

# Fox Corp. (FOXA)

Updated August 26st, 2020 by Felix Martinez

## Key Metrics

|                             |      |  |      |                                  |          |
|-----------------------------|------|--|------|----------------------------------|----------|
| <b>Current Price:</b>       | \$28 | <b>5 Year CAGR Estimate:</b>               | 3.4% | <b>Market Cap:</b>               | \$16.6B  |
| <b>Fair Value Price:</b>    | \$28 | <b>5 Year Growth Estimate:</b>             | 1.0% | <b>Ex-Dividend Date:</b>         | 09/01/20 |
| <b>% Fair Value:</b>        | 96%  | <b>5 Year Valuation Multiple Estimate:</b> | 0.9% | <b>Dividend Payment Date:</b>    | 10/07/20 |
| <b>Dividend Yield:</b>      | 1.7% | <b>5 Year Price Target</b>                 | \$30 | <b>Years of Dividend Growth:</b> | 0        |
| <b>Dividend Risk Score:</b> | B    | <b>Retirement Suitability Score:</b>       | C    | <b>Last Dividend Increase:</b>   | 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 most 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.

On August 4, 2020, Fox Corp. reported quarterly results for the fourth quarter and Fiscal Year (FY)2020 results. The Company reported total quarterly revenues of \$2.42 billion, a 4% decrease from the \$2.51 billion reported in the prior-year quarter. The affiliate segment saw an 8% increase, which was led by a 22% growth at the Television segment. Advertising revenues decreased 22% due to lower local advertising revenues at the FOX Television Stations, fewer live events at FOX Sports primarily due to COVID-19. Net income also declined to \$145 million from \$465 million in 4Q19. For the full year, the Company reported total revenue of \$12.3 billion, an 8% increase from \$11.39 billion. The television segment drove this increase. However, net income for FY2020 decreased to \$1.06 billion from the \$1.64 billion. The lower net income was primarily due to higher operating expenses, higher impairment and restructuring charges, and higher selling.

Earnings per Share (EPS) for the quarter was \$0.20, or down (72.6)% from \$0.73 in 4Q19. For the full year, 2020 earnings were also down to \$1.62 from \$2.57 in FY2019 or a decrease of (37)%.

## Growth on a Per-Share Basis

| Year                      | 2011 | 2012 | 2013 | 2014 | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021          | 2026          |
|---------------------------|------|------|------|------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | ---  | ---  | ---  | ---  | \$1.50 | \$1.73 | \$2.21 | \$3.53 | \$2.57 | \$1.62 | <b>\$1.89</b> | <b>\$1.99</b> |
| <b>DPS</b>                | ---  | ---  | ---  | ---  | ---    | ---    | ---    | ---    | \$0.46 | \$0.46 | <b>\$0.46</b> | <b>\$0.46</b> |
| <b>Shares<sup>1</sup></b> | ---  | ---  | ---  | ---  | 620.0  | 620.0  | 620.0  | 620.0  | 621.0  | 621.0  | <b>616.0</b>  | <b>616.0</b>  |

Fox Corp. is a more focused company following the asset sale. Fox News, Fox Business, Fox Sports, Fox Broadcasting, and its 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 (1.3)%. However, we expect a positive earnings growth of 1% 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.

<sup>1</sup> Share count in millions

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## Valuation Analysis

| Year      | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now         | 2026        |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E  | ---  | ---  | ---  | ---  | 20.1 | 20.2 | 17.3 | 25.3 | 14.4 | 16.4 | <b>14.4</b> | <b>15.0</b> |
| Avg. Yld. | ---  | ---  | ---  | ---  |      |      |      |      | 0.6% | 1.7% | <b>1.7%</b> | <b>1.5%</b> |

The company has been valued at a relatively high PE of about 19.0 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 14.4. This provides a modest valuation multiple expansion of 0.9%, and the company is under our fair price of \$28.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019  | 2020  | 2021       | 2026       |
|--------|------|------|------|------|------|------|------|------|-------|-------|------------|------------|
| Payout | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 17.9% | 28.4% | <b>24%</b> | <b>23%</b> |

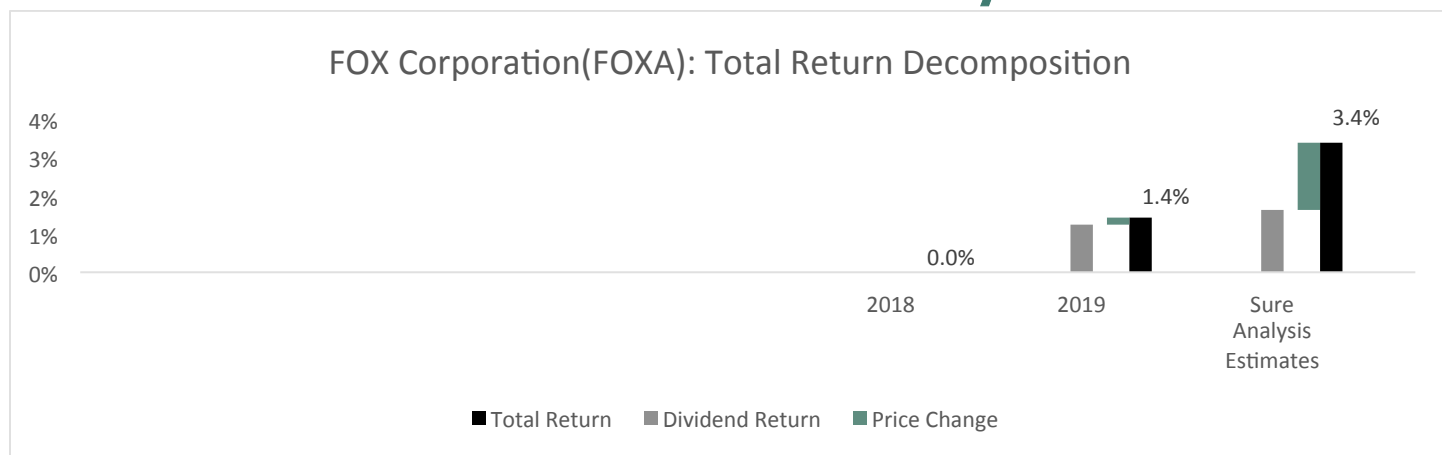
21st Century Fox paid out ~20% of its net profits in the form of dividends throughout most of the last decade. The payout ratio has been even lower during some of the previous couple of years. Fox Corp. pay out 24% of its profits in 2020, with an estimated 2026 payout conservatively continuing around 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 0.84, and an Interest Coverage ratio of 4.97, which is a good 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 fairly valued. However, the next five-year projected returns are estimated to be only 3.4%. Thus, we rate FOXA a Sell.

## 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.

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