



Fox Corp. (FOXA)

Updated May 25th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	11.3%	Market Cap:	\$18.01 B
Fair Value Price:	\$43	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	08/31/22 ¹
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.1%	Dividend Payment Date:	09/29/22
Dividend Yield:	1.5%	5 Year Price Target	\$55	Years of Dividend Growth:	0
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Fox Corp. is a television broadcasting company with an \$18.01 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 its 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)2021, the company generated \$12.9 billion in revenue.

On May 10th, 2022, Fox Corp. reported third-quarter results for Fiscal Year (FY)2022. The company fiscal year ends at the end of July. The company reported total quarterly revenues of \$3.46 billion, a 7% increase from the \$3.2 billion reported in the third quarter of FY2021. Overall, the company saw growth across all revenue categories. For example, affiliate revenues increased by 4.5%. Advertising revenues increased 9.1%, primarily due to continued pricing strength at the FOX Network, and other revenues increased 17.9%, led by higher sports sublicensing revenues at the Cable Network Programming segment, which COVID-19 impacted in the prior-year quarter. For the nine months of the fiscal year, revenue is up 9.2% compared to the first nine months of FY2021. However, Fox Corp saw a significant decrease in net income (50.2)% for the quarter compared to 3Q2021. The big difference was primarily due to the change in fair value of the company's investments recognized in "Other." The net loss attributable to Fox Corporation stockholders was \$283 million or \$(0.50) per share compared to \$567 million or \$(0.96) per share reported in the prior-year quarter. Adjusted net income was a loss of \$459 million or \$(0.81) per share compared to the \$523 million \$(0.88) per share reported in the prior-year quarter. Net income for the nine months is also down (52)% compared to the nine months of FY2021.

Overall, the company made \$0.50 per share for the quarter compared to the \$0.96 per share FOXA made in the third quarter of FY2021. We expect that FOX Corp will earn \$2.85 per share for 2022. This will slightly decrease compared to what the company made in FY2021.

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	\$2.85	\$3.64
DPS	---	---	---	---	---	---	---	\$0.23	\$0.46	\$0.46	\$0.48	\$0.48
Shares²	---	---	---	---	---	---	---	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.

¹ Ex-Dividend and Dividend Payment Date are estimates.

² 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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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.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	---	---	---	---	14.4	16.4	12.9	11.7	15.0
Avg. Yld.	---	---	---	---	---	---	---	0.6%	1.7%	1.3%	1.5%	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 11.7. This PE provides a moderate valuation multiple expansion of 5.1%. Also, the company's current stock price is under our fair price of \$43. The company dividend yield is also unattractive, considering that the S&P 500 current dividend yield is 1.56%.

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%

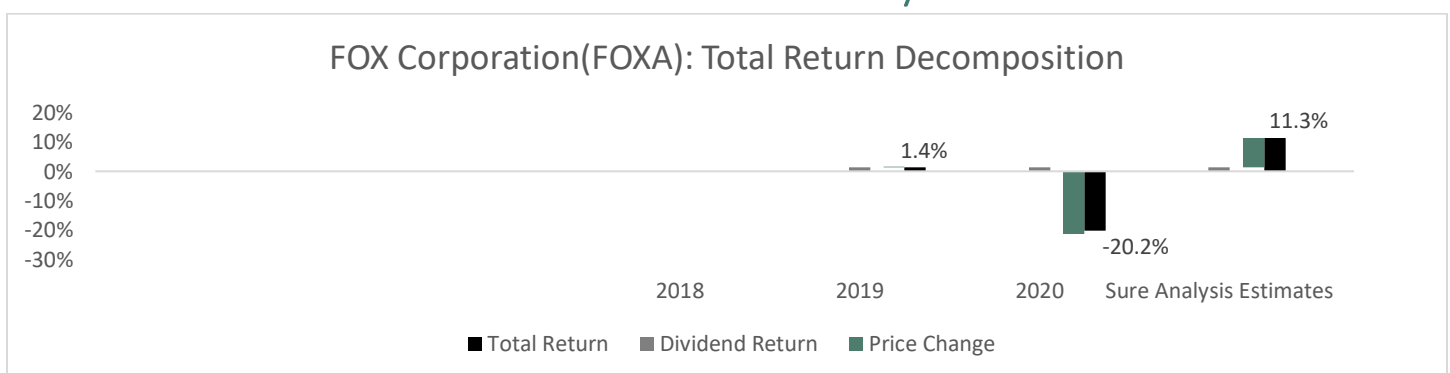
21st Century Fox paid out ~20% of its net profits in the form of dividends throughout most of the last decade. The payout ratio has been even lower during some of the previous years. Fox Corp. paid 16% of its profits in 2021, with an estimated 2027 payout conservatively around 13%. The low payout ratio 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 0.7 and an Interest Coverage ratio of 5.1. Thus, the company has an excellent balance sheet.

Final Thoughts & Recommendation

As more sporting events came back, Fox kicked off 2022 with spectacular viewership numbers. Next year should only improve the network as advertising grows and more sporting events start again. Also, the growth of sports betting is a massive win for the company. Based on our estimates, shares are currently undervalued. We estimate the following five-year projected returns to be only 11.3%. Thus, we rate FOXA a buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue					8,894	9,921	10,153	11,389	12,303	12,909
SG&A Exp.					1,191	1,117	1,262	1,419	1,741	1,807
Operating Profit					170	169	171	212	258	300
Op. Margin					1.9%	1.7%	1.7%	1.9%	2.1%	2.3%
Net Profit					1,974	2,535	2,215	2,431	2,497	2,765
Net Margin					22.2%	25.6%	21.8%	21.3%	20.3%	21.4%
Free Cash Flow					1,072	1,372	2,187	1,595	999	2,150
Income Tax					990	1,464	1,102	2,289	2,006	2,155

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets						10,348	13,121	19,509	21,750	22,926
Cash & Equivalents						19	2,500	3,234	4,645	5,886
Acc. Receivable						1,693	1,833	1,967	1,888	2,029
Inventories						1,052	1,180	1,129	856	729
Goodwill & Int.						5,871	5,613	5,542	6,607	6,589
Total Liabilities						4,255	3,527	9,551	11,639	11,801
Long-Term Debt						0	0	6,751	7,946	7,951
Total Equity						6,093	9,594	9,947	10,094	11,123
D/E Ratio						0	0	0.68	0.79	0.71

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets							18.6%	9.8%	4.8%	9.6%
Return on Equity							27.9%	16.3%	10.0%	20.3%
ROIC							27.9%	12.1%	5.7%	11.6%
Shares Out.								621.0	621.0	621.0
Revenue/Share					14.35	16.00	16.38	18.34	19.97	21.70
FCF/Share					1.60	2.36	1.78	3.69	3.26	3.62

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

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