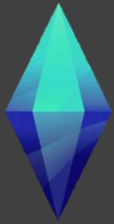

Blue Diamond Investing

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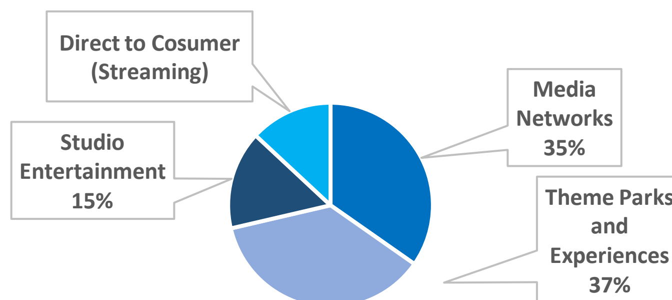
The Walt Disney Company

The Magic Turnaround

Walt Disney is a world-leading entertainment company that receives revenue from four diversified main outlets. COVID-19 has temporarily hurt Disney, evaporating some of its revenues completely, but this entertainment giant will come out stronger, more efficient, and more profitable in the long run.

Disney's 2019 Revenue Breakdown



Source: Statista.com

Theme Parks and Entertainment

Disney's theme park business has recently become its most lucrative and profitable business segment, making up almost 40% of its revenue. This part of Disney will undoubtedly be hit the hardest as all parks were recently closed indefinitely due to COVID-19. When these parks certainly open again, CEO Bob Chapek's number one priority is making the guests feel safe and healthy. He sees the high possibility of temperature checks at the gates as being the best way to ensure this. This sector also includes Disney Cruises and other supplemental travel services. When these industries decide to open back up, Chapek expects a slow return to normal capacities – possibly taking until Q4 – as far away visitors will be less likely if people remain unwilling to get on planes. With air travel down 97% this past month, it is very probable that the Q4 project will occur.

Despite these recent detriments, investors should feel confident about the company going forward. Disney owns the top 9 most visited theme parks in the world, and 11 of the top 13. These parks will not miss a beat when the world opens back up because of the massive brand they have created. The combination of international expansion, adding exclusive attractions such as the *Star Wars* Lands, *Avatar's* World of Pandora, and adding more flexible pricing options continues to make theme parks more profitable. Financially, Disney has enough cash on hand to weather this storm, even if it wipes out a full year of revenue. Furthermore, this future loss of profits has already been priced into its stock value. On Thursday's close, Disney shares were trading around $103.50, compared to its $150 highs in November.

April 13, 2020

Ticker: DIS
Price: $103.50
Rating: BUY at market

Investment Rationale Summary

- Disney has an amazing brand with a great leadership team to push through COVID-19
- The company's balance sheet has a D/E ratio of .46, which is the lowest in the industry
- Disney+ streaming sales have drastically increased, faster than anticipated by competitors
- Buying into Disney gives you diversified risk as the business operates in many segments

Potential Downside Risks

- The streaming industry is extremely crowded, with Netflix leading the way in product innovation and international expansion, Disney+ may experience a plateau faster than anticipated
- Extended COVID-19 measures will severely decrease sales in the theme parks and experience business segment, possibly affecting 2021 sales.

Technical Analysis

- Strong support near $99, secondary support at $91

Disney+

The addition of Disney+ streaming service has created a whole new stream of revenue for Disney. Currently, this service makes up the direct-to-consumer (DTC) division, which accounts for roughly 13% of its revenue. Though it is the smallest of the 4, it's Disney's most rapidly expanding business. On the first day available, Disney+ generated 20 million subscribers. Recently this week, the company announced that it had reached 50 million – months before they expected to. Netflix currently has around 178 million paying customers, but it took them 7 years to reach the numbers Disney+ has in 5 months. This is likely due to the exclusive content that Disney already has available, but they have already begun making new content specifically for the streaming service, such as *The Mandalorian*. Disney+ is only beginning its release in other countries. It recently became available in Europe, and its launch in India has gained 8 million paying customers since April 3, 2020. Disney also owns and operates Hulu and ESPN+, selling the three services as a select bundle that is currently in high demand. Hulu alone has 7 million paying customers. Though the coronavirus has stopped business as usual in other divisions, it has allowed Disney to focus on its DTC streaming products. Continued expansion is this new category could rake in huge profits for Disney in years to come.

Other Sources of Revenue

Studio entertainment and Media networks combined makeup over half of Disney's yearly revenue. In 2019, Disney produced the top 5 grossing movies at the box office, and after acquiring 20th Century Fox, accounted for almost 40% of all box office revenue. Owning ESPN and ABC gives prime exposure to the sports world and cable TV. These industries will not be affected as sharply by the virus and for a collection of reasons. For Disney and Pixar films, while a lot of money is made at the box office, a significant amount is made on the back end of movies from home distribution. Movies that were set to be released or were being filmed during the lockdown can be pushed back for later releases or simply put directly on Disney+. This ends up hurting the theatres more than it does filmmakers. For TV, most of the revenue comes from distribution fees, meaning charging cable companies for ESPN, and those deals are locked in for years at a time. Disney will, however, lose out on ad revenue from lower ratings. Nonetheless, healthy profits in TV and movies(streaming) could offset the closing of theme parks.

The Bottom Line

Disney is a cash healthy company that is experiencing a temporary setback. What I like most about Disney is that it doesn't have any outright competitors. Some of its individual divisions face competition, but no company comes close to the brand that this entertainment conglomerate has cemented for almost a hundred years. Buying Disney also gives you relatively cheap exposure to the streaming wars while minimizing risk by investing in a healthy balance sheet. Disney is a strong investment for many years to come.

Company	Mkt. Cap (Billions)	P/E FY1	EV/EBITDA FY1	% EBITDA Margin FY1	D/E
Disney	186.86	23.07	15.5x	27.81%	0.46
Netflix	174.08	103.7	13.1x	59.57%	2.16
Comcast Corp.	169.33	16.66	14.7x	31.68%	1.29
Charter Communications	110.02	87.88	28.71	36.14%	2.07
Time Warner LLC*	77.27	14.05	4.58	22.94%	0.75

**Times Warner LLC sold to AT&T in 2018*
Source: MarketBeat.com

Wall Street Sentiment

- Marketbeat.com has 72% of Wall Street Analysts rating Disney as a Buy, while 28% Hold, and no sell ratings
- J.P. Morgan Chase and Rosenblatt Securities rated Disney a buy, both with a $140 price target on 4/9/2020
- Cifra rated Disney a buy on 4/8/2020 with a $120 price target

CEO Focus

- Bob Chapek became the CEO of Disney on 2/25/2020. He is replacing Bob iger who acted in the position for 15 years and was responsible for increasing Disney's stock 500% since 2005
- Chapek has previously been with Disney for 27 years and head of the company's theme parks since 2015
- Chapek has overseen a doubling in profits in theme park sales since 2015 in his former position
- Investors have high hopes with Chapek as he follows the Disney mindset of making every customers life a little more enjoyable