The Walt Disney Company

BUY: US$149.26 (+17.20%)

Disney hasn't lost its magic

16 October 2020

NUS INVESTMENT SOCIETY

Company Overview

Figure 1. FY2019 Disney Revenue by Business Segment

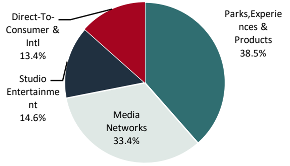
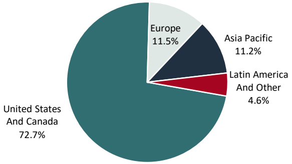


Figure 2. FY2019 Disney Revenue Distribution by Region



The Walt Disney Company ("Disney"), together with its subsidiaries, operates as an entertainment company worldwide. The company's Media Networks segment operates cable networks and TV broadcast networks. Its Parks, Experiences and Products segment operates theme parks and resorts. The Studio Entertainment segment produces motion pictures. Its Direct-To-Consumer & International segment operates international television networks and streaming services consisting of Disney+, ESPN+, and Hulu.

(US$m)	2018A	2019A	2020E	2021E
Revenue	59,435	69,935	66,866	77,622
Net Income	12,598	11,054	2,893	5,302
NI Gr Rate (%)	*40.3%*	*-12.3%*	*-73.8%*	*83.3%*
Profit Margin (%)	*21.2%*	*15.9%*	*4.3%*	*6.8%*
ROA (%)	*13.3%*	*6.0%*	*1.5%*	*2.7%*
ROE (%)	*24.7%*	*12.3%*	*3.1%*	*5.5%*
EV/EBITDA	11.4x	16.9x	102.1x	24.2x
EPS	8.36	6.64	1.6	2.84
D/E	0.87	1.07	1.04	1.02

12M Industry Outlook

Figure 3. Streaming Media Sector 2020 – 2027 (USD$b)

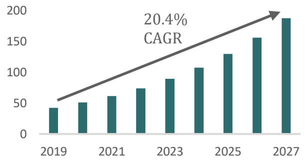
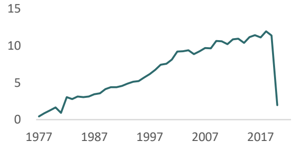


Figure 4. Film Industry Braces for its Worst Year Since 1997 (USD$b)



1. **Covid-19 tailwinds for streaming sector** – COVID-19 has accelerated the forecasted growth of the streaming sector. Currently, the sector is growing at a FY20-27E CAGR of 20.4%. It is driven by the "cord-cutting" phenomenon which represents a shift from traditional pay TV, to subscription-based streaming video services. OTT service providers such as Netflix and Amazon are moving towards 4K UHD content that will drive growth for the global media and entertainment market.
2. **Production of films** took a hit from the COVID-19 crisis where many have stopped due to lockdowns. In the first 2 months of 2020, China's box office was down to US$3.9mm, compared to US$2.1bn in the same period in 2019. Big names such as The Marvel series are also likely to be delayed due to production shutdowns. With a decrease in content, there could be a potential decrease in viewership and subscribers.
3. **Uncertainty over Covid-19's extended effects** on theme parks albeit positive numbers in recent months. Hong Kong Disneyland has just recently re-opened for the 2nd time while California theme parks have remained shuttered. Many countries are experiencing multiple recurrent waves, and it appears that the full recovery of the suppressed appetite for theme parks is hugely contingent on vaccines.

Investment Thesis

Figure 5. Disney+ Subscribers (m)

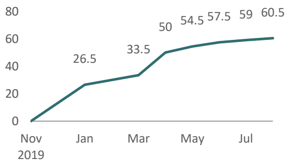
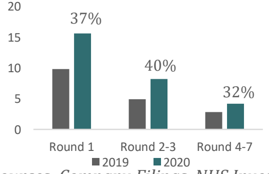


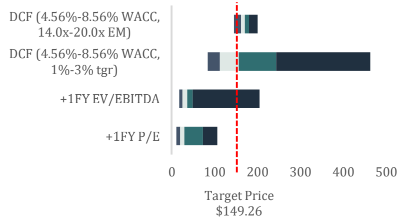
Figure 6. 2019 v 2020 NFL Draft Viewership



1. **Continual release of content and introduction of new features will drive growth for Disney+.** Disney+ has seen robust growth, reaching 60.5mm subscribers as of 3rd Aug 2020. The release of Marvel's *WandaVision,* and Disney+'s new feature, GroupWatch, will be key drivers of subscriber growth in Q3 2020. The company also announced an integration of streaming sectors into its other businesses, to derive greater consumer insights for a more personalised user experience.
2. **Accelerated shift to OTT Sports Channels.** UBS estimates that more than 12 million American households will ditch pay-TV by end 2020. ESPN+ is well poised to capitalise on this shift as they have already secured exclusive coverage of the Bundesliga and Seria A leagues. With a potential deal with NFL's Sunday Ticket, it'll appeal to a greater number of Americans, leading to an increase in subscribers.
3. **Strong social activism support.** Disney's support for social causes will increase its subscriber count as consumers increasingly prefer brands with a social purpose. Disney+ has labels that acknowledges racist content in its old content and promises to do better. They have also recently pledged $5million dollars to social groups.

Valuations

Figure 7. Football Field Analysis



Target Price	
Blended Target Price	$149.26
Blended Upside	+17.20%

DCF: A DCF valuation was used to calculate the intrinsic value of Disney's share price, with a WACC of 6.56%. For the Gordon's Growth method, a terminal growth rate of 2.0% was used, in line with that of the US economy. For the Exit Multiple method, we used an exit multiple of 16.0x, which is slightly higher than the industry average, but we feel is justified since Disney is poised to be a leader in the entertainment industry.

Blended Upside: We assumed equal weightage of the Gordon's Growth and Exit multiple method to arrive at our target price of $149.26.

Relative Valuation: To supplement our valuation, A relative valuation was utilised to provide a sanity check. We utilised forward looking data including +1FY EV/EBITDA and +1FY P/E. Compared to its peers, our valuation places Disney at a slight premium, which we believe is a fair valuation given Disney's position in the industry.

Sources: Company Filings, NUS Investment Society Estimates and Research

Prepared by: TMT Coverage Team – Jeong Kyeong Jae, Tristen Zheng, Norman Lee