

Walt Disney Co (DIS US)

Looking beyond 3Q OI volatility

Disney delivered solid 2QFY24 results, with inline revenue (+1.2% YoY) and upbeat profit (+30% YoY, beating consensus by 8%). The upbeat margin was mainly attributable to DTC's breakeven (ahead of guidance). Mgmt also raised its FY24E EPS growth target to 25% YoY (vs. prior at least 20% YoY). However, mgmt's mixed guidance on Parks (OI flat YoY) and DTC in 3Q triggered market concern on its 3Q visibility. We suggest looking beyond moderate 3Q earnings, and expect OI growth to pick up from 4Q, backed by: 1) DTC's profitability in 4Q; 2) Parks margin recovery; and 3) content to pick up. To reflect higher EPS guidance, we slightly lift FY24-26E earnings by 0%-1.2%, with unchanged TP at US\$142.

■ **A solid 2QFY24, while 3Q OI outlook seems mixed.** Disney's 2QFY24 results beat on margin (EPS +30% YoY, 8%/15% above consensus/our estimates), while the top line was largely in line (+1.2% YoY). Group OI (operating income) grew 17% YoY, 3% above consensus. Mgmt guided its FY24E EPS growth up to +25% YoY (vs. prior +20%), and reiterated confidence on FCF of over US\$8bn in FY24E. Disney repurchased US\$1bn in shares, and will continue to return capital to shareholders. However, mgmt's guidance on Parks (OI flat YoY) and softer DTC in 3Q seem mixed, triggering stock price pullback.

■ **Entertainment: profitable DTC to offset soft linear networks.** Entertainment revenue fell 5% YoY, with DTC/linear networks/content sales +13% YoY/-8% YoY/-40% YoY. Core Disney+ subs achieved net adds of 6.3mn (above guidance of 5.5-6mn), driven by Charter entitlements. ARPU also increased sequentially. Total segment OI reached 781mn (11% above our estimates), as DTC achieved breakeven with OI of US\$47mn (ahead of breakeven target in 4Q), offsetting linear networks' OI decline. Looking ahead, mgmt sees softer DTC (for Hotstar) in 3Q but expects it to be profitable in 4QFY24E. For Sports segment, Sports revenue grew 2% YoY, with OI -2% YoY (for the timing impact of College Football Playoff games at ESPN). ESPN+ subs declined 0.4mn QoQ.

■ **Experiences: guiding flat OI in 3Q.** Experiences segment delivered decent revenue (+10% YoY) and OI growth (+12% YoY), mainly on outperformance of international parks (especially from the Hong Kong Disneyland Resort). International parks & experiences revenue and OI achieved 29%/87% YoY growth. Given new cruise ship launches, mgmt. guided that Experience OI would be flat YoY in 3QFY24E (vs. our estimate of 10% YoY). Despite this, mgmt. remains positive on its full-year robust OI growth.

■ **Maintain BUY.** To reflect higher EPS guidance, we slightly lift FY24-26E earnings by 0%-1.2%, with unchanged SOTP-based TP at US\$142.

Earnings Summary

(YE 30 Sep)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	83,745	88,898	91,699	96,837	101,476
YoY growth (%)	24.2	6.2	3.2	5.6	4.8
Adjusted net profit (US\$ mn)	6,445.0	6,855.8	8,599.1	10,030.0	11,463.7
YoY growth (%)	53.5	6.4	25.4	16.6	14.3
Diluted EPS (US\$)	3.53	3.75	4.68	5.46	6.23
YoY growth (%)	53.6	6.2	25.0	16.6	14.2
Consensus EPS (US\$)	NA	NA	4.64	5.40	6.15
P/S (x)	2.3	2.2	2.1	2.0	1.9
P/E (Adjusted) (x)	29.8	28.0	22.4	19.2	16.8
ROE (%)	3.4	2.4	6.3	8.6	9.0
Net gearing (%)	38.7	32.5	42.7	38.7	30.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$142.00
(Previous TP US\$142.00)
Up/Downside 34.7%
Current Price US\$105.39

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Stock Data

Mkt Cap (US\$ mn)	193,290.5
Avg 3 mths t/o (US\$ mn)	836.4
52w High/Low (US\$)	122.82/79.32
Total Issued Shares (mn)	1833.0

Source: FactSet

Shareholding Structure

Vanguard	8.3%
BlackRock	6.7%

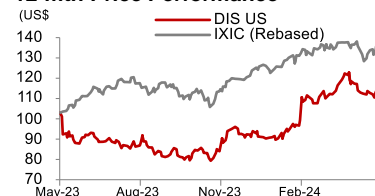
Source: NYSE

Share Performance

	Absolute	Relative
1-mth	-1.6%	-2.2%
3-mth	17.5%	13.2%
6-mth	37.7%	14.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 2QFY24 financial review

US\$ mn, Sep-YE	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	21,504	20,150	23,512	21,815	22,330	21,241	23,549	22,083	-6.2%	1.2%	22,101	0%	22,244	-1%
Operating income	12,121	3,043	3,285	3,559	2,976	12,863	3,876	3,845	-0.8%	8.0%	3,512	9%	3,601	7%
Adj. EPS (US\$)	1.09	0.30	0.98	0.93	1.03	0.82	1.22	1.21	-0.9%	30.1%	1.12	8%	1.05	15%
Margin (%)														
Gross margin	36.4%	32.7%	30.3%	33.0%	35.2%	35.4%	33.8%	35.5%			35.1%		34.8%	
Operating margin	56.4%	15.1%	14.0%	16.3%	13.3%	60.6%	16.5%	17.4%			15.9%		12.8%	
Growth (%)														
Revenue (YoY)	NA	NA	7.8%	13.3%	3.8%	5.4%	7.9%	-1.1%			1.3%		-0.4%	
Revenue (QoQ)	11.7%	-6.3%	16.7%	-7.2%	2.4%	-4.9%	10.9%	-6.2%			-6.1%		-5.5%	
Operating Profit	NA	NA	49.6%	122.4%	-75.4%	322.7%	8.9%	29.2%			-1.3%		7.4%	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: 2QFY24 revenue breakdown

US\$ mn, Sep-YE	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	QoQ	YoY
Total revenue	21,504	20,150	23,512	21,815	22,330	21,241	23,549	22,083	-6%	1%
Entertainment	10,037	9,294	39,569	10,675	10,309	10,127	9,981	9,796	-2%	-8%
Sports revenue	4,477	3,900	17,270	4,640	4,226	4,335	4,835	4,312	-11%	-7%
Experiences revenue	7,245	7,253	28,085	8,545	7,646	8,198	9,132	8,393	-8%	-2%
Eliminations	-255	-297	-1,179	-348	-366	-330	-399	-418	5%	20%

Source: Company data, CMBIGM

Figure 3: CMBIGM estimates vs consensus

US\$ mn, Sep-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	91,699	96,837	101,476	91,903	96,807	101,448	-0.2%	0.0%	0.0%
Gross profit	32,857	35,142	37,185	32,419	34,902	36,766	1.4%	0.7%	1.1%
Operating profit	15,663	17,839	19,687	14,521	16,539	18,373	7.9%	7.9%	7.1%
Adj. net profit	8,599	10,030	11,464	8,516	9,916	10,987	1.0%	1.2%	4.3%
Adj. EPS (US\$)	4.68	5.46	6.23	4.72	5.50	6.24	-0.8%	-0.9%	-0.1%
Gross margin	35.8%	36.3%	36.6%	35.3%	36.1%	36.2%	+0.6ppts	+0.2ppts	+0.4ppts
Operating margin	17.1%	18.4%	19.4%	15.8%	17.1%	18.1%	+1.3ppts	+1.3ppts	+1.3ppts
Adj. net margin	9.4%	10.4%	11.3%	9.3%	10.2%	10.8%	+0.1ppts	+0.1ppts	+0.5ppts

Source: Bloomberg, CMBIGM estimates

Figure 4: Earnings revision

US\$ mn, Sep-YE	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	91,699	96,837	101,476	91,829	97,017	101,701	-0.1%	-0.2%	-0.2%
Gross profit	32,857	35,142	37,185	32,759	35,065	37,124	0.3%	0.2%	0.2%
Operating profit	15,663	17,839	19,687	15,459	17,689	19,562	1.3%	0.8%	0.6%
Adj. net profit	8,599	10,030	11,464	8,493	10,030	11,461	1.2%	0.0%	0.0%
Adj. EPS (US\$)	4.68	5.46	6.23	4.62	5.46	6.23	1.2%	0.0%	0.0%
Gross margin	35.8%	36.3%	36.6%	35.7%	36.1%	36.5%	+0.2ppts	+0.1ppts	14.1%
Operating margin	17.1%	18.4%	19.4%	16.8%	18.2%	19.2%	+0.2ppts	+0.2ppts	16.5%
Adj. net margin	9.4%	10.4%	11.3%	9.2%	10.3%	11.3%	+0.1ppts	+0.0ppts	+0.0ppts

Source: CMBIGM estimates

Figure 5: SOTP-based valuation

Business (US\$ bn)	Methodology	'24E Rev	OP Margin	'24E EBIT	Multiple	Value
Entertainment	EV/EBIT	40,454	7.5%	3,043	33.7x	102,563
Linear Networks	EV/EBIT	11,136	32.0%	3,565	8.0x	28,516
DTC	EV/Sales	22,365	-0.6%	(141)	3.0x	67,094
Content Sales and Licensing	EV/Sales	6,953	-5.5%	(381)	1.0x	6,953
Sports	EV/EBIT	17,600	15.0%	2,632	20.0x	52,640
Experiences	EV/EBIT	35,162	28.4%	9,988	15.0x	149,824
Enterprise Value						305,028
(+) Net Cash						(44,677)
Equity Value						260,351
Diluted Shares Outstanding (mn)						1,835
Price Target (HK\$)						142

Source: CMBIGM estimates

Risks

Key investment risks: 1) global macro uncertainty; 2) subs churning due to price hikes; 3) higher content investment on intensified competition; 4) growth slowdown in ESPN as cord cutting accelerates; 5) soft content performance; 6) higher-than-expected sports margin dilution; and 7) lower-than-expected parks attendance due to soft macro.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Sep (US\$ mn)						
Revenue	67,418	83,745	88,898	91,699	96,837	101,476
Cost of goods sold	45,131	54,401	59,201	58,842	61,695	64,291
Gross profit	22,287	29,344	29,697	32,759	35,065	37,124
Operating expenses	14,521	17,223	16,834	17,300	17,376	17,562
SG&A expense	13,517	16,388	15,336	15,414	15,606	15,848
Others	1,004	835	1,498	1,886	1,770	1,713
Operating profit	7,766	12,121	12,863	15,459	17,689	19,562
Other income	201	(667)	96	150	200	200
Other expense	(1,406)	(1,397)	(1,209)	(1,275)	(1,406)	(1,378)
Other gains/(losses)	(2,418)	(2,353)	(1,998)	(1,747)	(1,728)	(1,728)
Adjusted EBITDA	9,370	13,933	15,504	18,432	20,482	22,316
Net profit	1,995	3,145	2,354	6,464	9,330	10,664
Adjusted net profit	4,199	6,445	6,856	8,599	10,030	11,464

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Sep (US\$ mn)						
Current assets	33,657	29,098	32,763	20,466	22,092	29,027
Cash & equivalents	15,959	11,615	14,182	3,013	3,813	10,002
Restricted cash	3	3	0	0	0	0
Account receivables	13,367	12,652	12,330	12,718	13,431	14,075
Inventories	1,331	1,742	1,963	2,025	2,138	2,241
Other current assets	2,997	3,086	4,288	2,710	2,710	2,710
Non-current assets	169,952	174,533	172,816	184,159	193,301	198,327
PP&E	29,549	35,777	33,591	42,827	49,742	53,936
Investment in JVs & assos	3,935	3,218	3,080	3,194	3,693	4,197
Intangibles	17,115	14,837	13,061	12,725	12,509	12,013
Goodwill	78,071	77,897	77,067	77,066	77,066	77,066
Other non-current assets	41,282	42,804	46,017	48,347	50,291	51,115
Total assets	203,609	203,631	205,579	204,625	215,393	227,355
Current liabilities	31,077	29,073	31,139	33,679	34,874	35,953
Short-term borrowings	5,866	3,070	4,330	6,087	6,087	6,087
Account payables	20,894	20,213	20,671	21,322	22,517	23,596
Other current liabilities	4,317	5,790	6,138	6,270	6,270	6,270
Non-current liabilities	79,521	75,679	70,483	61,372	61,644	61,951
Long-term borrowings	48,540	45,299	42,101	41,603	41,603	41,603
Deferred income	7,246	8,363	7,258	7,173	7,445	7,752
Other non-current liabilities	23,735	22,017	21,124	12,596	12,596	12,596
Total liabilities	110,598	104,752	101,622	95,051	96,518	97,904
Share capital	55,471	56,398	57,383	58,253	59,125	60,038
Retained earnings	40,429	43,636	46,093	50,667	58,721	68,008
Other reserves	(6,440)	(4,119)	(3,292)	(3,502)	(3,502)	(3,502)
Total shareholders equity	88,553	95,008	99,277	104,511	113,437	123,637
Minority interest	3,871	3,871	3,986	4,780	4,874	4,968
Total equity and liabilities	203,022	203,631	204,885	204,343	214,829	226,509

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Sep (US\$ mn)						
Operating						
Depreciation & amortization	5,111	5,163	5,369	5,197	5,272	5,272
Change in working capital	2,194	488	177	(35)	372	336
Others	(1,739)	351	4,320	1,707	3,434	7,561
Net cash from operations	5,566	6,002	9,866	6,869	9,079	13,169
Investing						
Capital expenditure	(3,578)	(4,943)	(4,969)	(7,299)	(7,000)	(5,600)
Others	407	(65)	(130)	53	0	0
Net cash from investing	(3,171)	(5,008)	(4,641)	(7,246)	(7,000)	(5,600)
Financing						
Dividend paid	(3,737)	(4,016)	(1,675)	(1,685)	(1,376)	(1,377)
Net borrowings	(26)	(334)	(191)	1,046	0	0
Proceeds from share issues	435	127	52	0	0	0
Others	(1,057)	(506)	(910)	(8,743)	0	0
Net cash from financing	(4,385)	(4,729)	(2,724)	(9,382)	(1,376)	(1,377)
Net change in cash						
Cash at the beginning of the year	0	16,003	11,661	14,235	3,068	3,868
Exchange difference	0	(4,342)	2,574	(11,167)	800	6,189
Cash at the end of the year	0	11,661	14,235	3,068	3,868	10,057
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Sep						
Revenue	na	24.2%	6.2%	3.2%	5.6%	4.8%
Gross profit	na	31.7%	1.2%	10.3%	7.0%	5.9%
Operating profit	na	56.1%	6.1%	20.2%	14.4%	10.6%
Net profit	na	57.6%	(25.2%)	174.6%	44.3%	14.3%
Adj. net profit	na	53.5%	6.4%	25.4%	16.6%	14.3%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Sep						
Gross profit margin	33.1%	35.0%	33.4%	35.7%	36.2%	36.6%
Operating margin	11.5%	14.5%	14.5%	16.9%	18.3%	19.3%
Adj. net profit margin	6.2%	7.7%	7.7%	9.4%	10.4%	11.3%
Return on equity (ROE)	na	3.4%	2.4%	6.3%	8.6%	9.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Sep						
Net debt to equity (x)	0.4	0.4	0.3	0.4	0.4	0.3
Current ratio (x)	1.1	1.0	1.1	0.6	0.6	0.8
Receivable turnover days	72.4	56.7	51.3	49.9	49.3	49.5
Inventory turnover days	31.8	24.0	19.4	19.5	20.4	22.4
Payable turnover days	169.0	137.9	126.0	130.2	129.7	130.9
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Sep						
P/E	106.0	67.5	90.4	33.0	22.9	20.0
P/E (diluted)	45.7	29.8	28.0	22.4	19.2	16.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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