

# 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

### Global Entertainment

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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%

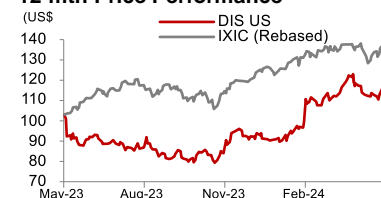
Source: NYSE

### 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%
<b>Margin (%)</b>														
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%	
<b>Growth (%)</b>														
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
<b>Total revenue</b>	<b>21,504</b>	<b>20,150</b>	<b>23,512</b>	<b>21,815</b>	<b>22,330</b>	<b>21,241</b>	<b>23,549</b>	<b>22,083</b>	<b>-6%</b>	<b>1%</b>
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
<b>Entertainment</b>	<b>EV/EBIT</b>	<b>40,454</b>	<b>7.5%</b>	<b>3,043</b>	<b>33.7x</b>	<b>102,563</b>
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
<b>Sports</b>	<b>EV/EBIT</b>	<b>17,600</b>	<b>15.0%</b>	<b>2,632</b>	<b>20.0x</b>	<b>52,640</b>
<b>Experiences</b>	<b>EV/EBIT</b>	<b>35,162</b>	<b>28.4%</b>	<b>9,988</b>	<b>15.0x</b>	<b>149,824</b>
<b>Enterprise Value</b>						<b>305,028</b>
(+) Net Cash						(44,677)
<b>Equity Value</b>						<b>260,351</b>
Diluted Shares Outstanding (mn)						1,835
<b>Price Target (HK\$)</b>						<b>142</b>

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
<b>YE 30 Sep (US\$ mn)</b>						
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
<b>Gross profit</b>	<b>22,287</b>	<b>29,344</b>	<b>29,697</b>	<b>32,759</b>	<b>35,065</b>	<b>37,124</b>
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
<b>Operating profit</b>	<b>7,766</b>	<b>12,121</b>	<b>12,863</b>	<b>15,459</b>	<b>17,689</b>	<b>19,562</b>
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)
<b>Adjusted EBITDA</b>	<b>9,370</b>	<b>13,933</b>	<b>15,504</b>	<b>18,432</b>	<b>20,482</b>	<b>22,316</b>
<b>Net profit</b>	<b>1,995</b>	<b>3,145</b>	<b>2,354</b>	<b>6,464</b>	<b>9,330</b>	<b>10,664</b>
<b>Adjusted net profit</b>	<b>4,199</b>	<b>6,445</b>	<b>6,856</b>	<b>8,599</b>	<b>10,030</b>	<b>11,464</b>
<b>BALANCE SHEET</b>						
<b>YE 30 Sep (US\$ mn)</b>						
<b>Current assets</b>	<b>33,657</b>	<b>29,098</b>	<b>32,763</b>	<b>20,466</b>	<b>22,092</b>	<b>29,027</b>
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
<b>Non-current assets</b>	<b>169,952</b>	<b>174,533</b>	<b>172,816</b>	<b>184,159</b>	<b>193,301</b>	<b>198,327</b>
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
<b>Total assets</b>	<b>203,609</b>	<b>203,631</b>	<b>205,579</b>	<b>204,625</b>	<b>215,393</b>	<b>227,355</b>
<b>Current liabilities</b>	<b>31,077</b>	<b>29,073</b>	<b>31,139</b>	<b>33,679</b>	<b>34,874</b>	<b>35,953</b>
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
<b>Non-current liabilities</b>	<b>79,521</b>	<b>75,679</b>	<b>70,483</b>	<b>61,372</b>	<b>61,644</b>	<b>61,951</b>
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
<b>Total liabilities</b>	<b>110,598</b>	<b>104,752</b>	<b>101,622</b>	<b>95,051</b>	<b>96,518</b>	<b>97,904</b>
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)
<b>Total shareholders equity</b>	<b>88,553</b>	<b>95,008</b>	<b>99,277</b>	<b>104,511</b>	<b>113,437</b>	<b>123,637</b>
Minority interest	3,871	3,871	3,986	4,780	4,874	4,968
<b>Total equity and liabilities</b>	<b>203,022</b>	<b>203,631</b>	<b>204,885</b>	<b>204,343</b>	<b>214,829</b>	<b>226,509</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 30 Sep (US\$ mn)</b>						
<b>Operating</b>						
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
<b>Net cash from operations</b>	<b>5,566</b>	<b>6,002</b>	<b>9,866</b>	<b>6,869</b>	<b>9,079</b>	<b>13,169</b>
<b>Investing</b>						
Capital expenditure	(3,578)	(4,943)	(4,969)	(7,299)	(7,000)	(5,600)
Others	407	(65)	(130)	53	0	0
<b>Net cash from investing</b>	<b>(3,171)</b>	<b>(5,008)</b>	<b>(4,641)</b>	<b>(7,246)</b>	<b>(7,000)</b>	<b>(5,600)</b>
<b>Financing</b>						
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
<b>Net cash from financing</b>	<b>(4,385)</b>	<b>(4,729)</b>	<b>(2,724)</b>	<b>(9,382)</b>	<b>(1,376)</b>	<b>(1,377)</b>
<b>Net change in cash</b>						
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
<b>Cash at the end of the year</b>	<b>0</b>	<b>11,661</b>	<b>14,235</b>	<b>3,068</b>	<b>3,868</b>	<b>10,057</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 30 Sep</b>						
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%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 30 Sep</b>						
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%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 30 Sep</b>						
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
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 30 Sep</b>						
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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**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

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