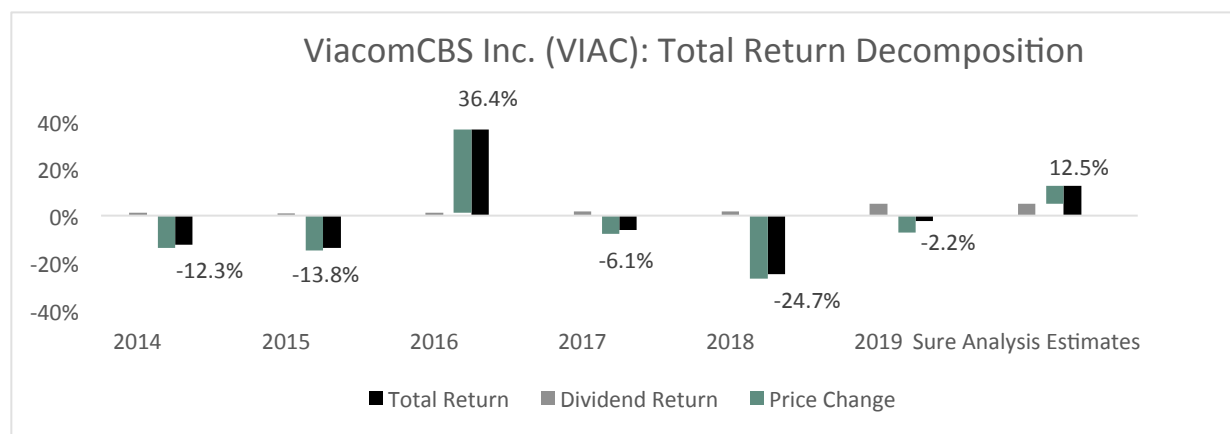
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	18.0%	18.0%	17.3%	15.9%	18.2%	18.1%	16.1%	16.4%	12.3%	15.6%	26%	28%

ViacomCBS's competitive advantage is in its valuable content, such as the ones mentioned in the Overview section, as well as being in a great position to be one of the largest producers of new content going forward. However, this company is not recession resiliency as its services and products are a luxury. During the Great recession of 2008-2009, the company's share price lost 83.7% from peak to trough. The company also cut its dividend from \$1.06 a share to \$0.20 a share; an 81.1% dividend cut. However, the current dividend payout ratio is very low, at only 26% based on FY2020 earnings. Consensus estimates show free cash flow (FCF) for FY2020 of \$1.95, which gives a dividend payout ratio of 49% based on FCF. Currently, the company has a debt to equity ratio (D/E) of 0.63 vs. 0.69 in FY2018. Thus, the company's balance sheet has been improving. The company also sports a credit rating of BBB. Interest coverage for the year has decreased from 5.90 in FY2018 to 4.48 FY2019, which is not concerning.

Final Thoughts & Recommendation

ViacomCBS offers a very high projected total return. We are forecasting 12.5% annualized returns for the next five years as the high yield, moderate growth, and extremely low valuation make this company very attractive at current prices. As such, we see the security as suitable for value investors and those seeking high projected returns. Thus, we rate the company as a buy, noting that its recession history means there could be a dividend reduction in a severe recession.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	\$13,466	\$13,637	\$12,820	\$14,005	\$12,519	\$12,671	\$13,166	\$26,535	\$27,250	\$27,812
Gross Profit	\$4,954	\$5,755	\$5,556	\$5,881	\$4,830	\$4,760	\$5,210	\$11,052	\$11,333	\$10,589
Gross Margin	37%	42%	43%	42%	39%	38%	40%	42%	42%	38%
SG&A Exp.	\$2,466	\$2,598	\$2,442	\$2,546	\$1,971	\$1,961	\$2,265	\$5,508	\$5,206	\$5,647
D&A Exp.	\$500	\$495	\$306	\$290	\$250	\$235	\$225	\$443	\$433	\$443
Op. Profit	\$1,988	\$2,662	\$2,808	\$3,045	\$2,609	\$2,703	\$2,729	\$5,101	\$5,694	\$4,499
Op. Margin	15%	20%	22%	22%	21%	21%	21%	19%	21%	16%
Net Profit	\$724	\$1,305	\$1,574	\$1,879	\$2,959	\$1,413	\$1,261	\$2,321	\$3,455	\$3,308
Net Margin	5%	10%	12%	13%	24%	11%	10%	9%	13%	12%
Free Cash Flow	\$1,481	\$1,504	\$1,615	\$1,661	\$1,097	\$1,223	\$1,489	\$2,083	\$3,112	\$877
Income Tax	\$478	\$751	\$812	\$878	\$659	\$676	\$628	\$804	\$617	-\$9

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	\$26,143	\$26,220	\$26,466	\$26,387	\$23,935	\$23,765	\$24,238	\$20,843	\$44,497	\$49,519
Cash & Equiv.	\$480	\$660	\$708	\$368	\$428	\$317	\$598	\$285	\$856	\$632
Acc. Rec.		\$3,086	\$3,137	\$3,234	\$3,459	\$3,375	\$3,314	\$3,697	\$7,199	\$7,206
Inventories	\$725	\$735	\$859	\$772	\$922	\$1,270	\$1,427	\$1,828	\$2,785	\$2,876
Goodwill & Int.	\$15,147	\$15,092	\$15,082	\$12,458	\$12,706	\$7,428	\$7,497	\$7,557	\$19,469	\$19,973
Total Liabilities	\$16,322	\$16,312	\$16,253	\$16,421	\$16,965	\$18,202	\$20,549	\$18,865	\$33,994	\$36,230
Acc. Pay.	\$438	\$324	\$386	\$286	\$302	\$159	\$148	\$231	\$502	\$667
Long-Term Debt	\$6,001	\$5,982	\$5,922	\$6,435	\$7,112	\$8,448	\$9,375	\$10,162	\$19,113	\$18,719
Book Value	\$9,821	\$9,908	\$10,213	\$9,966	\$6,970	\$5,563	\$3,689	\$1,978	\$10,449	\$13,207
D/E Ratio	0.61	0.60	0.58	0.65	1.02	1.52	2.54	5.14	1.83	1.42

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.7%	5.0%	6.0%	7.1%	11.8%	5.9%	5.3%	10.3%	10.6%	7.0%
Return on Equity	7.7%	13.2%	15.6%	18.6%	34.9%	22.5%	27.3%	81.9%	55.6%	28.0%
ROIC	4.5%	8.2%	9.8%	11.6%	19.4%	10.1%	9.3%	18.4%	16.5%	10.7%
Shares Out. (in millions)	694	681	659	624	561	489	448	647	621	617
Revenue/Share	\$19.40	\$20.03	\$19.45	\$22.44	\$22.32	\$25.91	\$29.39	\$41.01	\$43.88	\$45.08
FCF/Share	\$2.13	\$2.21	\$2.45	\$2.66	\$1.96	\$2.50	\$3.32	\$3.22	\$5.01	\$1.42

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

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