ViacomCBS Inc. (VIAC)

Updated September 4th, 2021 by Felix Martinez

Key Metrics

Current Price:	$41	**5 Year CAGR Estimate:**	3.3%	**Market Cap:**	$27.0 B
Fair Value Price:	$39	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	10/14/21
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.1%	**Dividend Payment Date:**	11/01/21
Dividend Yield:	2.3%	**5 Year Price Target**	$43	**Years Of Dividend Growth:**	1
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**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 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. ViacomCBS is a $27.0 billion market capitalization company that generated more than $25 billion in fiscal 2020.

The Company reported second-quarter (FY)2021 results on August 5, 2021. The Company reported revenues of $6,564 million vs. $6,075 million in 2Q20, or 8% increase year-over-year. For the first six months of the year, revenues are up 11% compared to the first six months of FY2020. The operating income reported was $1,226 million for the quarter, which was 2% less than the $1,251 million the Company reported in 2Q20. However, for the six months of the year, operating income is up 28% vs. the six months of FY2020. Non-GAAP EPS of $0.97 was reported, decreasing (20)% compared to $1.21 per share reported in the second quarter of 2020. But, ViacomCBS made $2.47 per share for the first six months, which is 6% higher year over year. ViacomCBS had massive growth in the streaming segment. Global Streaming revenue grew up 92% year-over-year, fueled by more robust users and product monetization. The Company added 6.5 million total streaming subscribers in the quarter to now reaching 42 million altogether. The Company also reported that it delivered an 82% growth in streaming subscription revenue, which was driven by the development of Paramount+. Advertising revenue grew 24% compared to 2Q20, driven by CBS' broadcasts of 2021 sporting events. There were no comparable broadcasts in the prior-year period due to COVID-19 and an improved advertising market. Affiliate revenue grew 9% for the quarter.

Consensus estimates expect the Company's earnings-per-share to be $3.90 for FY2021. The expected earnings for 2021 are (7.1)% lower than FY2020 earnings of $4.20 per share. We will use the FY2021 estimate of $3.90 for our valuation calculation.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.94	$2.55	$3.02	$2.96	$3.31	$4.11	$4.40	$5.87	$5.01	$4.20	***$3.90***	***$4.31***
DPS	$0.35	$0.44	$0.48	$0.54	$0.60	$0.66	$0.72	$0.72	$0.78	$0.96	***$0.96***	***$1.23***
Shares[1]	681.0	659.0	624.0	561.0	489.0	448.0	647.0	621.0	617.0	618.0	***647.0***	***647.0***

Over the last decade, Viacom had a revenue compound annual growth rate (CAGR) of 2.6% and a 9.0% 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 ViacomCBS to be in a solid position as content demand continues to grow. We estimate a five-year expected growth rate of 2% as management continues to integrate both companies.

[1] Share count is in millions.

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Net Margin decreased for FY2020 to 9.6%, compared to an FY2019 net margin of 11.8%. 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.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14	14.9	21.1	18.7	14.2	15.5	13.4	8.4	8.4	8.9	***10.6***	***10.0***
Avg. Yld.	1.3%	1.2%	0.8%	1.0%	1.3%	1.0%	1.2%	1.7%	1.9%	2.6%	***2.3%***	***2.8%***

Over the past decade, Viacom shares have traded with an average P/E of 13.7. However, over the past five years, it has averaged a P/E of 10.9. For our fair value estimate, we will use a P/E of 10 given current headwinds. This represents a downside of (1.1)% as the current P/E of VIAC is 10.6 based on the 2021 EPS estimate of $3.90 per share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

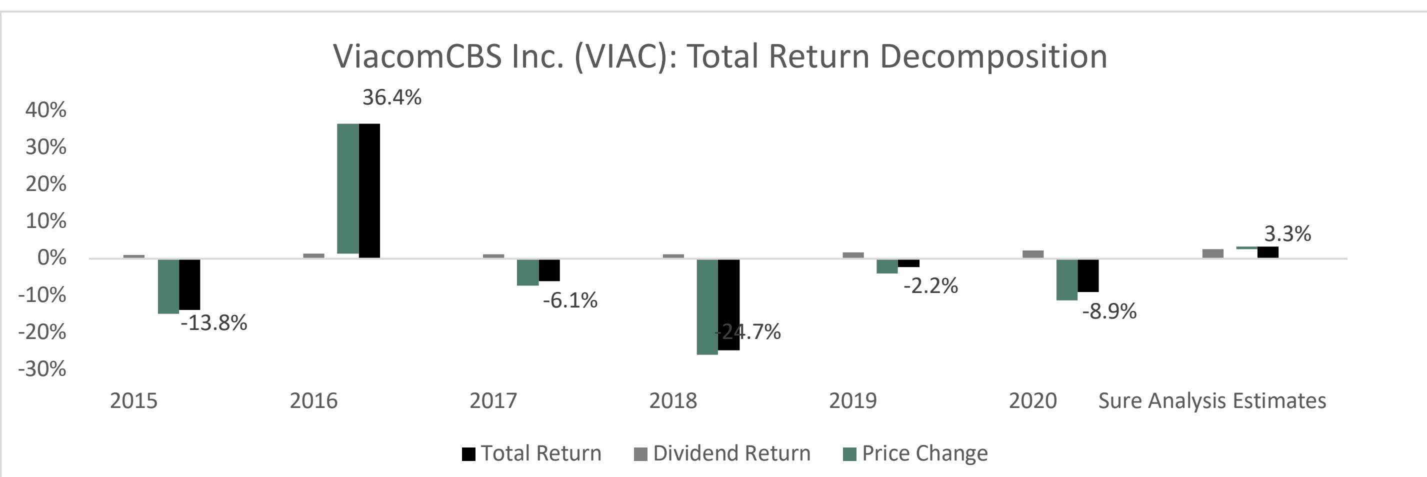
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	18.0%	17.3%	15.9%	18.2%	18.1%	16.1%	16.4%	12.3%	15.6%	22.9%	***25%***	***28%***

ViacomCBS's competitive advantage is 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 per share to $0.20 per share, an 81.1% dividend cut. However, the current dividend payout ratio is low, at only 24%, based on FY2020 earnings. Consensus estimates that free cash flow (FCF) for FY2021 will be $2.22 per share, which gives a dividend payout ratio of 43% based on FCF. The Company currently has a debt to equity ratio (D/E) of 1.0, which is fair. The Company also sports a credit rating of BBB. Interest coverage has decreased from 4.5 in FY2019 to 4.1 in FY2020, which is not concerning.

Final Thoughts & Recommendation

ViacomCBS offers a meager projected total return. We forecast 3.3% annualized returns for the next five years as the low yield, moderate growth, and higher valuation make ViacomCBS unattractive at current prices. Thus, we rate VIAC as a Sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	$13,637	$12,820	$14,005	$12,519	$12,671	$13,166	$26,535	$27,250	$27,812	$25,285
Gross Profit	$5,755	$5,556	$5,881	$4,830	$4,760	$5,210	$11,052	$11,333	$10,589	$10,293
Gross Margin	42%	43%	42%	39%	38%	40%	42%	42%	38%	40.7%
SG&A Exp.	$2,598	$2,442	$2,546	$1,971	$1,961	$2,265	$5,508	$5,206	$5,647	$5,389
D&A Exp.	$495	$306	$290	$250	$235	$225	$443	$433	$443	$430
Op. Profit	$2,662	$2,808	$3,045	$2,609	$2,703	$2,729	$5,101	$5,694	$4,499	$4,688
Op. Margin	20%	22%	22%	21%	21%	21%	19%	21%	16%	18.5%
Net Profit	$1,305	$1,574	$1,879	$2,959	$1,413	$1,261	$2,321	$3,455	$3,308	$2,422
Net Margin	10%	12%	13%	24%	11%	10%	9%	13%	12%	9.6%
Free Cash Flow	$1,504	$1,615	$1,661	$1,097	$1,223	$1,489	$2,083	$3,112	$877	$1,970
Income Tax	$751	$812	$878	$659	$676	$628	$804	$617	-$9	$535

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	$26,220	$26,466	$26,387	$23,935	$23,765	$24,238	$20,843	$44,497	$49,519	$52,663
Cash & Equiv.	$660	$708	$368	$428	$317	$598	$285	$856	$632	$2,984
Acc. Rec.	$3,086	$3,137	$3,234	$3,459	$3,375	$3,314	$3,697	$7,199	$7,206	$7,017
Inventories	$735	$859	$772	$922	$1,270	$1,427	$1,828	$2,785	$2,876	$1,757
Goodwill & Int.	$15,092	$15,082	$12,458	$12,706	$7,428	$7,497	$7,557	$19,469	$19,973	$19,438
Total Liabilities	$16,312	$16,253	$16,421	$16,965	$18,202	$20,549	$18,865	$33,994	$36,230	$36,607
Acc. Pay.	$324	$386	$286	$302	$159	$148	$231	$502	$667	$571
Long-Term Debt	$5,982	$5,922	$6,435	$7,112	$8,448	$9,375	$10,162	$19,113	$18,719	$19,733
Book Value	$9,908	$10,213	$9,966	$6,970	$5,563	$3,689	$1,978	$10,449	$13,207	$15,371
D/E Ratio	0.60	0.58	0.65	1.02	1.52	2.54	5.14	1.83	1.42	1.28

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.0%	6.0%	7.1%	11.8%	5.9%	5.3%	10.3%	10.6%	7.0%	4.7%
Return on Equity	13.2%	15.6%	18.6%	34.9%	22.5%	27.3%	81.9%	55.6%	28.0%	17.0%
ROIC	8.2%	9.8%	11.6%	19.4%	10.1%	9.3%	18.4%	16.5%	10.7%	7.1%
Shares Out. (in millions)	681	659	624	561	489	448	647	621	617	618
Revenue/Share	$20.03	$19.45	$22.44	$22.32	$25.91	$29.39	$41.01	$43.88	$45.08	$40.91
FCF/Share	$2.21	$2.45	$2.66	$1.96	$2.50	$3.32	$3.22	$5.01	$1.42	$3.19

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