



Paramount Global (PARA)

Updated August 28th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	3.4%	Market Cap:	\$16.3 B
Fair Value Price:	\$22	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	09/14/22
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.2%	Dividend Payment Date:	10/03/22
Dividend Yield:	3.9%	5 Year Price Target	\$25	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

ViacomCBS Inc., now called Paramount Global, 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. Paramount is an \$16.3 billion market capitalization company that generated more than \$28.5 billion in revenue for 2021. The company reported second-quarter results for Fiscal Year (FY)2022 on August 4th, 2022. For the quarter, the company reported revenues of \$7,779 million vs. \$6,564 million in 2Q21, or a 19% increase year-over-year. This was due to the significant increase in both Direct-to-consumer and Filmed Entertainment segment, which saw revenue increased 56% and 126%, respectively. The operating income reported was \$819 million for the quarter, a significant decrease of (33)% compared to the \$1,226 million the company reported in 2Q21. The company added 4.9 million global streaming subscribers, overwhelmingly led by Paramount+. Paramount+ subscribers grew to over 43M, which reflects the addition of 4.9M subscribers and the removal of 1.2M Russia subscribers. Paramount+ subscriber growth was partially driven by successful international market launches, including the UK, Ireland and South Korea. The advertising segment saw a revenue increase of 56% for the quarter. Earnings for the quarter was down (34)% compared to 2Q2021. Non-GAAP EPS of \$0.64 was reported, decreasing by (34)% compared to \$0.97 per share reported in the second quarter of 2021. For the six months of the fiscal year, revenue is up 8%, while operating income is down (42)%. Earnings was also down for the six months of the year, from \$2.47 per share in the first six months of 2021, to \$1.24 per share so far. This is a decrease of (50)% year-over-year.

Consensus estimates expect the company's earnings-per-share to be \$2.23 for FY2022. This will be a decrease of (35.9)% compared to FY2021. We will use the FY2022 estimate of \$2.23 for our valuation calculation.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.55	\$3.02	\$2.96	\$3.31	\$4.11	\$4.40	\$5.87	\$5.01	\$4.20	\$3.48	\$2.23	\$2.46
DPS	\$0.44	\$0.48	\$0.54	\$0.60	\$0.66	\$0.72	\$0.72	\$0.78	\$0.96	\$0.96	\$0.96	\$0.96
Shares¹	659.0	624.0	561.0	489.0	448.0	647.0	621.0	617.0	618.0	655.0	650.0	650.0

Over the last decade, Paramount had an earnings compound annual growth rate (CAGR) of 3.5% and a (12.7)% CAGR over the past five years. With Viacom and CBS's merger completed, the company is one of the most significant content producers and providers globally. This allows Paramount 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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The net Margin increased for FY2021 to 15.9%, compared to an FY2020 net margin of 9.6%. 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 7.6%. We do not expect the company to start growing its dividend over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.9	21.1	18.7	14.2	15.5	13.4	8.4	8.4	8.9	8.7	11.2	10.0
Avg. Yld.	1.2%	0.8%	1.0%	1.3%	1.0%	1.2%	1.7%	1.9%	2.6%	3.2%	3.9%	3.9%

Over the past decade, Paramount shares have traded with an average P/E of 13.2. However, over the past five years, it has averaged a P/E of 9.6. We will use a P/E of 10, given current headwinds for our fair value estimate. This represents a (2.2)% downside as the current P/E of PARA is 11.2 based on the 2022 EPS estimate of \$2.23 per share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

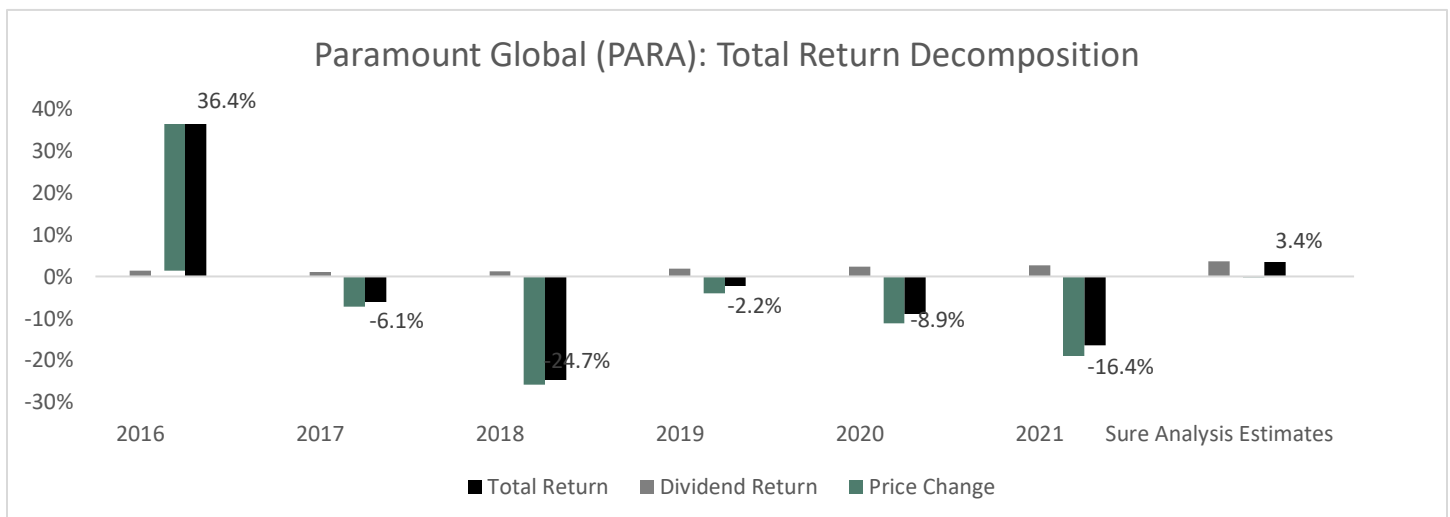
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	17.3%	15.9%	18.2%	18.1%	16.1%	16.4%	12.3%	15.6%	22.9%	27.6%	43%	39%

Paramount'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 43%, based on FY2022 earnings. Consensus estimates that free cash flow (FCF) for FY2022 will be \$0.69 per share, which gives a dividend payout ratio of 129% based on FCF, which is at risk of a cut. The company currently has a debt-to-equity ratio (D/E) of 0.8, which is good. The company also sports a credit rating of BBB.

Final Thoughts & Recommendation

Paramount offers a low projected total return. We forecast 3.4% annualized returns for the next five years as the moderate growth and overvaluation make Paramount unattractive at current prices. Thus, we rate PARA as a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	\$12,820	\$14,005	\$12,519	\$12,671	\$13,166	\$26,535	\$27,250	\$27,812	\$25,285	\$28,586
Gross Profit	\$5,556	\$5,881	\$4,830	\$4,760	\$5,210	\$11,052	\$11,333	\$10,589	\$10,293	\$10,842
Gross Margin	43%	42%	39%	38%	40%	42%	42%	38%	40.7%	37.9%
SG&A Exp.	\$2,442	\$2,546	\$1,971	\$1,961	\$2,265	\$5,508	\$5,206	\$5,647	\$5,389	\$6,441
D&A Exp.	\$306	\$290	\$250	\$235	\$225	\$443	\$433	\$443	\$430	\$390
Op. Profit	\$2,808	\$3,045	\$2,609	\$2,703	\$2,729	\$5,101	\$5,694	\$4,499	\$4,688	\$4,011
Op. Margin	22%	22%	21%	21%	21%	19%	21%	16%	18.5%	14.0%
Net Profit	\$1,574	\$1,879	\$2,959	\$1,413	\$1,261	\$2,321	\$3,455	\$3,308	\$2,422	\$4,543
Net Margin	12%	13%	24%	11%	10%	9%	13%	12%	9.6%	15.9%
Free Cash Flow	\$1,615	\$1,661	\$1,097	\$1,223	\$1,489	\$2,083	\$3,112	\$877	\$1,970	\$599
Income Tax	\$812	\$878	\$659	\$676	\$628	\$804	\$617	-\$9	\$535	\$646

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	\$26,466	\$26,387	\$23,935	\$23,765	\$24,238	\$20,843	\$44,497	\$49,519	\$52,663	\$58,620
Cash & Equiv.	\$708	\$368	\$428	\$317	\$598	\$285	\$856	\$632	\$2,984	\$6,267
Acc. Rec.	\$3,137	\$3,234	\$3,459	\$3,375	\$3,314	\$3,697	\$7,199	\$7,206	\$7,017	\$6,984
Inventories	\$859	\$772	\$922	\$1,270	\$1,427	\$1,828	\$2,785	\$2,876	\$1,757	\$1,504
Goodwill & Int.	\$15,082	\$12,458	\$12,706	\$7,428	\$7,497	\$7,557	\$19,469	\$19,973	\$19,438	\$19,356
Total Liabilities	\$16,253	\$16,421	\$16,965	\$18,202	\$20,549	\$18,865	\$33,994	\$36,230	\$36,607	\$35,650
Acc. Pay.	\$386	\$286	\$302	\$159	\$148	\$231	\$502	\$667	\$571	\$800
Long-Term Debt	\$5,922	\$6,435	\$7,112	\$8,448	\$9,375	\$10,162	\$19,113	\$18,719	\$19,733	\$17,709
Book Value	\$10,213	\$9,966	\$6,970	\$5,563	\$3,689	\$1,978	\$10,449	\$13,207	\$15,371	\$22,402
LTD/E Ratio	0.58	0.65	1.02	1.52	2.54	5.14	1.83	1.42	1.28	0.79

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.0%	7.1%	11.8%	5.9%	5.3%	10.3%	10.6%	7.0%	4.7%	8.2%
Return on Equity	15.6%	18.6%	34.9%	22.5%	27.3%	81.9%	55.6%	28.0%	17.0%	24.1%
ROIC	9.8%	11.6%	19.4%	10.1%	9.3%	18.4%	16.5%	10.7%	7.1%	11.9%
Shares Out. (in millions)	659.0	624.0	561.0	489.0	448.0	647.0	621.0	617.0	618.0	655.0
Revenue/Share	\$19.45	\$22.44	\$22.32	\$25.91	\$29.39	\$41.01	\$43.88	\$45.08	\$40.91	\$43.64
FCF/Share	\$2.45	\$2.66	\$1.96	\$2.50	\$3.32	\$3.22	\$5.01	\$1.42	\$3.19	\$0.91

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

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