Fox Corp. (FOXA)

Updated August 16th, 2024 by Felix Martinez

Key Metrics

Current Price:	$39	**5 Year CAGR Estimate:**	10.4%	**Market Cap:**	$17.3 B
Fair Value Price:	$48	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	09/04/24
% Fair Value:	82%	**5 Year Valuation Multiple Estimate:**	4.2%	**Dividend Payment Date:**	09/25/24
Dividend Yield:	1.4%	**5 Year Price Target**	$61	**Years of Dividend Growth:**	3
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Fox Corp. is a television broadcasting company with a $17.3 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)2024, the company generated $13.9 billion in revenue.

On August 6th, 2024, Fox Corp. reported fourth quarter results for Fiscal Year (FY)2024. The company fiscal year ends at the end of July. The company achieved notable successes, including strong affiliate revenue growth across all quarters, a solidifying position for Tubi as the top free streaming service in the U.S., and improved ratings for FOX News. CEO Lachlan Murdoch highlighted these accomplishments as a foundation for entering a significant event cycle in 2025, which includes the Presidential Election and the Super Bowl, reinforcing FOX's strategic confidence and financial strength. In the fourth quarter, Fox Corporation's revenues increased to $3.09 billion, up by 2% compared to the previous year, driven by a 5% rise in affiliate fees. Advertising revenues remained flat, with growth in sports broadcasting and Tubi offset by declines at the FOX Network. Net income for the quarter was $320 million, down from $369 million in the prior year, with adjusted net income at $423 million, reflecting a slight decrease. Adjusted EBITDA grew by 5% to $773 million, primarily due to increased revenues despite higher broadcasting and digital investment expenses.

For the full fiscal year, the company reported total revenues of $13.98 billion, a decrease from $14.91 billion the previous year, largely due to the absence of major sporting events like the Super Bowl and the FIFA Men's World Cup. However, affiliate fee revenues grew by 4%, driven by strong performance in the Television segment. Full-year net income rose to $1.55 billion, reflecting the absence of prior year legal charges and gains from joint ventures. Adjusted EBITDA was $2.88 billion, a decrease from $3.19 billion the previous year, primarily due to lower revenues but partially offset by reduced expenses.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	---	---	---	---	$2.63	$2.48	$2.88	$2.79	$3.51	$3.43	***$3.68***	***$4.70***
DPS	---	---	---	---	$0.23	$0.46	$0.46	$0.48	$0.50	$0.52	***$0.54***	***$0.63***
Shares[1]	---	---	---	---	621.0	621.0	621.0	621.0	531.0	480.0	***480.0***	***480.0***

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. 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.

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[1] Share count in millions

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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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	---	---	---	---	14.4	16.4	12.9	11.8	9.7	10.0	***10.6***	***13.0***
Avg. Yld.	---	---	---	---	0.6%	1.7%	1.3%	1.5%	1.5%	1.5%	***1.4%***	***1.0%***

We think that a 13x valuation is fair for this company. Currently, the company is trading hands for a PE multiple of 10.6x. This PE provides a moderate valuation multiple expansion of 4.2%. Also, the company's current stock price is under our fair price of $48. The company dividend yield is fairly mediocre considering that the S&P 500 current dividend yield is 1.3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	---	---	---	8.7%	18.5%	16.0%	17.2%	14.2%	15.2%	***15%***	***13%***

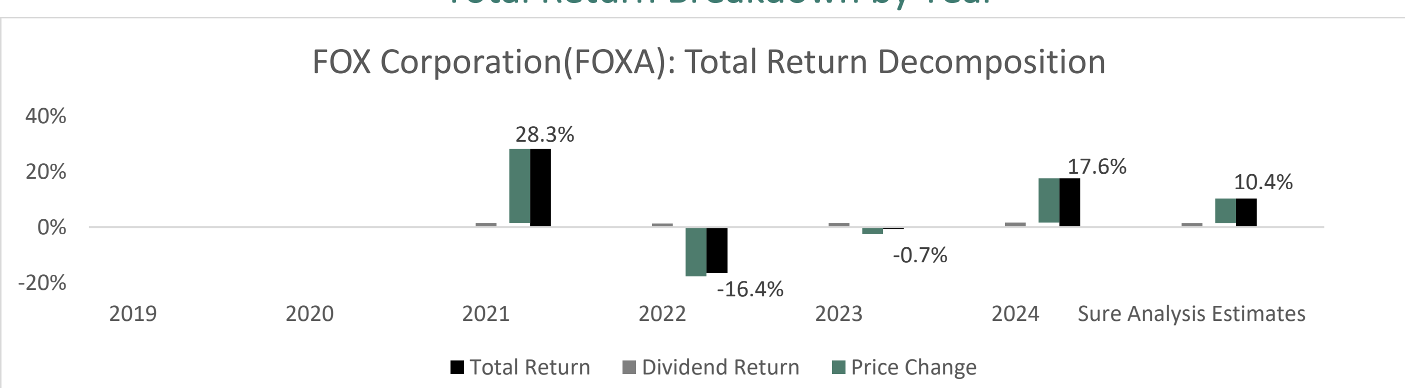
21st Century Fox paid out ~20% of its net profits in the form of dividends throughout most of the last decade. The payout ratio has been even lower during some of the previous years. Fox Corp. paid 16% of its profits in 2021, with an estimated 2029 payout conservatively around 15%. The low payout ratio 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 6.2. 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 10.4%. 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue		8,894	9,921	10,153	11,389	12,303	12,909	13,974	14,910	13980
SG&A Exp.		1,191	1,117	1,262	1,419	1,741	1,807	1,920	2,049	2024
Operating Profit		170	169	171	212	258	300	2,574	2,764	2478
Op. Margin		1.9%	1.7%	1.7%	1.9%	2.1%	2.3%	18.4%	18.5%	17.7%
Net Profit		1,974	2,535	2,215	2,431	2,497	2,765	1,205	1,239	1501
Net Margin		22.2%	25.6%	21.8%	21.3%	20.3%	21.4%	8.6%	8.3%	10.7%
Free Cash Flow		1,072	1,372	2,187	1,595	999	2,150	1,577	1,443	1495
Income Tax		990	1,464	1,102	2,289	2,006	2,155		483	550

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets			10,348	13,121	19,509	21,750	22,926	22,185	21,870	21970
Cash & Equivalents			19	2,500	3,234	4,645	5,886	5,200	4,272	4319
Acc. Receivable			1,693	1,833	1,967	1,888	2,029	2,128	2,177	2364
Inventories			1,052	1,180	1,129	856	729	791	543	626
Goodwill & Int.			5,871	5,613	5,542	6,607	6,589	6,711	6,643	6582
Total Liabilities			4,255	3,527	9,551	11,639	11,801	10,810	11,210	10920
Long-Term Debt			0	0	6,751	7,946	7,951	7,206	7,210	7197
Total Equity			6,093	9,594	9,947	10,094	11,123	11,339	10,380	10710
LTD/E Ratio			0	0	0.68	0.79	0.71	0.64	0.69	0.67

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets				18.6%	9.8%	4.8%	9.6%	5.3%	5.6%	6.9%
Return on Equity				27.9%	16.3%	10.0%	20.3%	10.7%	11.4%	13.8%
ROIC				27.9%	12.1%	5.7%	11.6%	6.4%	6.8%	8.3%
Shares Out.					621.0	621.0	621.0	570	531	480
Revenue/Share		14.35	16.00	16.38	18.34	19.97	21.70	24.52	28.08	29.12
FCF/Share		1.60	2.36	1.78	3.69	3.26	3.62	2.77	2.72	3.12

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