

April 2021. Investment ideas. Stocks.

Discovery (DISCA US) is an international media company owning and operating TV channels and networks. It primarily presents entertainment and general educational content. Purchase to the “Aggressive” portfolio at \$36.3. Portfolio share 3%.

Company	DISCOVERY
Ticker	DISCA US
Sector	Entertainment
Capitalization, \$ million	26,087
EV, \$ million	40,867
Dividend yield	-
Entry level, \$	36.3
Current price, \$	38.0
Result	5%

Source: Bloomberg

Source: Bloomberg

Key investment attractiveness factors.

1) **There is a potential for rebound after margin call on Archegos.** Discovery’s stock dropped being affected by Archegos Capital affair. As a reminder, the latter had to sell positions which had fallen under margin call, including DISCA. The equity ultimately went down in value 55% from the maximum.

It should be noted that it was a purely technical sale, added by sentiment of the other market players. Fundamentally, although its market multipliers significantly declined, the company was not adversely affected in any way. As we suppose, the situation created a good opportunity for entry with a view to stock rebound.

2) **Fundamentally satisfactory overall picture.** Discovery is expected to show revenue growth at around 13% in 2021. In the meantime, the market expects EBITDA and margin to decline. This, however, appears to be transitory: margin is going to return to 34-36% range in 2022 according to our projections. Alongside with this, the company's debt burden is quite moderate, as net financial debt to EBITDA ratio may be around 3.5x at the end of 2021.

3) **Substantial discount with reference to multipliers.** As we wrote earlier, share price slide due to sales by Archegos Capital had led to a decline in Discovery's market multipliers. According to our estimates, current discount with reference to industry average value is about 45% for P/S, 91% for EV/EBITDA, and 129% for P/E.

Risks: 1) high competition in the sector, especially from Netflix and Walt Disney; 2) ease of lockdown and quarantine restrictions; 3) consequences of Archegos Capital affair may continue to put pressure on quoted prices.

Financial highlights, \$ million	2019	2020	2021P*	Change, %
Revenue	11,144	10,671	12,047	13%
Gross profit		6,811	7,585	11%
EBITDA	4,648	4,366	4,000	-8%
Net profit	2,259	1,578	1,693	7%
EPS	3.25	2.53	2.71	7%
<i>Gross margin</i>	66%	64%	63%	-1%
<i>EBITDA margin</i>	42%	41%	33%	-8%
<i>Net margin</i>	20%	15%	14%	-1%
				<i>Source: Bloomberg</i>
Debt burden, \$ million	2019	2020	2021P*	Change, %
Gross debt	16,372	16,308	15,026	-8%
Cash	1,552	2,091	2,008	-4%
Net debt	14,820	14,217	13,018	-8%
Net debt/EBITDA	3.2	3.3	3.3	0%
				<i>Source: Bloomberg</i>
Benchmarking against similar companies	Country	P/S	EV/EBITDA	P/E
VIACOMCBS	USA	1.0	9.5	10.4
FOX	USA	1.8	9.5	13.3
NEXSTAR	USA	1.4	8.4	9.8
DISH NETWORK	USA	1.3	10.6	12.7
WALT DISNEY	USA	4.9	38.9	98.4
WARNER MUSIC	USA	3.9	25.2	58.7
NETFLIX	USA	7.6	34.8	44.1
Weighted average		3.1	19.5	35.3
DISCOVERY	USA	2.2	10.2	15.4
<i>Discount/(premium)</i>		45%	91%	129%

* P = Projection

Source: Bloomberg

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