# The Walt Disney Company's Stock: Case 1 Analysis


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# Case study introduction

Crowley, a portfolio manager at Century 23, was monitoring the stock of one of her company's major holdings: Disney's stock.

During the last three years, Disney's stock delivered a strong performance, outperforming its American media conglomerates competitors.

Now, Crowley has to decide whether to hold, buy more, or sell her companies Disney's stock holdings. To do this, she needs to consider the expected future performance of Disney and its competitors, as there might be better options to consider investing in.

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# Investment Criteria

What key criteria should Crowley apply when making her investment decisions?

# Criteria to follow

- **PEG Ratio Analysis**
- **Perform a Short Term Financial Analysis**
  - Cash Ratio
- **Perform a Long Term Financial Analysis:**
  - Debt/Assets Ratio.

# PEG Ratio Analysis

- **GARP Stocks—Investor Requirement:**
  - Crowley wants its portfolio to follow a **GARP** phenomena;
  - "Promising **GARP** candidates tended to be those with PEG ratios below 1.0";
  - Disney PEG Ratio:
    - 2018: *0.29*
    - 2019: *-1.07*
    - Disney Average: *-0.39*
    - Main competitors' Average: 2018 ⇒ *0.0*; 2019 ⇒ *2.37*; Avg. ⇒ *1.19*;
  - Negative PEG ratio due to negative growth rate. Shouldn't be considered a red flag since the growth's hasn't been consistently negative.

**Conclusion:** Disney stocks follows Crowley requirement.

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# Analyzing factors

What are the growth prospects, competitive position, and key success factors?

# Growth prospects

- "Millennials love theme parks":
  - Younger generations (including without children) are driving an economic need for theme parks, an area where Disney dominates;
  - Theme parks are the single largest revenue source for Disney, and this trend indicates an increase in growth.
- Entering the market of **streaming services:**
  - Disney sealed an agreement with Comcast to take full control over Hulu. Hulu has 27 million subscribers, and Disney will only pay for the deal after 2024;
  - Disney is launching **Disney+**. In contrast with **Hulu**, which is only available in the USA, this service is available globally;
  - Disney's movies and IPs are a significant part of the content consumed in streaming services (e.g. Netflix). Disney can make use of exclusivity of new entries in their repertoire to bring new customers into their service.

# Risks and opportunities

- **Risks:**
  - Final movie in the "Avengers" series released (*Avengers End-game*): one of their most profitable IPs ended;
  - Downward market tendency for Television and Cinema: some of the biggest **Disney's** revenue sources.
- **Opportunities:**
  - *Spin-offs* from the "Avengers" series;
  - Acquisition of full control over Hulu;
  - Launching of **Disney+** (November 2019);
  - The service is in direct competition with **Netflix**, but is significantly cheaper;
  - Purchase of **Twenty-First Century Fox, Inc** (TFCF) (March 2019).

# Key success factors

- Expansion of amusement parks:
  - The Highest Source of revenue. Positive future prospects.
- Investment in streaming (acquisition of **Hulu** and creation of **Disney+**)
- Capitalization of vast array of current Intellectual Properties:
  - E.g.: exclusivity of select content in **Disney+**.
- Acquisition of new Intellectual Properties:
  - With the acquisition of **21st Century Fox**.
- All these support Disney's previous established strengths and help counteract the weaknesses:
  - Strength:
    - Growing portfolio of popular products.
  - Weaknesses:
    - Limited ability to distribute their media
    - Limited expansion of amusement parks

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# Financial Performance

How would you evaluate Disney's financial performance, both on an absolute basis and relative to its peers?

# Short Term Financial Analysis

- A company is a short term sustainable if it has enough cash resources to cover short term liabilities.
- Although short term analyses aren't a good perspective to conclude if a company will generate revenue for its stock investor in the future. Nevertheless, any sustainable enterprise should face short term liquidity issues.
    - **Disney Cash Ratio :** 1.07
    - **Average Industry Cash Ratio:** 1.03

**Conclusion:** Disney has good cash ratios. The best scorer in the industry.

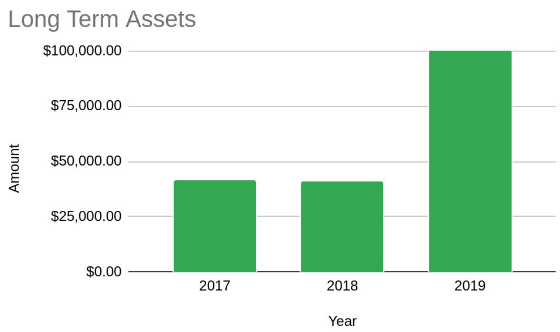
# Long Term Assets/Liabilities Analysis(I/II)

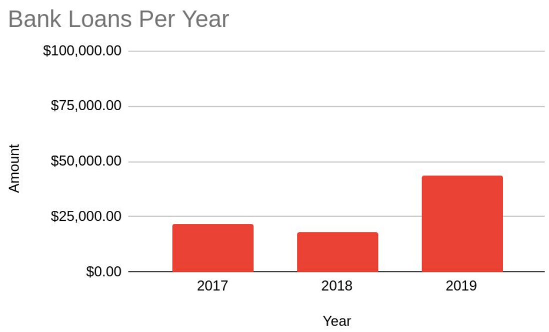
- A company is as sustainable in the long term as its long term liabilities are lower than the expected revenues of its investments.
- Enterprises tend to in-debt themselves while performing investments. Debt is a powerful tool to support companies' expansion and diversification.
- One good metric for supporting the sustainability of company debt is its Debt/Assets Ratio. The lower D/A is, the more sustainable is the debt operation:
  - **Disney D/A Ratio : 0.2**
  - **Industry D/A Ratio: 0.4**

**Conclusion:** <u>Disney's debt is sustainable.</u>

# Long Term Assets/Liabilities Analysis(II/II)

- **Is the 2019 Increase in Bank Loans a Bad Sign?:**
  - Support Investment: “In March 2019, Disney acquired Twenty-First Century Fox, Inc. (renamed TFCF Corporation) through a $71 billion acquisition.”
  - The Plot shows TFCF market value is higher than the amount Disney got into Debt with the Banks.



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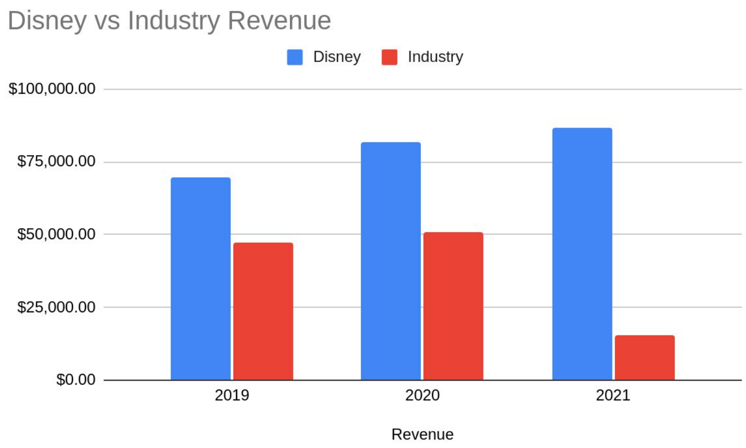
# Assessing Disney

Assess Disney's prospects compared with the consensus analysts' forecasted revenue and profits, and the future performance of its peers?

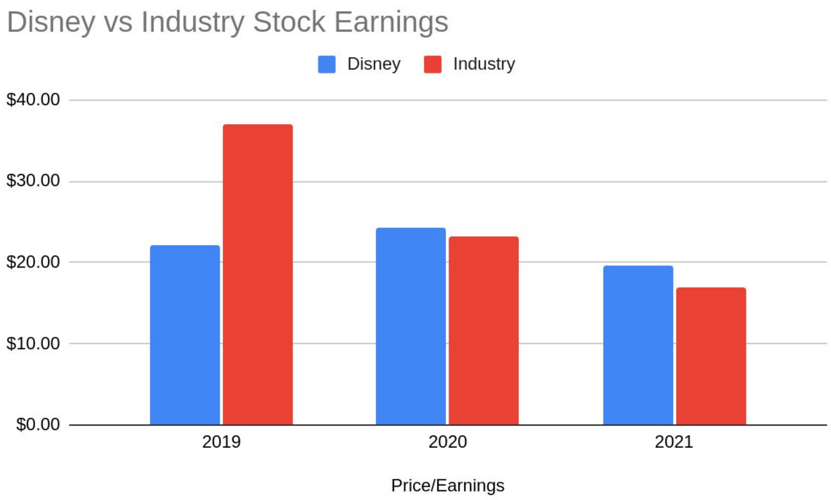
# Forecasted Revenue

- **Disney is the Revenue Winner:**
  - Disney will lead the industry in revenue in the current and following years.
  - It is expected to continue growing the Disney revenue.
  - Competitors are expected to face a strong retraction in 2021, while Disney will continue strong and steady.



# Stock Earnings

- **Disney Stock Earning is Stable:**
  - Disney's stock earnings for its shareholders maintain stable across the years.
  - In 2020 and 2021 Disney is expected to outperform the competition.
  - Disney stocks will find their best performance in 2020.



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# Final Decision

Buy, hold or sell?

# Final answer: Hold

- Disney is in a good position in the market with their **theme parks** and new streaming service, **Disney+**;
- New significant acquisitions with **21st Century Fox** and **Hulu**:
  - Long term investments that lead to a substantial increase in debt.
- Disney's **stock price** is expected to **increase**:
  - It's better to sell the stock at a later date.
- Entering the **streaming service** market can prove difficult given the presence that **Netflix** has:
  - Can be leveraged by making use of exclusivity opportunities on new repertoire items;
  - Most of Disney's revenue comes from other sources, so success in this market isn't vital.

# Full Report with notes

https://docs.google.com/presentation/d/1Wmpay2wrQR0Ht9vCrmLZN3Lu1Dt_qHUCs5FosxCRxgo/edit?usp=sharing