Nexstar Media Group, Inc. (NXST)

Updated March 12th, 2024, by Ian Bezek

Key Metrics

Current Price:	$166	**5 Year CAGR Estimate:**	9.0%	**Market Cap:**	$5.5 B
Fair Value Price:	$196	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	05/13/24[1]
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.4%	**Dividend Payment Date:**	05/28/24[1]
Dividend Yield:	4.1%	**5 Year Price Target**	$216	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**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 approximately 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 of 2023 for $35 million.

Nexstar has grown its earnings dramatically over the past five years, however the firm's momentum abruptly reversed in 2023. Q4 2023 results were released on February 28th, 2024 and disappointed on both the top and bottom lines. Revenues declined 13% year-over-year to $1.3 billion and earnings plunged from $5.30 in Q4 2022 to just $3.32 for this most recent quarter.

Nexstar had a surprisingly bad year in 2023. We had expected earnings to decline from 2022, given the lack of political advertising in 2023 compared to the 2022 midterm elections. However, Nexstar's 2023 earnings were far weaker than in 2021, which also lacked much political advertising. Nexstar acquired the CW Network and that is generating larger losses and taking longer to turn around than expected. There has also been significantly weaker than expected numbers in CW's general advertising market. However, we expect record political advertising thanks to the upcoming 2024 presidential election, this will shower Nexstar with unprecedented political ad revenues. That said, we have sharply trimmed our longer-term growth outlooks for the business, given just how disappointing 2023's operating results were.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.02	$2.42	$2.89	$3.24	$8.21	$4.80	$17.37	$18.98	$24.16	$9.64	***$24.50***	***$27.05***
DPS	$0.60	$0.76	$0.96	$1.20	$1.50	$1.80	$2.24	$2.80	$3.60	$5.40	***$6.76***	***$8.63***
Shares	31	31	46	46	46	46	43	41	37	34	***33***	***31***

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 in 2022 before last year's significant decline. The company has benefited from both record political spending and the rapid reopening of the economy. Nexstar is aggressively repurchasing shares, which allows for higher EPS even if net income growth stalls out.

Nexstar has delivered rapid dividend growth. It just gave investors another large dividend increase in January 2024, raising the annual payment by 25%. The dividend remains well-supported by earnings even after these outsized hikes.

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[1] Estimated date.

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	22.1	22.3	17.7	19.9	9.1	21.2	5.3	7.7	6.6	16.7	***6.8***	***8.0***
Avg. Yld.	1.5%	1.3%	1.4%	1.9%	1.9%	2.0%	1.8%	2.4%	1.9%	3.4%	***4.1%***	***4.0%***

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 just emerged as a meaningful dividend payer over the past decade. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30%	31%	33%	37%	18%	38%	13%	15%	15%	56%	***28%***	***32%***

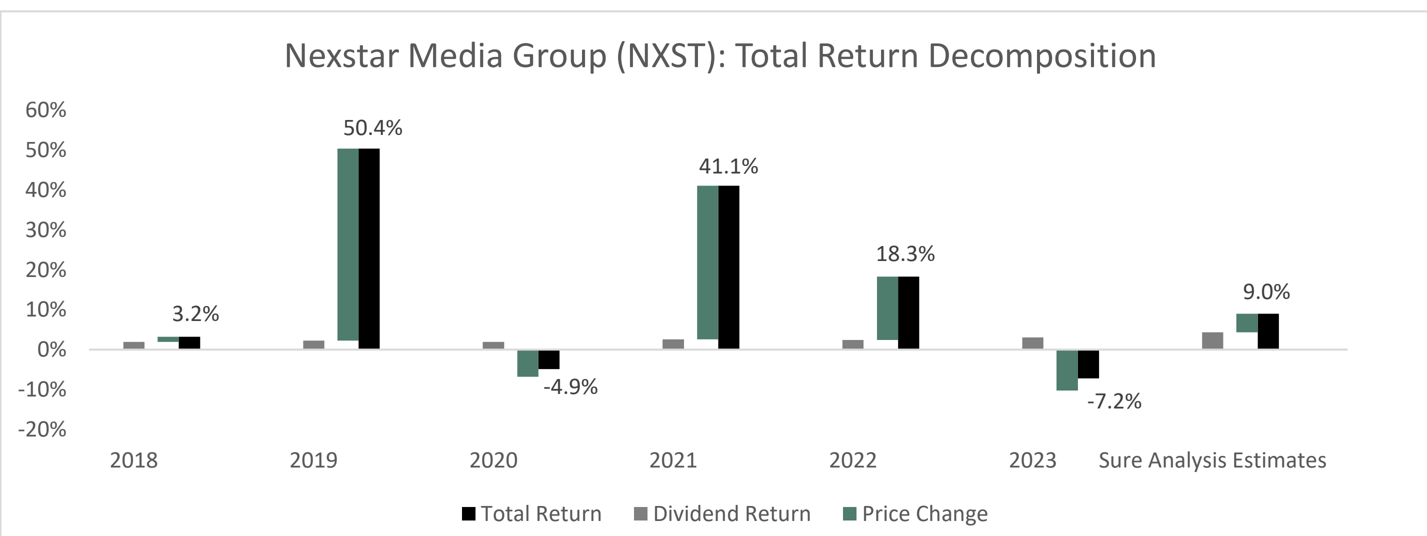
Nexstar's current dividend is well-covered out of present earnings and the low payout ratio leaves considerable room for future dividend hikes. Management demonstrated its commitment to generous dividend payments.

That said, the company's balance sheet carries $6.8 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, Nexstar will enjoy record prosperity thanks to the election revenues, but 2025's results will be key in determining its longer-term outlook.

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, and weakness in the non-political ad market is a concern. However, shares still offer 9.0% 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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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.