



# ViacomCBS Inc. (VIAC)

Updated December 22<sup>nd</sup>, 2020 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$35	<b>5 Year CAGR Estimate:</b>	9.5%	<b>Market Cap:</b>	\$21.6 B
<b>Fair Value Price:</b>	\$43	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	12/14/20
<b>% Fair Value:</b>	82%	<b>5 Year Valuation Multiple Estimate:</b>	4.1%	<b>Dividend Payment Date:</b>	01/04/21
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$49	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	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 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. The company has six different revenue segments, where Advertising, Affiliate, and Content Licensing are the most significant revenue source for the company. ViacomCBS is a \$21.6 billion market capitalization company that generated more than \$27 billion in revenues in fiscal 2019.

The company reported third-quarter and nine-month results on November 06, 2020. The company reported revenues of \$6,116 million vs. \$6,698 million in 3Q19 or a decrease of (9)% for the quarter. For the first nine months of the year, revenue is also down by (9)%. Operating income saw a decrease of (7)% for the quarter and decreased (36)% for the nine months compared to 2019. The Company Non-GAAP EPS of \$0.91 was reported, which was a (17)% decrease compared to \$1.10 reported in the second quarter of 2019. Non-GAAP EPS is also down by (19)% for the nine months of the year. However, the company saw growth in the streaming segment with Domestic Subscribers rising to 17.9 million, up 72% Year-over-Year (YoY). Streaming and Digital Video revenue were \$636 million, which is up 56% YoY.

Advertising revenue declined 6% year-over-year, driven by the adverse effects of COVID-19 on global advertising demand. The affiliate segment was the only segment with positive growth YoY. The affiliate segment saw 105 growth for the quarter and a 4% growth compared to the nine months of FY2019.

Consensus estimates expect the company's earnings-per-share to be \$4.26 for FY2020. We increased this from our last report of \$4.11. However, this is (3.5)% lower than FY2019 earnings of \$5.01. Thus, we will use the new FY2020 estimate of \$4.26 for our valuation calculation.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$1.11	\$1.94	\$2.55	\$3.02	\$2.96	\$3.31	\$4.11	\$4.40	\$5.87	\$5.01	<b>\$4.26</b>	<b>\$4.94</b>
<b>DPS</b>	\$0.20	\$0.35	\$0.44	\$0.48	\$0.54	\$0.60	\$0.66	\$0.72	\$0.72	\$0.78	<b>\$0.96</b>	<b>\$1.23</b>
<b>Shares<sup>1</sup></b>	694.0	681.0	659.0	624.0	561.0	489.0	448.0	647.0	621.0	617.0	<b>617.0</b>	<b>617.0</b>

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 Viacom and CBS's merger now completed, the company is one of the most significant content producers and providers globally. 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. The net Margin was slightly lower for FY2019 at 11.8%, compared to an FY2018 net margin of 13.5%. The company had to freeze its dividend during 2018 as it was preparing for 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.

<sup>1</sup> 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	8.2	10.0
Avg. Yld.	1.1%	1.3%	1.2%	0.8%	1.0%	1.3%	1.0%	1.2%	1.7%	1.9%	2.8%	2.5%

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 10 given current headwinds. This represents an upside as the current P/E of VIAC is 8.2 based on the 2020 EPS estimate of \$4.26.

This low valuation has been caused by the higher merger expense mentioned in the overview section, the Coronavirus outbreak, and the overall market downturn. We view this valuation as attractive.

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

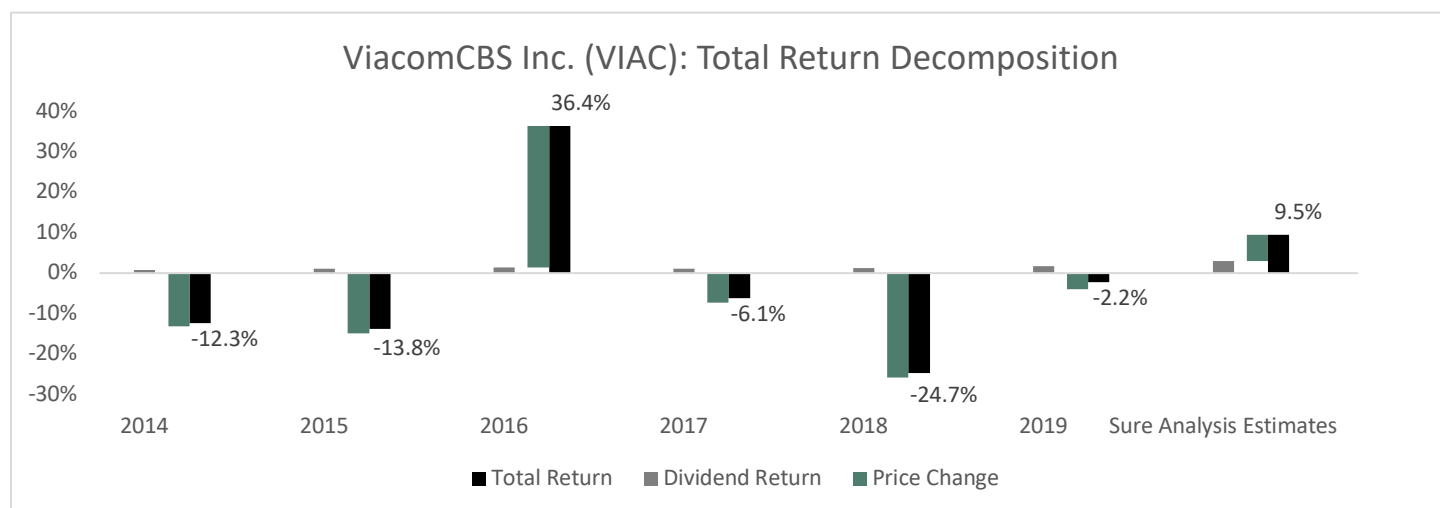
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	18.0%	18.0%	17.3%	15.9%	18.2%	18.1%	16.1%	16.4%	12.3%	15.6%	23%	25%

ViacomCBS's competitive advantage is in its valuable content, such as the ones mentioned in the Overview section, and being in a great position to be one of the largest producers of new content in the future. However, this company is not recession resilient 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 low, at only 23%, based on FY2020 earnings. Consensus estimates show free cash flow (FCF) for FY2020 of \$3.87, which gives a dividend payout ratio of 25% based on FCF. The company currently has a debt to equity ratio (D/E) of 1.5, which is fair. The company also sports a credit rating of BBB. Interest coverage for the year has decreased from 5.90 in FY2018 to 4.48 in FY2019, which is not concerning.

## Final Thoughts & Recommendation

ViacomCBS offers a modest projected total return. We forecast 9.5% annualized returns for the next five years as the high yield, moderate growth, and 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
<b>Revenue</b>	\$13,466	\$13,637	\$12,820	\$14,005	\$12,519	\$12,671	\$13,166	\$26,535	\$27,250	\$27,812
<b>Gross Profit</b>	\$4,954	\$5,755	\$5,556	\$5,881	\$4,830	\$4,760	\$5,210	\$11,052	\$11,333	\$10,589
<b>Gross Margin</b>	37%	42%	43%	42%	39%	38%	40%	42%	42%	38%
<b>SG&amp;A Exp.</b>	\$2,466	\$2,598	\$2,442	\$2,546	\$1,971	\$1,961	\$2,265	\$5,508	\$5,206	\$5,647
<b>D&amp;A Exp.</b>	\$500	\$495	\$306	\$290	\$250	\$235	\$225	\$443	\$433	\$443
<b>Op. Profit</b>	\$1,988	\$2,662	\$2,808	\$3,045	\$2,609	\$2,703	\$2,729	\$5,101	\$5,694	\$4,499
<b>Op. Margin</b>	15%	20%	22%	22%	21%	21%	21%	19%	21%	16%
<b>Net Profit</b>	\$724	\$1,305	\$1,574	\$1,879	\$2,959	\$1,413	\$1,261	\$2,321	\$3,455	\$3,308
<b>Net Margin</b>	5%	10%	12%	13%	24%	11%	10%	9%	13%	12%
<b>Free Cash Flow</b>	\$1,481	\$1,504	\$1,615	\$1,661	\$1,097	\$1,223	\$1,489	\$2,083	\$3,112	\$877
<b>Income Tax</b>	\$478	\$751	\$812	\$878	\$659	\$676	\$628	\$804	\$617	-\$9

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	\$26,143	\$26,220	\$26,466	\$26,387	\$23,935	\$23,765	\$24,238	\$20,843	\$44,497	\$49,519
<b>Cash &amp; Equiv.</b>	\$480	\$660	\$708	\$368	\$428	\$317	\$598	\$285	\$856	\$632
<b>Acc. Rec.</b>		\$3,086	\$3,137	\$3,234	\$3,459	\$3,375	\$3,314	\$3,697	\$7,199	\$7,206
<b>Inventories</b>	\$725	\$735	\$859	\$772	\$922	\$1,270	\$1,427	\$1,828	\$2,785	\$2,876
<b>Goodwill &amp; Int.</b>	\$15,147	\$15,092	\$15,082	\$12,458	\$12,706	\$7,428	\$7,497	\$7,557	\$19,469	\$19,973
<b>Total Liabilities</b>	\$16,322	\$16,312	\$16,253	\$16,421	\$16,965	\$18,202	\$20,549	\$18,865	\$33,994	\$36,230
<b>Acc. Pay.</b>	\$438	\$324	\$386	\$286	\$302	\$159	\$148	\$231	\$502	\$667
<b>Long-Term Debt</b>	\$6,001	\$5,982	\$5,922	\$6,435	\$7,112	\$8,448	\$9,375	\$10,162	\$19,113	\$18,719
<b>Book Value</b>	\$9,821	\$9,908	\$10,213	\$9,966	\$6,970	\$5,563	\$3,689	\$1,978	\$10,449	\$13,207
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	2.7%	5.0%	6.0%	7.1%	11.8%	5.9%	5.3%	10.3%	10.6%	7.0%
<b>Return on Equity</b>	7.7%	13.2%	15.6%	18.6%	34.9%	22.5%	27.3%	81.9%	55.6%	28.0%
<b>ROIC</b>	4.5%	8.2%	9.8%	11.6%	19.4%	10.1%	9.3%	18.4%	16.5%	10.7%
<b>Shares Out. (in millions)</b>	694	681	659	624	561	489	448	647	621	617
<b>Revenue/Share</b>	\$19.40	\$20.03	\$19.45	\$22.44	\$22.32	\$25.91	\$29.39	\$41.01	\$43.88	\$45.08
<b>FCF/Share</b>	\$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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