



Fox Corp. (FOXA)

Updated March 4th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	11.5%	Market Cap:	\$18.02 B
Fair Value Price:	\$45	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/28/23
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.1%	Dividend Payment Date:	03/29/23
Dividend Yield:	1.4%	5 Year Price Target	\$57	Years of Dividend Growth:	1
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Fox Corp. is a television broadcasting company with an \$18.02 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)2022, the company generated \$13.97 billion in revenue.

On February 8th, 2022, Fox Corp. reported second quarter and six months results for Fiscal Year (FY)2023. The company fiscal year ends at the end of July. The company reported revenues of \$4.61 billion, a 54% increase from the \$4.44 billion reported in the prior year quarter. Affiliate fee revenues increased 1% with 6% growth at the Television segment.

Advertising revenues increased 4%, primarily reflecting the impact of the FIFA Men's World Cup ("World Cup") and strong NFL results at FOX Sports, higher political advertising revenues at the FOX Television Stations and continued growth at Tubi, partially offset by the absence of Thursday Night Football. Net income for the quarter was \$321 million compared to a net loss of \$73 million in the same quarter last fiscal year. Adjusted net income was \$259 million or \$0.48 per share as compared to the \$77 million or \$0.13 per share reported in the prior year quarter.

For the six months, the company reported revenues of \$7.8 billion, a 4.2% increase from the \$7.5 billion reported for the first six months of FY2022. Affiliate fee revenues decreased (0.5)% for the six months versus the prior fiscal year first six months. Advertising revenues increased 0.3%, primarily due to higher pricing at FOX Sports and FOX News Media, continued growth at TUBI and the return of a full schedule of live events at FOX Sports.

The company also announced an incremental \$3B stock repurchase. With this increase, the company's total stock repurchase authorization is now \$7B.

We expect that FOX Corp will earn \$3.45 per share for FY2023. This will represent an increase of 23.7% compared to FY2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	---	---	---	---	\$2.63	\$2.48	\$2.88	\$2.79	\$3.45	\$4.40
DPS	---	---	---	---	---	---	\$0.23	\$0.46	\$0.46	\$0.48	\$0.52	\$0.60
Shares¹	---	---	---	---	---	---	621.0	621.0	621.0	621.0	547.0	547.0

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 decline by (3.1)%. However, we expect a positive slower earnings growth of 5% for the next five years. Because of the recent dividend increase, we are now anticipating a 3% annual dividend increase for the next five years.

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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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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	---	---	---	14.4	16.4	12.9	11.8	10.1	13.0
Avg. Yld.	---	---	---	---	---	---	0.6%	1.7%	1.3%	1.5%	1.4%	1.1%

The company was valued with a PE of about 13.9 for the past few years. However, we think that a 13x valuation is fair for this company. Currently, the company is trading hands for a PE multiple of 10.1. This PE provides a moderate valuation multiple expansion of 5.1%. Also, the company's current stock price is under our fair price of \$45. The company dividend yield is unattractive, considering that the S&P 500 current dividend yield is 1.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	8.7%	18.5%	16.0%	17.2%	15%	14%

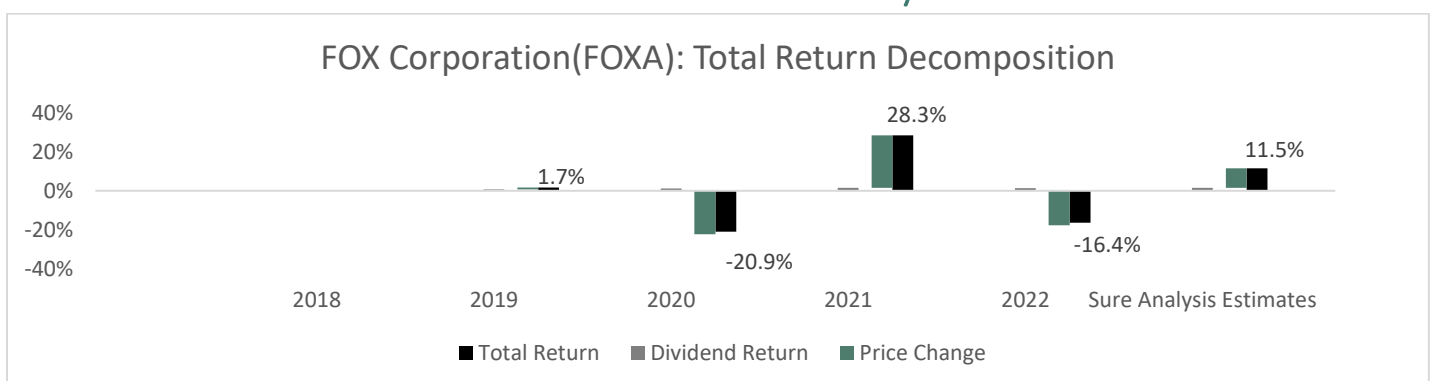
21st Century Fox paid out ~20% of its net profits in the form of dividends throughout most of the last decade. The payout ratio has been even lower during some of the previous years. Fox Corp. paid 16% of its profits in 2021, with an estimated 2027 payout conservatively around 13%. The low payout ratio 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 6.9. Thus, the company has an excellent balance sheet.

Final Thoughts & Recommendation

As more sporting events came back, Fox kicked off 2023 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 11.5%. Thus, we rate FOXA a buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue				8,894	9,921	10,153	11,389	12,303	12,909	13,974
SG&A Exp.				1,191	1,117	1,262	1,419	1,741	1,807	1,920
Operating Profit				170	169	171	212	258	300	363
Op. Margin				1.9%	1.7%	1.7%	1.9%	2.1%	2.3%	2,574
Net Profit				1,974	2,535	2,215	2,431	2,497	2,765	18.4%
Net Margin				22.2%	25.6%	21.8%	21.3%	20.3%	21.4%	1,205
Free Cash Flow				1,072	1,372	2,187	1,595	999	2,150	8.6%
Income Tax				990	1,464	1,102	2,289	2,006	2,155	1577

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets					10,348	13,121	19,509	21,750	22,926	22,185
Cash & Equivalents					19	2,500	3,234	4,645	5,886	5,200
Acc. Receivable					1,693	1,833	1,967	1,888	2,029	2,128
Inventories					1,052	1,180	1,129	856	729	791
Goodwill & Int.					5,871	5,613	5,542	6,607	6,589	6,711
Total Liabilities					4,255	3,527	9,551	11,639	11,801	10,810
Long-Term Debt					0	0	6,751	7,946	7,951	7,206
Total Equity					6,093	9,594	9,947	10,094	11,123	11,339
LTD/E Ratio					0	0	0.68	0.79	0.71	0.64

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets						18.6%	9.8%	4.8%	9.6%	5.3%
Return on Equity						27.9%	16.3%	10.0%	20.3%	10.7%
ROIC						27.9%	12.1%	5.7%	11.6%	6.4%
Shares Out.							621.0	621.0	621.0	570
Revenue/Share				14.35	16.00	16.38	18.34	19.97	21.70	24.52
FCF/Share				1.60	2.36	1.78	3.69	3.26	3.62	2.77

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

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