

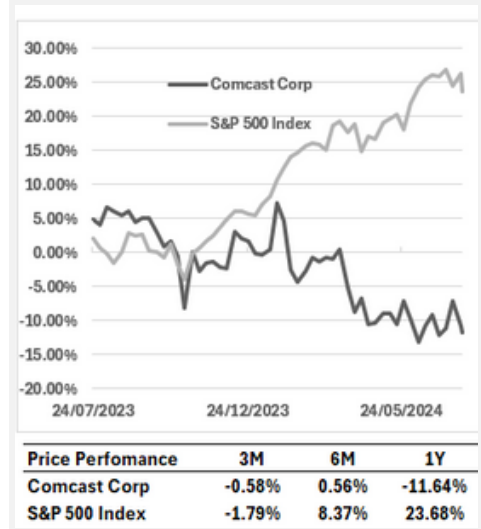
Equity Research Report

Comcast Corp (NASDAQ:CMCSA)

Date - 26th June 2024



Current Price	Target Price	Potential Upside	Reccomendation	Industry
\$39.53	\$58.25	47.35%	BUY	Media & Entertainment



Overview

We suggest a Buy recommendation on Comcast Corporation(NASDAQ: CMCSA) based on a 2-year target price of \$58.25, offering a 47.35% upside potential from its closing price of \$39.53 on 24/07/2024. These key points drive our suggestion:

Undervaluation

- Comcast's current market price of \$39.53 means that it is undervalued as a company when compared to its intrinsic price (or underlying price) regarding a Discounted Cash Flow (DCF) model. This suggests that if the market were to realise its intrinsic price there may be a sudden price movement to the upside.

Strong division growth

- Comcast's Residential and Connectivity Platforms division has increased revenue for the total division by 24% over the last 5 years as well as its Media division growing revenue 21% in the same time period. This shows strong and positive YOY revenue growth meaning that Comcast is still a powerhouse in the Media and Entertainment industry.

Low cost of debt

- Comcast's current cost of debt is 4.89% with debt accounting for 37.75% of its total capital structure or enterprise value. With interest rates in the U.S. at 5.25-5.5% this gives Comcast a competitive advantage regarding borrowing for growth when compared to its competitors, with the industry average cost of debt being 6.3%. This means Comcast has to pay less interest than the average firm taking on debt in the Media and Entertainment industry.

Low price means opportunity

- With Comcast's current price trading at \$39.53 and close to a 52-week low of \$36.44, potential price movement to the upside would act as a catalyst and cause price to potentially rally further towards the intrinsic value of Comcast leading to a fair market valuation of the stock. A catalyst for this movement would be earnings or an announcement concerning the companies' operations, which would draw analysts' attention to Comcast, highlighting the potential upside that this overseen company has to offer.

2-year price target

- The reason for the 2-year price target is due to the need for borrowing (not equity issuance as Comcast's KOE is high) that Comcast needs to increase earnings and allow for future growth. Hence this will take time to allow for an impact on profitability.

Market Profile	
Closing Price	\$39.53
52-Week High/low	47.44/36.44
Shares Outstanding (M)	3,924.0
Market Cap.	\$159,260.0
Dividend Yield	3.26%
Beta	1.04
EV/ Revenue	2.06x
EV/ EBITDA	6.67x
P/E	10.01x
Inst. Holdings	85.2%
Insider Holdings	>1%
2023 Revenue (M)	\$121,572.0
2023 Net Income	\$15,091.00
CMCSA Q2 EPS	\$1.00

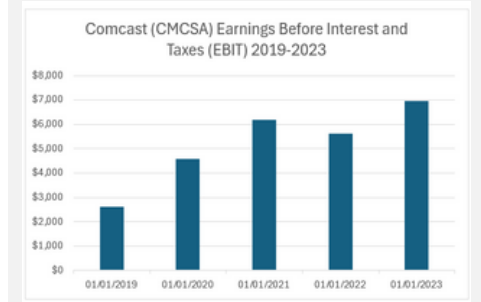
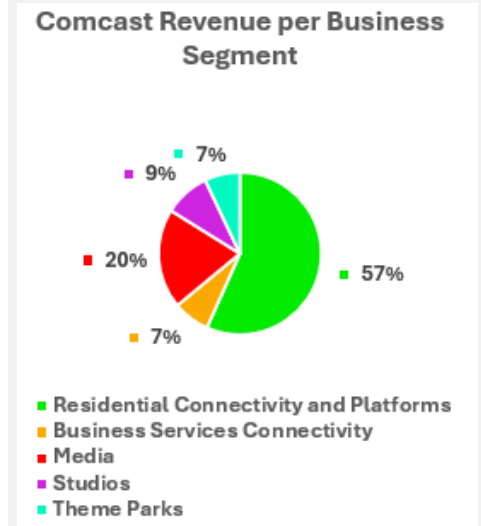
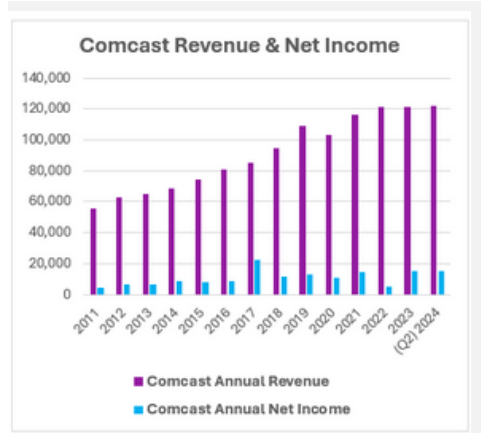
PGR Implied Share Price	\$80.35
Relative Valuation Implied Price	\$36.15
Final Implied Share Price	\$58.25
Current Market Price	\$39.53
Implied Gain / (Loss)	47.35%

Sensitivity Analysis						
Perpetuity Growth Rate						
WACC	\$80.35	1.50%	1.75%	2.00%	2.25%	2.50%
	8.15%	\$58.83	\$61.31	\$64.00	\$66.91	\$70.08
	7.65%	\$65.26	\$68.23	\$71.45	\$74.97	\$78.83
	7.15%	\$72.84	\$76.42	\$80.34	\$84.67	\$89.46
	6.65%	\$81.89	\$86.28	\$91.15	\$96.57	\$102.65
	6.15%	\$92.88	\$98.39	\$104.56	\$111.53	\$119.44

Company Name

Company and Industry

Overview



Company Overview

Founded in 1963 by Ralph Roberts together with two business partners, through the purchase of American Cable Systems, which was later renamed to Comcast, is an international leader in the media, telecommunication and technology industry. Comcast provides best-in-class services for more than 200 countries.

Comcast has showcased a stable balance sheet and attractive valuations over the past 5 years, with a median revenue CAGR of 4.3%. This is underpinned by strong Q1 revenues of \$121,939 Million (1.5% YOY increase) and a corresponding net income of \$3,857 Million (0.6% YOY increase). Comcast maintains a bullish trajectory, being driven by diverse revenue streams, technological improvements and network expansions.

Comcast's business can be broken down into these 5 segments:

- **Residential Connectivity and Platforms:** Offers wireless and residential broadband services, video services, TV networks, and advertising. Revenue has increased 24% over the last 5 years, this being due to the strong global connectivity demand.
- **Business Services Connectivity:** Provides high-end connectivity services for businesses, including wireless, voice, and broadband. Also offers support to customers and larger corporations. Profit margins have slightly declined.
- **Media:** Driven by NBC Universal television and streaming business, cable networks, and consumer streaming service Peacock. Comcast also manages European satellite broadcaster Sky. Revenue for this segment as well as profit margins have kept steady over the last 5 years.
- **Studios:** Primarily focuses on Sky film and NBCUniversal and television studio production in conjunction with system-wide operations Profit margins have improved over the last year
- **Theme Parks:** Revenues are generated from attendance fees and per capita spending at Universal theme parks, located in Hollywood and Orlando. Additional fees are collected from intellectual property licenses and other services.

Emerging threats, especially within the streaming space, encourage Comcast to focus on integral revenue sources, which include media, streaming, and theme parks. The ever-growing user network of Comcast, now at 33 million, requires reliable connectivity and a resilient business model, that satisfies both customer needs and shareholder returns.

Industry overview

Comcast Corporation (NASDAQ: CMCSA) competes in markets including cable communications, broadband internet, voice and wireless services, media and entertainment. The top five competitors based on market capitalization are:

- Netflix, Inc. (NASDAQ: NFLX) - Market Cap: \$277.9 billion
- The Walt Disney Company (NYSE: DIS) - Market Cap: \$171.6 billion
- Charter Communications, Inc. (NASDAQ: CHTR) - Market Cap: \$45.077 billion
- Live Nation Entertainment, Inc. (NYSE: LYV) - Market Cap: \$21.842 billion
- Warner Bros. Discovery, Inc. (NASDAQ: WBD) - Market Cap: \$20.95 billion

Comcast's competitive advantages include vertical integration with NBCUniversal, a broad service range, extensive infrastructure, strong market presence, and innovation. Financially, Comcast's high revenue and profitability outperform its competitors Netflix, Disney, Charter, Live Nation, and Warner Bros. Discovery.

Company and Ticker	Market Data			Financials			Valuation		
	Equity Value	Net Debt	Enterprise Value	Revenue (LTM)	EBITDA	Net Income	EV/Revenue	EV/EBITDA	Price/Sales
NFLX - Netflix Inc	\$271.81	\$7.32	\$279.13	\$36.30	\$8.99	\$7.09	7.69x	31.05x	7.49x
DIS - Walt Disney Comp	\$171.05	\$46.30	\$217.35	\$89.20	\$16.15	\$1.70	2.44x	13.46x	1.92x
CMCSA - Comcast Corp	\$154.20	\$96.53	\$250.73	\$121.94	\$37.59	\$15.41	2.06x	6.67x	1.26x
WBD - Warner Bros Inc	\$21.24	\$42.59	\$63.83	\$40.58	\$7.49	-\$3.02	1.57x	8.52x	0.52x
FOX - Fox News Corp	\$16.61	\$8.14	\$24.75	\$13.92	\$2.81	\$1.56	1.78x	8.81x	1.19x
ROKU - Roku Inc	\$9.02	-\$1.42	\$7.60	\$3.63	-\$0.05	-\$0.57	2.09x	-158.33x	2.48x
PARA - Paramount Global	\$8.14	\$15.81	\$23.95	\$30.07	\$2.72	-\$0.74	0.80x	8.81x	0.27x
CNK - Cinemark Holdings	\$2.61	\$2.77	\$5.38	\$3.04	\$0.56	-\$0.21	1.77x	9.61x	0.86x

Comcast Corp

Valuation



WACC	
Market Cap	159,260.00
% of Equity	62.25%
Cost of Equity (RFR+ Beta x ERP)	9.39%
Risk Free Rate (RFR) - 10 Year T-bill Yield	4.40%
Beta (Bottom-up)	1.04
Equity Risk Premium (ERP) - Damodaran Online	4.80%
Debt	96,573.00
% of Debt	37.75%
Cost of Debt	4.89%
Tax Rate	29.40%
WACC	7.15%

Comparables Companies Analysis (In Billions USD)									
Company and Ticker	Market Data			Financials			Valuation		
	Equity Value	Net Debt	Enterprise Value	Revenue (LY)	EBITDA	Free Income	EV/Revenue	EV/EBITDA	Price/Sales
NFLX - Netflix Inc	\$271.81	\$7.32	\$279.13	\$26.30	\$8.99	\$7.09	7.69x	31.05x	7.49x
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PARA - Paramount Global	\$6.14	\$15.81	\$23.95	\$30.07	\$2.72	\$0.74	0.85x	8.81x	0.27x
CNN - Cinemark Holdings	\$2.61	\$2.77	\$5.38	\$3.04	\$0.56	\$0.21	1.77x	9.61x	0.86x
High						7.69x	31.05x	7.49x	
25th Percentile						2.18x	10.17x	2.96x	
Median						1.92x	8.81x	1.26x	
75th Percentile						1.72x	8.96x	0.77x	
Low						0.85x	-158.33x	0.27x	
Comcast Valuation With Median									
Implied EV						\$253.77	\$333.04	\$149.85	
Net Debt						\$96.53	\$96.53	\$96.53	
Implied Market Value						\$137.24	\$234.51	\$53.32	
Shares Outstanding (In billions)						3.92	3.92	3.92	
Implied Value Per Share						\$35.01	\$59.82	\$13.60	
Average of Implied Price per Share							Average	\$36.15	

PGR Implied Share Price	\$80.37
Relative Valuation Implied Price	\$36.15
Final Implied Share Price	\$58.26
Current Market Price	\$39.53
Implied Gain / (Loss)	47.37%

Sensitivity Analysis						
WACC	Perpetuity Growth Rate					
	\$80.35	1.50%	1.75%	2.00%	2.25%	2.50%
	8.15%	\$58.83	\$61.31	\$64.00	\$66.91	\$70.08
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	7.15%	\$72.84	\$76.42	\$80.34	\$84.67	\$89.46
	6.65%	\$81.89	\$86.28	\$91.15	\$96.57	\$102.65
	6.15%	\$92.88	\$98.39	\$104.56	\$111.53	\$119.44

Scenario Analysis						
Scenario	Implied Price	Upside	5-Year Revenue CAGR	EBIT Margin Average	WACC	PGR
Optimistic Case	\$63.86	61.55%	0.31%	22.15%	6.65%	2.25%
Base Case	\$58.25	47.36%	1.11%	20.15%	7.15%	2.00%
Conservative Case	\$52.47	32.73%	1.91%	18.15%	6.65%	1.75%

Total									
16,906.62 17,103.94 17,915.55 18,021.36 19,321.68									
DA	12,830	13,100	13,884	13,820	14,236	14,344.00	14,589.00	14,940.00	15,284.00
% of sales	11.87%	12.64%	11.86%	11.38%	11.79%	11.50%	11.84%	11.81%	11.60%
CapEx	(11,069)	(10,477)	(10,150)	(10,966)	(12,379)	(12,240)	(11,421)	(10,952)	(10,743)
% of sales	-10.16%	-10.31%	-9.72%	-9.82%	-10.18%	-9.89%	-9.27%	-8.66%	-8.47%
NWC	6,833	9,331	10,354	8,392	19,609	14,386.41	14,175.18	14,843.74	14,687.27
Change in NWC	-	3,098.00	423.00	(1,962.00)	11,217.00	268.00	(73.00)	364.00	41.00
% of sales		2.79%	0.90%	-1.42%	10.22%	0.20%	-0.06%	0.29%	0.03%
Unlevered FCF						18,628.62	20,344.84	21,539.05	22,704.90
Present Value of FCF						18,072.48	18,420.52	18,200.79	17,952.68
Discount Period				0.44	1.44	2.44	3.44	4.44	
Terminal Value									430,301.42
PV of Terminal Value									336,699.38
Enterprise Value									405,325.66
(+) Cash									6,515.00
(-) Preferred Shares									0.00
(-) Minority Interest									0.00
(-) Debt									96,573.00
Equity Value									315,277.66
Diluted Shares (In Millions)									3,024.00
Implied Stock Price									\$48.39

Revenue and EBIT Forecasts Analysis

The base, optimistic, and conservative scenarios for revenue growth indicate a 5-year Compound Annual Growth Rate (CAGR) of 0.31%, 1.11%, and 1.91% respectively. By 2028, the base scenario projects that revenues will increase to nearly \$130 billion, a significant increase being led by Comcast’s Media and Entertainment division, where revenues are expected to make up 30% of total revenue by 2028.

The conservative case regarding revenue growth for Comcast, assumes a 2028 revenue of \$124.5 billion, only a \$3 billion increase from current revenue with the major factor driving this being the lack of growth from Comcast’s theme-park division which in future years may be divested as it strays from Comcast’s core competencies. The optimistic case projects a 2028 revenue of \$137.4 billion.

With concern to EBIT margins; the base case assumes that they are expected to level out at 20.8+/-0.2% by 2027 up from the current margin of 19.5% for 2023. The optimistic and conservative cases permit a 2% increase/ decrease to 22.8% or 18.8% however this is dependent on many factors including changes in inflation, interest rates and other factors

WACC and PGR assumptions

Regarding the Weighted Average Cost of Capital (WACC), the base case of this valuation yields a WACC of 7.15% and utilises a bottom-up Beta of 1.04. The optimistic case yields a WACC of 6.65% and uses a 5-year Beta of 1.00. This lower WACC allows for a lower discount rate regarding the unlevered free cash flow (UFCF) in the DCF which allows for a greater Enterprise Value and therefore implied share price. Comcast’s Enterprise Value is comprised of 62.25% equity and 37.75% debt, with the cost of equity (in the base case) being 9.39%. Comcast’s cost of Debt (pre-tax) is 4.89% with this being considered very low and in this case due to the low percentage of debt as a part of its EV. This cost of equity is high compared to other companies' cost of equity meaning it is more expensive to raise capital from equity rather than debt. The DCF part of this valuation assumes a base case Perpetual Growth Rate (PGR) or Terminal Growth Rate of 2.00%. This PGR is typically higher when compared to another company's valuation, and this is because of the innovatality factor of Media firms.

Relative Valuation

Comcast’s current price of \$39.53 can be seen as more expensive when compared to the peer averages as listed in the Excel chart on the top left. Using the Median as a valuation bridge gives out a lower Implied Share Price than using the Average. This means that Comcast’s current price sits at the higher end of the positively skewed peer comparables data, or to summarise, Comcast’s current price is overvalued when comparing it to how its peers are trading. Technical analysis on the next page shows that Comcast is trading close to a recent week of \$36.44.

Comcast

Price Movement Analysis



Chart Appendix

From a 52-week perspective, Comcast has been somewhat volatile, with a steady decrease starting in 2024.

1) September–October:

- A dispute between Disney and Charter Communications over television distribution fees worsened investor sentiment in the sector, which was also still being affected by Hollywood writers' and actors' strikes over wages. All this, in addition to tough competition, has led to a decrease in Comcast stock prices across this period.

2) October–November:

- Comcast saw a large decrease in stock price after losing 18,000 broadband customers in the third quarter of 2023, with tough competition from competitors that target lower-income customers. However, there was a strong recovery over the coming days, most likely due to the stock now being undervalued while still having a strong Q3 financially, topping analyst estimates.

3) November–February:

- A continued strong financial performance in Q4 and yearly results brought further momentum from Q3 to the stock price, with Comcast's revenue rising by 2.3% in the fourth quarter. All this, along with Comcast's 1M realised volatility reaching a recent low of 11.43 for Comcast helping stock prices rise.

4) February:

- In early February 2024, Comcast's stock sharply declined due to broader market corrections. Despite good Q4 2023 results, they lost 34,000 broadband customers, raising concerns about growth potential.

5) April–May:

- The stock price has decreased by 15.1% in April, even with earnings surpassing expectations in the latest quarterly report. This is due to concerns about declining cable subscribers and an adjusted EBITDA loss for their Peacock streaming service.

6) May–July:

- During this period, Comcast combined Peacock with Netflix and AppleTV+ in a new streaming bundle and finalized a broadcasting deal with the NBA, but both had negligible impacts on stock prices. In anticipation of the Q2 financial report, the stock price rose past \$40, but it declined by 5% after revenues missed expectations and theme park attendance remained low.

Investment Risks

- Even though a valuation suggests a potential upside, there may be the risk of a value trap meaning the equities' true value is not realised by the market and continues to trade at a discount.
- There is a growing shift from cable television to streaming services such as Netflix and Disney+. This could be a signal of a bleak future for Comcast as this could decrease revenue generation. Comcast however owns the streaming service Peacock therefore they are already addressing this risk.
- In all three of its primary business sectors, Comcast Corp. is facing more competition and long-term obstacles. This is especially true in the established domestic broadband market, where it must battle with the rapid uptake of fibre to the house and fixed wireless access.
- Comcast (NASDAQ: CMCSA) is significantly increasing its debt, putting it at risk. Concerns over the company's capacity to meet its financial obligations have been raised by the significant increase in debt, particularly in light of the possibility of rising interest rates and unstable economic conditions. Comcast's financial flexibility and stability may be impacted by this high debt, especially if revenue growth falls short of projections or if the market circumstances deteriorate.

Equity Research Report

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AP Capital Research is a University of Surrey and EFS-affiliated student-led research group, with the sole purpose of providing greater clarity of financial markets. Accomplished through the creation of weekly market insights, detailing the macroeconomic factors driving global markets and industries

Named after the University of Surrey's Austin Pearce building, we thought it was only right to give credit to the place which truly ignited our immersion into economics and finance, and more specifically, our passion for understanding financial markets.

