Nexstar Media Group, Inc. (NXST)

Updated June 4th, 2023, by Ian Bezek

Key Metrics

Current Price:	$158	**5 Year CAGR Estimate:**	8.5%	**Market Cap:**	$5.7 B
Fair Value Price:	$140	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	08/09/23[1]
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.4%	**Dividend Payment Date:**	08/24/23[1]
Dividend Yield:	3.4%	**5 Year Price Target**	$206	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Nexstar is a media conglomerate focused on broadcast television and digital media assets. It owns and operates 199 television channels across 116 markets in 39 states and Washington D.C. The stations are affiliated with a variety of networks including ABC, NBC, FOX, and CBS. Nexstar's channels reach 39% of all U.S. households. The company also operates 120 local websites along with national properties such as *The Hill* and *NewsNation*.

Free broadcast television is often perceived to be a stagnant or declining industry. However, Nexstar has been able to grow tremendously by rolling up a variety of channels and digital media sites acquired from other owners. Recent acquisitions have included Media General in 2017 and Tribune Media in 2019. There are often a significant number of redundant costs across media operations, giving Nexstar considerable cost savings as it purchases additional smaller operators. The company remains active in M&A, buying 2 San Diego stations in May for $35 million.

Nexstar has grown its earnings dramatically over the past few years, and that continued in 2022. However, the firm's momentum has slowed. Q1 results, released May 9, showed a big dip in earnings. Top-line revenues were fine, with Nexstar's revenues growing 4% year-over-year to $1.26 billion. But the revenue growth didn't translate to the bottom line. Earnings per share of $2.97 fell from $5.99 for the same quarter of 2022.

Nexstar's earnings shortfall came about in large part because it acquired the CW Network recently, and CW is generating sizable losses. The core Nexstar business appears to be operating well, but the rise in operating costs tied to CW is dragging down overall results. Nexstar notes that it may take until 2025 to turn things around and get CW to profitability, thus putting a sharp short-term headwind on Nexstar's overall outlook. In addition, as 2023 is an off year in the election cycle, there will be far less political ad revenues. Furthermore, Nexstar is boosting marketing investments for its *NewsNation* network. All these factors should lead to a significant decline in profitability in 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	-$0.06	$2.02	$2.42	$2.89	$3.24	$8.21	$4.80	$17.37	$18.98	$24.16	***$17.50***	***$25.71***
DPS	$0.48	$0.60	$0.76	$0.96	$1.20	$1.50	$1.80	$2.24	$2.80	$3.60	***$5.40***	***$7.23***
Shares	31	31	31	46	46	46	46	43	41	37	***36***	***34***

Nexstar has generated tremendous earnings growth over the past decade. From essentially breaking even a decade ago, Nexstar has increased earnings per share to $24.16 last year. Over the past five years, earnings have grown at an outstanding 20% compound annual rate. The company has benefited from both record political spending and also the rapid reopening of the economy following the pandemic.

Nexstar has become an under-the-radar dividend growth story as well. As recently as 2012, Nexstar paid no dividend at all. However, it has now grown its payout to $5.40 per share annually. The company just gave investors another massive dividend increase in January 2023, raising the annual payment by 50%. The dividend remains well-supported by earnings even after these large increases.

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[1] Estímated date.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	22.1	22.3	17.7	19.9	9.1	21.2	5.3	7.7	6.6	***9.0***	***8.0***
Avg. Yld.	0.0%	1.5%	1.3%	1.4%	1.9%	1.9%	2.0%	1.8%	2.4%	1.9%	***3.4%***	***3.5%***

Nexstar's P/E ratio has fluctuated dramatically over the past decade. It has gone as low as 5 in 2020 and up to the 20s at other times. For now, it appears that investors are not going to assign Nexstar a high P/E multiple due to concerns about the longevity of the broadcast television industry.

Nexstar has just emerged as a meaningful dividend payer over the past few years. However, it has continued to raise its payouts over time, and shares now offer their highest starting dividend yield to date.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	30%	31%	33%	37%	18%	38%	13%	15%	15%	***31%***	***28%***

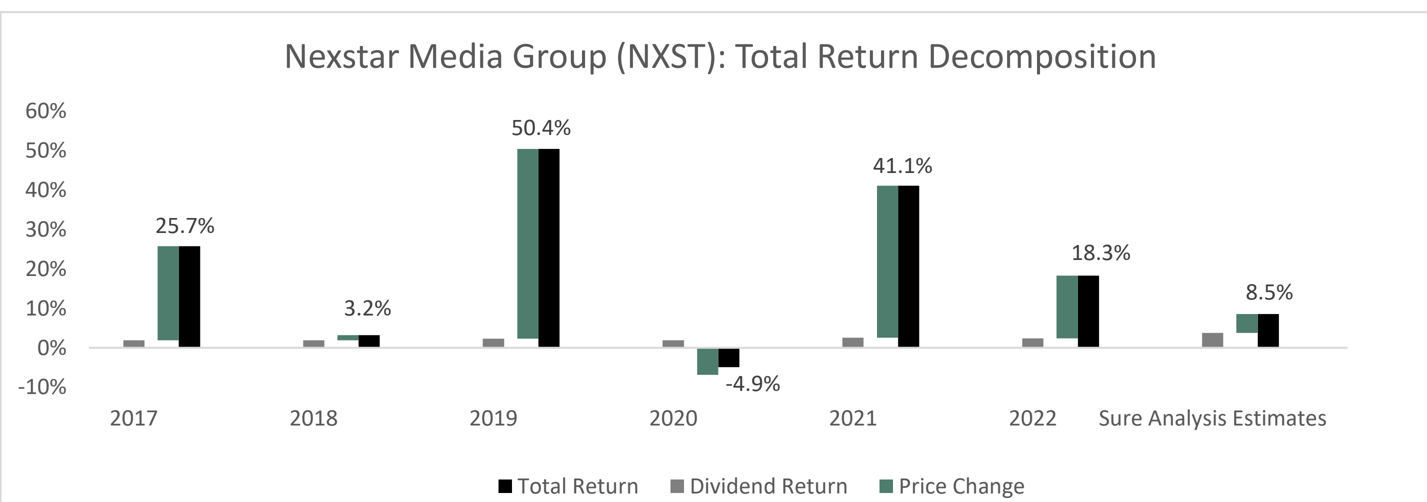
Nexstar's current dividend is well-covered out of present earnings and the low payout ratio leaves considerable room for future dividend hikes. Management demonstrated its commitment to generous dividend payments with its impressive 50% dividend hike earlier this year.

That said, the company's balance sheet carries $6.9 billion in long-term debt, with a sizable portion coming due within five years. This is a large debt position in comparison to the company's market cap. If interest rates continue to rise, higher interest payments could considerably curtail Nexstar's free cash flow generation. For now, the company's debt load is manageable, but it's worth watching interest coverage in future quarters.

Final Thoughts & Recommendation

Nexstar has done a tremendous job growing its earnings and dividend despite operating in a challenging industry. Management has proven adept at making strategic acquisitions. That said, the recent CW deal may have been a misstep, as it has meaningfully lowered the firm's intermediate-term outlook. We have cut our earnings outlook for the company accordingly. However, shares still offer 8.5% per year total return potential, with the company's dividend yield continuing to rise as well. Shares earn a hold rating today.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	502	631	896	1,103	2,432	2,767	3,039	4,501	4,648	5,211
Gross Profit	355	444	594	721	1,439	1,649	1,691	2,781	2,786	3,206
Gross Margin	70.6%	70.3%	66.3%	65.4%	59.2%	59.6%	55.6%	61.8%	59.9%	61.5%
SG&A Exp.	152	175	232	264	605	580	730	912	1,024	1,102
D&A Exp.	76	73	118	120	323	321	409	565	589	662
Operating Profit	103	173	206	303	468	748	552	1,304	1,173	1,445
Op. Margin	20.6%	27.4%	23.0%	27.4%	19.2%	27.0%	18.2%	29.0%	25.2%	27.7%
Net Profit	(2)	65	78	92	475	389	230	811	835	971
Net Margin	-0.4%	10.2%	8.7%	8.3%	19.5%	14.1%	7.6%	18.0%	18.0%	18.6%
Free Cash Flow	8	146	176	252	37	631	220	1,037	1,064	1,246
Income Tax	3	46	49	78	(234)	145	137	297	263	274

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,164	1,414	1,835	2,966	7,482	7,062	13,990	13,404	13,264	12,680
Cash & Equivalents	40	132	43	88	116	145	232	153	191	204
Acc. Receivable	109	128	193	218	563	547	884	905	1,021	1,079
Goodwill & Int.	650	773	1,255	1,341	5,492	5,438	9,178	8,833	8,679	8,305
Total Liabilities	1,177	1,358	1,749	2,682	5,900	5,193	11,936	10,867	10,407	9,910
Accounts Payable	10	17	26	20	31	68	157	218	248	198
Long-Term Debt	1,071	1,220	1,476	2,342	4,362	3,981	8,493	7,668	7,415	6,952
Total Equity	(13)	53	81	169	1,571	1,853	2,031	2,518	2,850	2,741
LTD/E Ratio	(80.96)	23.23	18.30	13.85	2.78	2.15	4.18	3.04	2.60	2.54

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	-0.2%	5.0%	4.8%	3.8%	9.1%	5.4%	2.2%	5.9%	6.3%	7.5%
Return on Equity	---	328%	117%	73.3%	54.6%	22.8%	11.9%	35.7%	31.1%	34.7%
ROIC	-0.2%	5.5%	5.5%	4.4%	11.1%	6.6%	2.8%	7.8%	8.2%	9.7%
Shares Out.	31	31	31	31	46	46	46	43	41	40
Revenue/Share	16.80	19.73	27.93	34.84	53.15	58.35	63.42	96.35	105.69	129.67
FCF/Share	0.28	4.57	5.49	7.97	0.80	13.30	4.59	22.20	24.19	31.00

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