



Fox Corp. (FOXA)

Updated August 17th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	8.4%	Market Cap:	\$20.5 B
Fair Value Price:	\$42	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	08/31/21
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.4%	Dividend Payment Date:	09/29/21
Dividend Yield:	1.2%	5 Year Price Target	\$53	Years of Dividend Growth:	0
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

Overview & Current Events

Fox Corp. is a television broadcasting company with a \$20.5 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 in 2019, including its cinema entertainment business. Since the spinoff, Fox Corp. has been a much more focused company, with its operations centered on Cable Networks & Television. For Fiscal Year (FY)2020, the Company generated \$12.3 billion in revenue.

On August 4th, 2021, Fox Corp. reported fourth-quarter and full-year results for Fiscal Year (FY)2021. The Company reported total quarterly revenues of \$2,890 million, a 19.5% increase from the \$2,418 million reported in the prior quarter. For the twelve months of FY2021, the Company generated \$12,909 million, 4.9% higher than the entire year of FY2020. Overall, the Company saw strong growth across all revenue categories. Fox Corp saw a significant increase in net income for the quarter, primarily due to the change in the Company's fair value. FOX Corp made a quarterly profit of \$272 million compared to the \$145 million reported in the prior-year quarter. This represents an increase of 87.6% year over year. Affiliate revenues increased 10%, with 16% growth in the Television segment and 6% growth at the Cable Network Programming segment. For the full year, FOXA reported a net income of \$2.20 billion compared to the \$1.06 billion reported in the prior year.

Thus, the Company made \$0.65 per share for the quarter compared to \$0.62 per share FOXA made in the fourth quarter of FY2020. However, for the year, the Company grew earnings by 16.1% from \$2.48 per share in FY2020 to \$2.88 per share. For FY2022, we expect earnings to be down slightly by (3.8)% to \$2.77 per share.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	---	---	---	---	---	\$2.63	\$2.48	\$2.88	\$2.77	\$3.54
DPS	---	---	---	---	---	---	---	\$0.23	\$0.46	\$0.46	\$0.46	\$0.46
Shares¹	---	---	---	---	---	---	---	621.0	621.0	621.0	601.0	601.0

Fox Corp. is a more focused company following the asset sale. Fox News, Fox Business, Fox Sports, Fox Broadcasting, and 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 year saw an earnings growth of 16.1%. However, we expect a positive slower earnings growth of 5% 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 as more and more events and businesses start to be fully operational, bringing improved ratings to its news network.

¹ 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	---	---	---	---	14.4	16.4	12.9	13.4	15.00
Avg. Yld.	---	---	---	---	---	---	---	0.6%	1.7%	1.3%	1.2%	0.9%

The Company was valued with a PE of about 14.6 for the past few years. However, we think that a 15x valuation is fair for this Company. Currently, The Company is trading hands for a PE multiple of 13.4. This PE provides a moderate valuation multiple expansion of 2.4%, and The Company is under our fair price of \$42. The Company dividend yield is also very unattractive considering that the S&P 500 current dividend yield is 1.32%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	---	8.7%	18.5%	16.0%	17%	13%

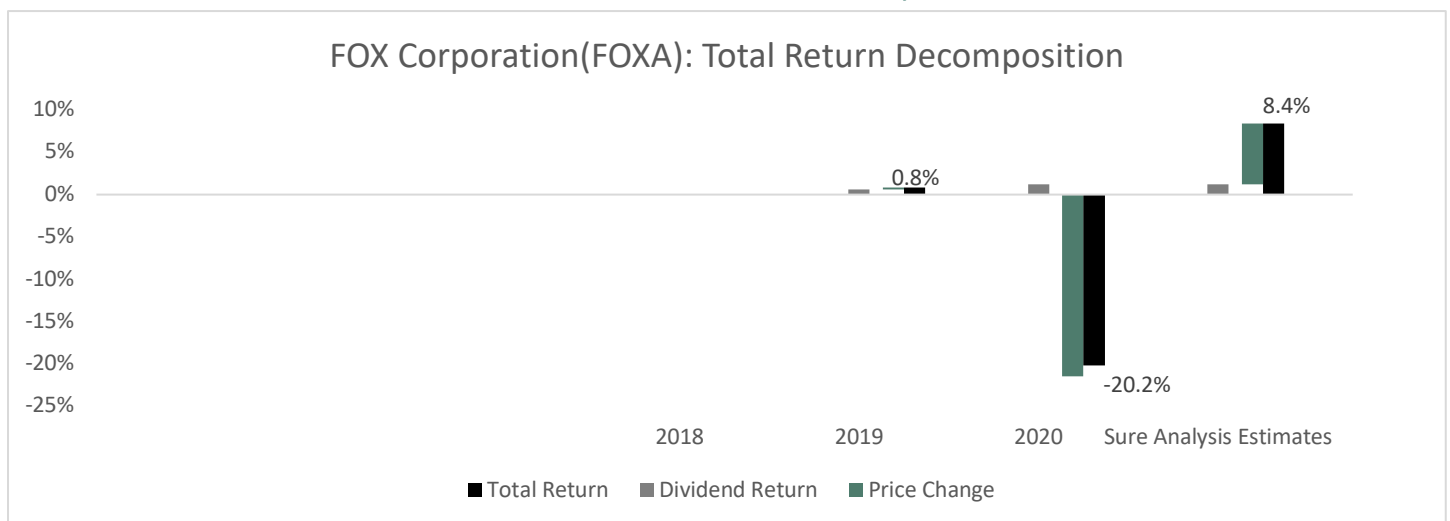
21st Century Fox paid out ~20% of its net profits in the form of dividends throughout most of the last decade. The payout ratio has been even lower during some of the previous years. Fox Corp. paid 16% of its profits in 2021, with an estimated 2027 payout conservatively around 13%. The low payout ratio means that the dividend looks very safe, although the low dividend yield is not especially attractive for income-focused investors.

According to peers, Fox Corp's most influential position 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 0.8 and an Interest Coverage ratio of 8.4. Thus, The Company has an excellent balance sheet.

Final Thoughts & Recommendation

Fox kicked off 2021 with spectacular viewership numbers for the election. Next year should only get better for the network as advertising grows and more sporting events start again. Also, the growth of sports betting is a massive win for the Company as well. Based on our estimates, shares are currently slightly undervalued. We estimate the following five-year projected returns to be only 8.4%. Thus, we rate FOXA a Buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	32778	24232	25051	27675	31867	28987	27326	28500	30400	12303
Gross Profit	11763	8487	9388	10179	10759	10426	9907	10406	10631	
Gross Margin	35.9%	35.0%	37.5%	36.8%	33.8%	36.0%	36.3%	36.5%	35.0%	
SG&A Exp.	6619	3759	3719	4007	4129	3784	3460	3337	3759	1741
D&A Exp.	1185	777	711	797	1142	736	530	553	584	258
Operating Profit	3959	3951	4958	5375	5488	5906	5917	6516	6288	2497
Op. Margin	12.1%	16.3%	19.8%	19.4%	17.2%	20.4%	21.7%	22.9%	20.7%	20.3%
Net Profit	2539	2739	1179	7097	4514	8306	2755	2952	4464	999
Net Margin	7.7%	11.3%	4.7%	25.6%	14.2%	28.7%	10.1%	10.4%	14.7%	8.1%
Free Cash Flow	2940	2416	2270	2380	2286	3193	2879	3418	3676	2006
Income Tax	679	673	1094	1690	1272	1243	1130	1419	-364	402

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	54384	61980	56663	50944	54793	50039	48193	50872	53831	21750
Cash & Equivalents	8709	12680	9626	6659	5415	8428	4424	6163	7622	4645
Acc. Receivable	N/A	6330	6608	5459	6468	5912	6258	6625	7120	1888
Inventories	2392	2332	2595	2784	3092	2749	3291	3101	3669	856
Goodwill & Int.	22055	23284	20307	22319	26124	18833	19510	19366	18869	6607
Total Liabilities	28518	31333	31478	30819	33892	31853	33312	33934	33033	11639
Accounts Payable	N/A	5773	5405	4434	4183	411	270	406	443	
Long-Term Debt	13320	15495	15455	16458	19058	19039	19553	19913	19523	7946
Total Equity	25113	30069	24684	16998	17418	17220	13661	15722	19564	10094
D/E Ratio	0.53	0.52	0.63	0.97	1.09	1.11	1.43	1.27	1.00	0.79

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.7%	4.7%	2.0%	13.2%	8.5%	15.8%	5.6%	6.0%	8.5%	4.8%
Return on Equity	10.5%	9.9%	4.3%	34.1%	26.2%	48.0%	17.8%	20.1%	25.3%	10.0%
ROIC	6.6%	6.4%	2.7%	18.4%	11.8%	21.5%	7.7%	8.3%	11.6%	5.7%
Shares Out.	2620	2630	2380	2320	2190	2020	1870	1850	1850	621
Revenue/Share	12.47	9.20	10.00	11.82	14.04	13.61	14.05	15.36	16.37	19.97
FCF/Share	1.12	0.92	0.91	1.02	1.01	1.50	1.48	1.84	1.98	3.26

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

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