



Fox Corp. (FOXA)

Updated February 19th, 2024 by Felix Martinez

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	13.1%	Market Cap:	\$13.8 B
Fair Value Price:	\$42	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/04/24
% Fair Value:	72%	5 Year Valuation Multiple Estimate:	6.6%	Dividend Payment Date:	03/26/24
Dividend Yield:	1.7%	5 Year Price Target	\$54	Years of Dividend Growth:	2
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Fox Corp. is a television broadcasting company with an \$13.8 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)2023, the company generated \$14.9 billion in revenue.

On February 19th, 2024, Fox Corp. reported second quarter results for Fiscal Year (FY)2024. The company fiscal year ends at the end of July. The company financial results for the three months ending December 31, 2023, reporting total quarterly revenues of \$4.23 billion—a decrease from the previous year's \$4.61 billion. The dip was primarily driven by a 20% decline in advertising revenues, attributed to various factors including the absence of the FIFA Men's World Cup at FOX Sports. On a positive note, affiliate fee revenues increased by 4%, and other revenues rose by 14%. Despite these dynamics, the company reported a quarterly net income of \$115 million, down significantly from the \$321 million reported in the same quarter of the previous year.

The quarterly Adjusted EBITDA of \$350 million marked a decrease from the \$531 million reported in the prior year quarter, reflecting the impact of revenue fluctuations, partially offset by lower expenses. Lachlan Murdoch, Executive Chair and CEO, emphasized the resilience and strength of core brands, citing FOX Sports' benefit from live sports programming, FOX News' leadership in cable news, and Tubi's resilience in a competitive market. Murdoch highlighted the combination of a steadfast portfolio and a robust balance sheet as key factors supporting the company's ability to deliver value for shareholders.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	---	---	---	---	\$2.63	\$2.48	\$2.88	\$2.79	\$3.51	\$3.23	\$4.12
DPS	---	---	---	---	---	\$0.23	\$0.46	\$0.46	\$0.48	\$0.50	\$0.52	\$0.60
Shares¹	---	---	---	---	---	621.0	621.0	621.0	621.0	531.0	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 earnings increase by 26%. However, we expect a positive, but 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.

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.

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	---	---	---	14.4	16.4	12.9	11.8	9.7	9.4	13.0
Avg. Yld.	---	---	---	---	---	0.6%	1.7%	1.3%	1.5%	1.5%	1.7%	1.1%

The company was valued with a PE of about 13.0x for the past few years. Thus, we think that a 13x valuation is fair for this company. Currently, the company is trading hands for a PE multiple of 9.4x. This PE provides a moderate valuation multiple expansion of 6.6%. Also, the company's current stock price is under our fair price of \$42. The company dividend yield is unattractive, considering that the S&P 500 current dividend yield is 1.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	---	8.7%	18.5%	16.0%	17.2%	14.2%	16%	15%

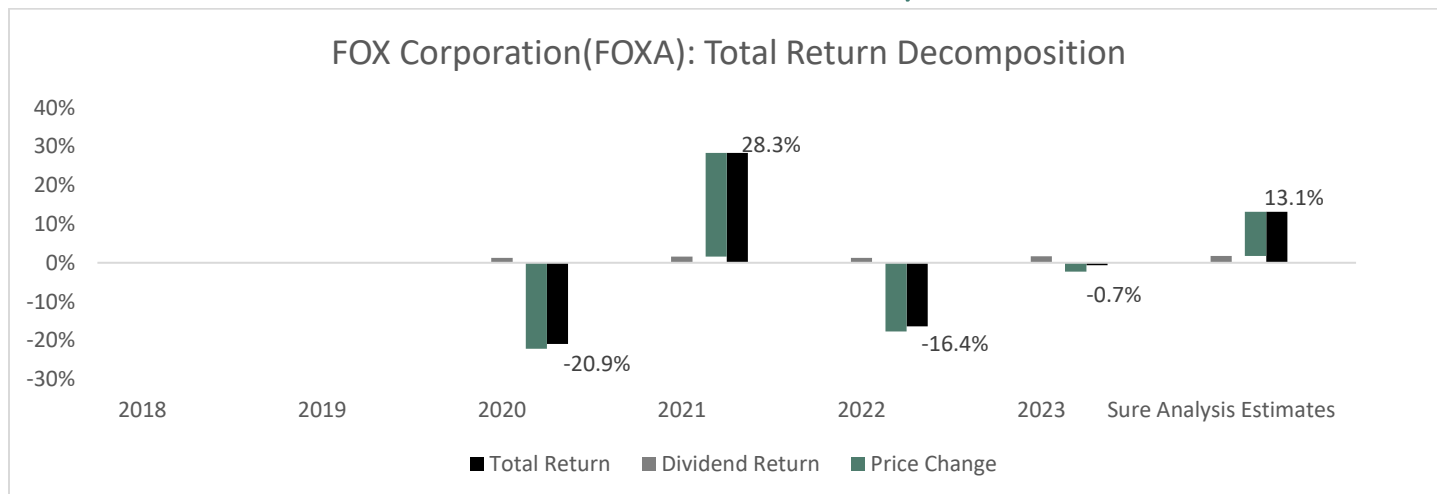
21st Century Fox paid out ~20% of its net profits in the form of dividends throughout most of the last decade. The payout ratio has been even lower during some of the previous years. Fox Corp. paid 16% of its profits in 2021, with an estimated 2029 payout conservatively around 15%. The low payout ratio 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 0.8 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 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 13.1%. Thus, we rate FOXA a buy at the current price because of the expected return over the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue			8,894	9,921	10,153	11,389	12,303	12,909	13,974	14,910
SG&A Exp.			1,191	1,117	1,262	1,419	1,741	1,807	1,920	2,049
Operating Profit			170	169	171	212	258	300	2,574	2,764
Op. Margin			1.9%	1.7%	1.7%	1.9%	2.1%	2.3%	18.4%	18.5%
Net Profit			1,974	2,535	2,215	2,431	2,497	2,765	1,205	1,239
Net Margin			22.2%	25.6%	21.8%	21.3%	20.3%	21.4%	8.6%	8.3%
Free Cash Flow			1,072	1,372	2,187	1,595	999	2,150	1,577	1,443
Income Tax			990	1,464	1,102	2,289	2,006	2,155		483

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets				10,348	13,121	19,509	21,750	22,926	22,185	21,870
Cash & Equivalents				19	2,500	3,234	4,645	5,886	5,200	4,272
Acc. Receivable				1,693	1,833	1,967	1,888	2,029	2,128	2,177
Inventories				1,052	1,180	1,129	856	729	791	543
Goodwill & Int.				5,871	5,613	5,542	6,607	6,589	6,711	6,643
Total Liabilities				4,255	3,527	9,551	11,639	11,801	10,810	11,210
Long-Term Debt				0	0	6,751	7,946	7,951	7,206	7,210
Total Equity				6,093	9,594	9,947	10,094	11,123	11,339	10,380
LTD/E Ratio				0	0	0.68	0.79	0.71	0.64	0.69

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets					18.6%	9.8%	4.8%	9.6%	5.3%	5.6%
Return on Equity					27.9%	16.3%	10.0%	20.3%	10.7%	11.4%
ROIC					27.9%	12.1%	5.7%	11.6%	6.4%	6.8%
Shares Out.						621.0	621.0	621.0	570	531
Revenue/Share			14.35	16.00	16.38	18.34	19.97	21.70	24.52	28.08
FCF/Share			1.60	2.36	1.78	3.69	3.26	3.62	2.77	2.72

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

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