EDP - Energias de Portugal, S.A.

5-Y Return: 5.29%

Dividend and Valuation:

EPS: 0.23
P/E ratio: 15.3
P/B ratio: 1.31
Dividend Yield: 5.27%
DPS: $0.21
Pay-out Ratio: 84.8%
5-Yr. Div. Growth Rate: 0%

Company Overview:

Market Cap: $15.272 Billion
Short Interest:
52 Week range: $3.4520-$5.2260
ROA: 1.6%
ROE: 9.3%
ROIC: 7.3%
Operating Margin: 10.82%
Net Margin: 5,88%
D/E ratio: 196,35%
Current ratio: 0,91
Quick ratio: 0,45
Piotroski F-Score: 6
Altman Z-Score: 0,7
Beneish M-Score: -2,81
5Y Revenue CAGR: 1,18%
Credit Rating: BBB (S&P)

ITIC's Fair Value:

Recommendation: BUY
Target Price: $4.36
Last Close: $3.6020
Upside: 21.11%

Major shareholders:

China Three Gorges investment: 19.98%
Oppidum Capital SL: 6.82%
Blackrock: 6.82%

Company overview

EDP - Energias de Portugal, S.A., stands as a major player in the energy sector, distinguished by its comprehensive approach to electricity and gas. It serves a broad customer base of approximately 9.1 million, encompassing the generation, transmission, distribution, and supply of electricity, alongside the supply of gas across Portugal and Spain. With a formidable presence on the global stage, EDP asserts its dominance in the renewable energy sphere, particularly in wind energy, making it one of the largest producers worldwide. Its operations are segmented into Renewables, Networks, and Client Solutions and Energy Management, with a significant emphasis on digital transformation to enhance business efficiency and customer service. The company's strategic footprint spans major markets, including Portugal, Spain, Brazil, and the U.S., underscoring its international reach and commitment to sustainability and innovation.

Key Takeaways

EDP exhibits a price target of $4.28, indicating an upside potential of 16% from its current level (5 of May 2024) The company's strategic orientation towards renewable energy, coupled with its commitment to digital transformation and international expansion, lays a strong foundation for prospective growth. Nevertheless, the ability to effectively navigate the intricacies of the global energy market, adapt to regulatory shifts, and embrace technological progress is imperative. These steps will be essential for EDP to mitigate inherent risks and seize the opportunities that lie ahead.

Renewable Energy Leadership: EDP excels as a top global wind energy producer, leveraging renewables for a competitive edge.

Comprehensive Energy Services: Its broad range of operations from renewables to utility services positions EDP as a utility leader.

Strategic Geographic Presence: Focused on core markets in Portugal and Spain, with expansions in Brazil and the U.S., EDP seeks global growth.

Financial Performance: Marked financial growth in 2022 underscores EDP's robust model and success.

Digital Transformation Focus: EDP aims to transform the energy sector with a strong focus on digital innovation.

Historical Roots and Evolution: EDP's history of adaptation and growth highlights its resilience and innovative approach.

Key Risks:

- **Regulatory Risks:** Policy shifts can drastically affect EDP's costs and operations.
- **Operational Risks:** Natural disasters or falling behind in tech advancements could disrupt EDP's services.
- **A rise in the energy costs** due to current geopolitical situation might influence the operating costs, shrinking the profit margins.

Francisco and Vicente, May 5, 2024. All materials are strictly for educational purposes and should not be taken as investment advice.

Dividends Valuation:

We choose to value EDP using the Dividends DCF method, since the company has presented negative free cash flows over the years, and the forecasts still predict a negative trend, making it impossible to use a direct DCF method. Due to its high dividend yield (5.27%) and Payout-ratio (84.8%), low volatility and small growth prospects, most of the company´s shareholders have invested in EDP due to its large redistributions of earnings to investors, rather than believing that they could benefit from a major increase in the stock price. EDP in the last five years has showed a maintenance of the yearly dividends rate, which is a very positive aspect to the shareholders. EDP share price calculated by the Dividends DFC method is 4.280723 which is higher 16% in comparation with the current value.

Year	2018	2019	2020	2021	2022
Yearly Dividends	0.186	0.186	0.19	0.19	0.19
Growth Rate	0%	0%	2%	0%	0%

Average Growth Rate	1%
Wacc	5%
Intrinsic Value	4.280723

Current Price	3.6
Difference	16%

Industry Outlook:

The power generation market has been rising and will continue to rise due to the increase of demand. The CAGR of this market is expected to have an annual growth rate of 8.04% between 2024 and 2032, being expected to reach 3.9 trillion dollars by 2032.

There are many reasons that sustain this theory such as the new attractive opportunities in some emerging markets where the governance policies attract the investment in this sector.

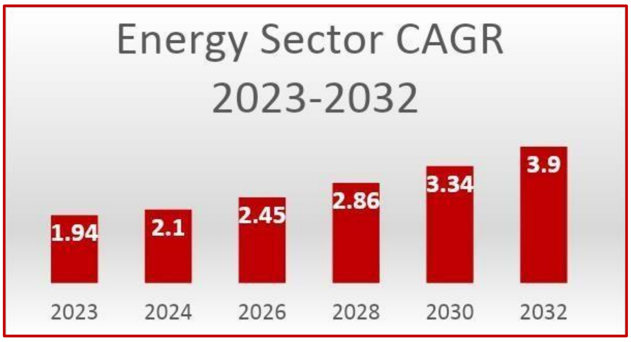
A factor that is also expected to cause a significant impact in the growth of the energy sector is the rise of demand caused by the massive urbanization that is expected to happen in some developing countries. The growth of the AI industry and the increased integration of the blockchain technology in day to day activities can also boost the industry future revenues, due to its high energy consumptions.

The climate crisis is also expected to have an impact in the increased use of energy due to the more extreme weather conditions people will rely more in climate control equipment.

ESG- Environmental, Social and Governance:

EDP is a company that has been putting an effort to increase it's ESG score. The main factors that contribute to this value are the very positive governance pillar score and by having good environmental score which is very relevant in the electricity sector due to the fact it shows that the EDP is making a solid electrical transition.

Source: Bloomberg	2019	2020	2021	2022
ESG Score	A	A	A	A
Environmental Pillar Score	A	A	A	A
Social Pillar Score	BBB	BBB	BBB	BBB
Governance Pillar Score	AA	AA	AA	AA



Alphabet (NASDAQ: GOOG)

Performance and Risk:

Beta: 1.1

5-Y Return: 8% Std.

Deviation: 0.29%

Dividend and Valuation:

EPS: 5.84

P/E ratio: 22.83

P/B ratio: 6.14

P/FCF ratio: 25.39

Dividend Yield: 0%

DPS: $0

Pay-out Ratio: 0%

3-Yr. Div. Growth Rate: 0%

Company Overview:

Market Cap: $1740.537 Billion

Short Interest: 1.88%

52 Week range: $84.66-$142.68

ROA: 19.23%

ROE: 31.25%

ROIC: 24.82%

Gross Margin: 56.63%

Operating Margin: 27.42%

Net Margin: 24.01%

D/E ratio: 10.19%

Current ratio: 2.1

Quick ratio: 1.94

Piotroski F-Score: 8

Altman Z-Score: 11.5 (Safe Zone)

Beneish M-Score: -2.58%

5Y Revenue CAGR: 17.57%

Credit Rating (Standard&Poor's): AA+ (Stable Outlook)

ITIC's Fair Value:

Recommendation: BUY

Target Price: $165.74

Last Close: $147.12

Upside: 12.4%

Major shareholders:

The Vanguard Group: 7.16%

Blackrock Inc: 6.17%

State Street Corporation: 3.21%

Fidelity Investments: 2.1%

Company overview

Google began its journey as a search engine innovator, rapidly evolving to become the epitome of internet search. Over the years, it has expanded its portfolio to encompass the Android operating system, YouTube, and an array of hardware products. As a powerhouse in digital advertising, Google generates a significant portion of its revenue from this sector. Looking ahead, Alphabet, its parent company, anticipates a slight rise in total capital expenditures for 2024. This increase is earmarked for strategic investments in artificial intelligence, with a focus on enhancing its computing infrastructure through advanced GPUs (Graphics Processing Units) and TPUs (Tensor Processing Units), as well as expanding its data center capacity to support growing demand and innovation across its services.

Key Takeaways

The assessment points towards a "buy" recommendation for Alphabet's stock, considering its strategic positioning, innovation trajectory, and the potential for continued growth in the evolving digital landscape. Investors should consider Alphabet's ability to leverage AI and other technological advancements to maintain its leadership as a search engine, expand its cloud services, and enhance its advertising capabilities as key indicators of its long-term investment appeal.

- Alphabet reported strong growth in Search and YouTube.
- The introduction of the Search Generative Experience (SGE) and the integration of Generative AI into Search were significant developments.
- The use of AI to improve services and attract new customers is a strategic move to strengthen their position in the cloud market.
- The use of AI in improving advertising capabilities, such as with Performance Max and other AI-driven ad solutions, demonstrates Alphabet's ongoing efforts to provide value to advertisers and enhance user experiences.
- Google introduced a new series of industry-leading AI models named Gemini, marking the beginning of the "Gemini era." These models are designed to understand and integrate text, images, audio, video, and code in a multimodal manner, running efficiently on various platforms from mobile devices to data centers.

Key Risks and Catalysts

- Momentum in the cloud segment where revenue came in below estimates at $8.41 billion, missing the mark by more than $20 million.
- Advertising has been significantly affected by economic downturns and privacy changes made by the government.
- AI presents both an opportunity and a threat for Google search engine.
- Google faces significant regulatory scrutiny around the world regarding data privacy, antitrust issues, and competition law, which could result in fines, restrictions, or changes in how they operate.
- Increasing global concerns over data privacy and security can affect user trust and compliance costs.

Valuation Methodology and Price Target

	2024 E	2025 E	2026 E	2027 E	2028 E
Revenue (M$)	$287,691.20	$338,251.70	$378,035.60	$394,790.00	$411,938.30
Growth %	-	17.57%	11.76%	4.43%	4.34%
FFCF ($M)	$83,592.30	$88,942.70	$112,154.60	$96,805.00	$108,673.00
Present Value FFCF	$76,340.00	$74,179.00	$85,423.00	$67,335.00	$69,032.00

Equity Value	$2,065,112
Shares Outstanding	$12,460
Reccomendation	Buy
WACC	10%
Price (18/03/24)	$147.12
Price Target	$165.74

With a target price of $165.74 calculated by the DCF method, and a current price of $147.12 per share, Google can be considered as an undervalued stock. Given the price analysis, it is ITIC's recommendation to buy. Google's current undervalued status, coup led with the high valuations in the tech sector, suggest a great investment opportunity. The recent reduction of confidence from Google´s investors was due to the disappointment launch of the AI pro "Gemini", mainly with the text to image generation.

Market Multiple's Analysis and Commentary

	P/E	P/S	P/B	EV/EBITDA	P/FCF	MKT CAP (B$)
GOOGL	23.13	5.54	5.87	16.06	15.05	1,641
MSFT	36.28	13.21	12.56	24.81	36.88	2,987
AMZN	56.62	3.18	8.96	20.78	20.83	1,802
META	33.41	9.55	8.16	20.69	19.33	1,265
BAIDU	12.99	1.86	1.02	0.066	1.44	34.7
AAPL	26.3	6.93	35.46	19.95	38.37	2,612

Looking closely at the financial metrics, Google (GOOGL) appears to have a more conservative P/E ratio compared to its peers. Google's P/S and P/B ratios are relatively moderate, indicating its pricing is neither too low nor excessively high relative to its revenues and book value, especially when compared to Apple (AAPL), which has a significantly higher P/B ratio. Microsoft (MSFT) has a notably higher P/FCF ratio, suggesting the market is paying a premium for its future cash flows relative to Google. In terms of market capitalization, Microsoft leads significantly, reflecting its larger size and possibly a wider investor confidence. Baidu (BAIDU) stands out with the lowest multiples, which could suggest undervaluation or specific market concerns affecting its valuation.

Industry Outlook

The information technology market has seen exponential growth ($9039 revenue in 2024), and is expected to continue this growth, with a CAGR of 8.3% by 2028. With expected revenues of $12417.21 billion within the next four years, demand for digital transformations, rapidly developing innovations, and a transition to a globe based around e-commerce are factors that have driven the continued growth of this market. COVID-19, contrary to its impact on other industries, has generated positive outcomes for the information technology market. Due to increased remote employment and a necessity for digital solutions, there was high demand for IT solutions and cloud computing that bolstered growth within the industry. Recent innovations in next-generation language models are also projected to generate growth, creating a globe that is increasingly reliant on technology.

ESG – Environmental, Social and Governance

	2023
ESG Score	BBB
Environmental Pillar Score	A+
Social Pillar Score	F
Governance Pillar Score	F
ESG Controversies Score	C

Considering Google is one of the world's largest tech companies, it not only sets a precedent for the technology industry - it also faces great scrutiny when their practices are not sustainably conscious. Google's commitments to reducing its environmental footprint through renewable energy investments, a goal of zero waste at its physical locations, and its transparency in disclosing their environmental impact has earned them a top score in the environmental pillar. To parallel their successes in the technology industry, Google/Alphabet must publicly commit to bettering their practices, and implement such practices, to be at the top of ESG ratings.

AMD- Advanced Micro Devices

(The following is considered with data from FY2023)

Performance and Risk:

Beta: 1.523
5-Y Return: 49.17%
Std. Deviation: 3.30%

Dividend and Valuation:

EPS: $0.53
P/E ratio: 229.06
P/B ratio: 4.26
P/FCF ratio: 212.24
Dividend Yield: -----
DPS: $0
Payout Ratio: 0
5-Yr. Div. Growth Rate: 0

Ratios and metrics

Market Cap ($M): 238,214.6
52W range: $75.92 - $184.92
ROA: 1.26%
ROE: 1.54%
ROIC: 1.31%
Gross Margin: 46.12%
Operating Margin: 1.77%
Net Income Margin: 3.37%
D/E ratio: 5.56%
Current ratio: 2.51
Piotroski F-Score: (N.A.)
Altman Z-Score: 13.58
Beneish M-Score: (N.A.)
5Y Revenue CAGR: 35.48%

ITIC's Fair Value:

Recommendation: SELL
Target Price: $115.71
Last Close: $170.94
(February 7, 2024)
Downside: 32%
Performance: Underperform

Major shareholders:

Vanguard Group Inc: 8.67%
Blackrock: 7.73%
Vanguard Group Incorporated: 5.87%
State Street Corp: 3.97%

Company Overview:

Advanced Micro Devices (AMD) is an American semiconductor company founded in 1969. AMD specializes in providing cutting-edge computing and graphic products including Central Processing Units (CPUs), Graphics Processing Units (GPUs), Accelerated Processing Units (APUs) and artificial intelligence accelerators. Regarding the CPUs market, AMD has introduced the widely praised Ryzen series used in personal computers, strongly competing with the INTEL processors. In the realm of GPUs, the company developed a sub brand-named Radeon. The semiconductor producer is present in 4 major segments: Data Center, the main source of revenues, Client, Gaming and Embedded which experienced a 3Y Growth of 233.85%.

Key Takeaways:

- In 2021, AMD approved repurchase programs of up to $12B. By the end of 2023, the company bought $6.4B of its own stock and returned to its shareholders $985M which indicates the strategic move to generate additional value to its stockholders.
- In 2023 the company experienced a decrease of 4% of net revenue, primarily due to a reduction in the client sector of 25%.
- Based on our valuation, AMD appears to be overvalued and is a strong sell recommendation. We anticipate that AMD will underperform in the future, potentially experiencing a downturn of 32%. Our perspective is also reinforced through multiple analyses. Across metrics such as P/E, P/S, and P/FCF, AMD's figures surpass those of its peers, further strengthening our thesis.
- In FY2020, AMD demonstrated exceptional profitability as evidenced by its ROA, ROE, and ROIC. However, its performance has since deteriorated, with these metrics showing a significant downward trend. This decline may indicate challenges or inefficiencies in the company's operations or market conditions affecting its profitability.
- In contrast to the S&P 500, the semiconductor industry has been outperforming, boasting a 5-year return of 344.63% and a YTD return of 21.06%, compared to the S&P 500's 83.14% and 5.38%, respectively.
- AMD is a global leader in high-performance and adaptive computing solutions that power a variety of markets, including Data Center, Gaming, PC, Automotive and more. In 2022, AMD acquired Xilinx and Pensando to expand its product portfolio and Data Center capabilities.
- AMD launched its new AI chip MI300 in December 2023, which resulted in an all-time high in the stock market and is expected to challenge NVIDIA's dominance in the sector.
- To address the exports controls imposed by the US, AMD is considering developing AI chips specifically tailored for China.

Key Risks:

- The semiconductor industry is inherently cyclical, experiencing recent downturns.
- Intel Corporation's dominance in the microprocessor market, coupled with its aggressive business practices, may constrain AMD's ability to compete effectively.
- The markets in which AMD operates are characterized by intense competition.
- AMD heavily depends on third-party manufacturers to produce its products.
- AMD's sales could face significant repercussions if Microsoft Corporation ceases creating and advancing software compatible with AMD's products.

Discounted Cash Flow Model

By applying the DCF method, we have determined a target price of $115.71 for AMD. This represents a substancial decrease of approximately 32% from its current market valuation, suggesting that AMD's stock may be overvalued and could potentially underperform in the future. We project AMD's future revenue CAGR to be 20.75%, which anticipates a deceleration in revenue growth in the coming years. This slowdown is primarily due to expected reductions in sales, driven by the diminishing post-pandemic demand for electronic devices and the ongoing global semiconductor shortages. In addition, we have factored in a perpetual growth rate of 2%, which is in line with the GDP growth rate of the main geographic markets where AMD operates.

	2024E	2025E	2026E	2027E	2028E	Perpetuity
Revenue ($M)	25760.50	32102.90	39261.40	45888.50	54767.92	
EBIT ($M)	431.60	464.53	499.97	538.12	579.18	
NOPLAT ($M)	340.96	366.98	394.98	425.12	457.55	
Depreciation & Amortization ($M)	9143.59	11394.81	13935.69	16287.95	19439.67	
Stock-Based Compensation ($M)	1870.42	2527.79	3416.20	4616.84	6239.46	
CAPEX + Δ Working Capital ($M)	20.72	22.30	24.00	25.83	27.80	
FCF ($M)	11375.69	14311.87	17770.86	21355.74	26164.49	215224.02
PV ($M)	9943.79	10935.64	11869.45	12468.39	13353.10	125656.99
Enterprise Value ($M)	184227.35					
					Revenue CAGR	20.75%
Equity value ($M)	186990.35				Taxes	21%
Shares Outstanding (#M)	1616				WACC	14.44%
Price target ($)	115.71				Risk-free rate	3.88%
Current price ($)	170.94	February 7, 2024			Risk premium	6.87%
Upside/Downside (%)	-32.31%				Market return	10.75%

Multiple analysis and explanations

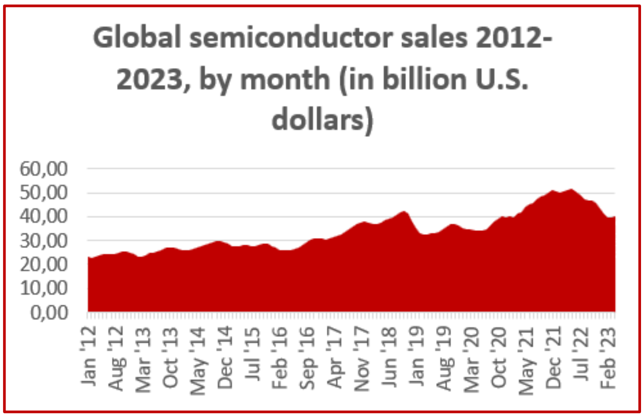
Furthermore, our analysis of industry peers reveals that AMD's trading value is significantly higher than its competitors and, in almost all ratios, surpasses the average of its main competitors. This observation further reinforces our assessment of AMD's overvaluation.

	Mkt Cap ($M)	EV/EBITDA	P/E	P/S	P/B	P/FCF
AMD	274,748.39	64.45	270.05	12.12	4.92	244.76
Intel Corp	180,197.36	21.03	352.61	3.29	1.71	-
Qualcomm Inc	165,179.16	15.14	20.34	4.55	7.18	16.75
Lattice Semiconductor Corp	9,214.77	34.48	43.36	12.4	14.75	36.31
Broadcom Inc	604,669.08	30.54	38.19	14.93	22.26	30.37
Nvidia Corp	1,734,094.62	74.73	89.95	38.55	51.94	98.99
Texas Instruments Inc	145,958.86	17.26	22.97	8.32	8.64	108.03
Applied Materials Inc	145,535.97	17.34	21.66	5.53	8.89	19.37
Lam Research Corp	113,779.05	25.43	31.87	8.06	13.83	23.8
Analog Devices Inc	96,301.96	12.27	19.26	7.93	2.71	27.47
Micron Technology Inc	94,864.41	68.18	-	5.8	2.19	-
Peer average	328,979.53	31.64	71.13444444	10.936	13.41	45.13625

Data retrieved on February 8, 2024

Industry outlook

The semiconductor industry is expected to grow at a CAGR of 12.28% (2023-2032) and to achieve a revenue of US$588 billion in 2024, surpassing the peak established in 2022 by 2.5%. In 2023, the revenues are expected to rebound at a 9.4% YOY rate. The year 2021 witnessed a supply shortage in semiconductors due to the increased demand for technological products, during the pandemic. Europe and the United States are currently focused on increasing the domestic production capacity of semiconductors to face possible future supply chain disruptions. Furthermore, the semiconductor industry is mainly driven by the networking & communications segment and data processing which accounted for 30% of the market share in 2022.



ESG – Environmental, Social and Governance:

AMD is actively striving to become more sustainable by creating high-performance solutions for healthcare, education and other sectors that contribute to improving critical societal needs. AMD currently has positive scores in the ESG, being a leader in every part of it, with only 3.36% of its peer group achieving a similar score.

	2021	2020	2019	2018
ESG Score	A	A	A	A
Environmental Pillar Score	AA	A	A	A
Social Pillar Score	BB	A	A	BBB
Governance Pillar Score	AA	AA	AA	AA

NETFLIX

Performance and Risk

Beta: 1.22
5Y Return: 62%
Std. Deviation: 3.95

Dividend and Valuation

EPS: 2,30%
EPS Growth: 1814%
5-Y P/E: 60,10%
P/E ratio: 39,2
P/B ratio: 10.23
P/FCF ratio: 31.06
Dividend Yield:N/A
DPS: N/A
Payout ratio:N/A
1-Yr. Div Growth Rate:N/A

Ratio and metrics

Market Cap ($M): 213098
Short Interest: 1,5
52W range: 285,33-579,64
ROA: 11,11%
ROE: 26,14%
ROIC: 16,32%
Gross Margin: 39,91%
Operating Margin: 16,94%
Net Margin (5Y Avg): 13,02%
D/E ratio: 82.44%
Current ratio: 1,12
Piotroski F-Score: 7
Altman Z-Score: 7,06
Beneish M-Score: 2,56
5Y Revenue CAGR: 16,1

ITIC's Fair Value

Recommendation **BUY/HOLD**
Target Price: 525 $
Last Close (23/01/24): 492 $
Upside: 6.71%

Major shareholders

Vanguard Group INC (8,38%)
Captial Group Cos INC (7,32%)
Blackrock (7,14%)
FMR LLC (5,17%)
State Street Corp (3,76%)

Company overview

Netflix is a leading global provider of streaming entertainment services founded in 1997. It offers a wide variety of TV shows, movies, documentaries and more on thousands of internet-connected devices. With a presence in over 190 countries, Netflix allows members to watch as much as they want, anytime, anywhere, on any internet-connected screen. The platform's content ranges from award-winning originals to popular series and films across genres. Additionally, Netflix continually expands its library, investing in new content production and licensing agreements to cater to diverse audience preferences worldwide as well as attract and retain new subscribers.

Key Takeaways

The Itic recommendation is aimed at maintaining the position. The justification for this decision lies in the fact that it is considered that the current stock price already incorporates the information provided by the latest earnings release, which exceeded investors' expectations. For this reason, we believe that there may not be much more room for growth, and that in 2024 the company's performance will peak, with a slight slowdown in EPS expected in 2025 and 2026. Netflix continues to demonstrate its leadership in the entertainment industry, boasting the highest number of subscribers, streaming revenues, and a track record of innovation, particularly in strategies such as the introduction of additional costs for account sharing, advertising, and the adoption of video games in the app.
In the last quarter of 2023, Netflix's revenues reached $33.723 billion, representing a growth of about 7% compared to the previous year. The number of subscribers also increased to 260.3 million, with net additions of 13 million, a value well above expectations. The success of these indicators may be explained by the measures imposed regarding account sharing.
Throughout 2023, the company achieved these positive results in terms of new members due to the transition observed from "freeloaders" to new subscribers contributing to revenue growth. This abnormal subscriber growth pattern is expected to taper off, as management anticipates a return to normalcy in 2024.
Netflix's latest deal with the TKO Group will enable the streaming giant to acquire rights to broadcast WWE sports content live. This represents one of the company's largest investments, as it will have to pay around $5 billion over 10 years to secure broadcasting rights for various regions where this strategy is expected to be successful.
The introduction of games in the smartphone application was not one of the most successful strategies; however, management has noted that better performance will be achieved through licensing more well-known games, as was recently done with GTA.
One of the opportunities that Netflix could capitalize on more is advertising. The current level of television advertising penetration by the streaming company is still considered low and could be better utilized to become a long-term source of revenue, increasing profits.

Key Risks and Catalysts

Competitive Landscape: With the fast developing of the streaming industry, Netflix faces intense competition from both established players and emerging rivals such as Amazon Prime Video, Disney+, Hulu and HBO Max.

Content Acquisition Costs: Netflix's success is tied to its ability to continually invest in compelling content. However, rising content acquisition costs and bidding wars with other platforms could strain Netflix's financials and profitability.

Regulatory Environment: Changes in regulations governing the media and entertainment industry, such as content censorship or data privacy laws, could impact Netflix's operations and expansion strategies in various markets worldwide.

Subscriber Growth and Retention: Netflix's ability to attract and retain subscribers is crucial for its long-term success. Any slowdown in subscriber growth or increased of subscribers turnover could negatively affect Netflix's revenue and market valuation.

Production Disruptions: The COVID-19 pandemic highlighted the vulnerability of production schedules to external disruptions. Unexpected events, such as natural disasters or health crises, could disrupt Netflix's content production and release schedules, impacting its content offerings and subscriber engagement.

Discounted Cash Flow Model

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	2024 E	2025 E	2026 E
Revenue (B$)	20,156	24,996	29,698	31,616	33,723	38,089	41,938	45,483
Growth %	-	24,01	18,81	6,46	6,66	12,9	10,1	8,5
FCFF (B$)	-2,574	2,592	0,539	2,221	7,536	6,657	8,203	9,369
Growth %	-	-200,70	-79,21	312,06	239,31	-11,66	23,22	14,21
Net Income (loss)	1,867	2,761	5,116	4,492	5,408	7,218	8,521	9,636

Price at 23 jan	492
Price target	525
Recomendation	**Hold**
WACC	9,6
Revenue CAGR 5Y	16,4
Beta	1,22

The target price calculated by our model is $525, representing an increase of approximately 6.70% compared to the market price at the referenced date. This suggests that Netflix is still expected to grow in 2024 which is a positive indicator leaving some room to investors to *wait and see* if these forecasts match reality. This is the main reason why ITIC's recommendation is to Hold. Even though, Netlix will have a positive performance in the present year, is important to remain cautious on possible downside risks such as a fail to meet expectation in new subscribers. We might be at the peak of this company achievement.

Multiple's Analysis and explanation

	P/E	EV/EBITDA	P/S	P/B	P/FCFF	Mkt Cap ($M)
Netflix	45,86	32,53	7,32	11,76	33,97	213.098
The Walt Disney	28,56	18,44	18,44	18,43	22,9	165.259
Paramount Global	24,983	8,415	0,314	0,44	NA	9.833
Warner Bros Deiscovery	45,73	14,34	0,66	0,62	5,19	27.750
Fox Corp	8,451	6,277	0,973	1,333	13,71	13,849
Lionsgate	22,66	14,74	0,61	2,71	6,75	2,454
IMAX Corp	16,524	8,096	2,122	2,857	12,449	820,199
AMC Networks	2,548	4,637	0,311	0,781	4,915	818,444

As of December 31, 2023, NFLX US was the company with the highest P/E, EV/EBITDA and P/FCFF compared to its main competitors. All the indicators demonstrate that the company is very expensive for the cash it generates, indicating a possible overvaluation. High revenue growth forecasts and the fact that Netflix is indisputably the industry main player are two reasons for its current high market cap.

Industry Outlook

The global video streaming market size was valued at $455.45 billion in 2022 and is projected to grow from $554.33 billion in 2023 to $1,902.68 billion by 2030, exhibiting a CAGR of 19,3% during 2023-2030. North America dominated the global market with a share of 39,54%.

Demographic shifts, including the increasing adoption of digital media consumption among younger generations and the growing number of households with high-speed internet access are expected to drive market expansion. Technological advancements, such as the proliferation of smart TVs, mobile devices, and high-speed internet infrastructure, further propel the adoption of streaming services like Netflix, fostering a favorable market environment.

The COVID-19 pandemic has also accelerated the shift towards digital entertainment consumption, driving increased demand for streaming services like Netflix. The company's ability to capitalize on this trend and adapt to changing consumer behaviors will shape its future growth trajectory.

ESG – Environmental, Social and Governance:

	2018	2019	2020	2021	2022
ESG Combined Score	B	BB	BB	BB	BB
Environmental Pillar Score	BBB	BBB	BBB	BB	BB
Social Pillar Score	CCC	B	B	B	B
Governance Pillar Score	BBB	BBB	BBB	BBB	BBB

With a brief analysis of ESG, we can see that Netflix had medium scores with emphasis on the Governance Pillar. In 2022, the company obtained a moderate score at ESG controversies, which is a positive one compared to its peers, and maintained the previous scores.

UNH- UnitedHealth Group

(The following is considered with data from FY2023)

Performance and Risk:

Beta: 0.554
5-Y Return: 10.06%
Std. Deviation: 1.3284%

Dividend and Valuation:

EPS: $23.86
EPS Growth:13.13%
P/E ratio: 20.57
P/B ratio: 5.1058
P/FCF ratio: 17.7408
Dividend Yield: 1.53%
DPS: $7.29
Payout Ratio: 30.21%
1-Yr. Div. Growth Rate: 13.94%

Ratios and metrics

Market Cap($M): 486,945.419
Short Interest ($M): 2,631
52W range ($): 554.710 - 445.68
ROA: 8.62%
ROE: 26.88%
ROIC: 15.94%
Gross Margin: 24.48%
Operating Margin: 8.71%
Net Margin: 6.02 %
D/E ratio: 68.17
Current ratio: 0.79
Altman Z-Score: 5.47
5Y Revenue CAGR: 11.30%

ITIC's Fair Value:

Recommendation: BUY
Target Price: $834.58
Last Close: $491.17
Upside: 69,92%

Major shareholders:

Vanguard Group Inc. (9.10%)
BlackRock Inc. (7.817%)
Capital Groups Cos Inc. (6.11%)
State Street Cos Inc. (4.94%)
FMR LLC (4.54%)

Company Overview:

UnitedHealth Group offers a wide range of health benefit plans and services for various groups. These include employers, individuals, the medically underserved, and those without the benefit of employer-sponsored health benefits coverage.

Operating not only in the US but also globally, its activities are based on two distinctive businesses: Optum and UnitedHealthcare. Optum aims to create a higher-performing, value-oriented, and more connected approach to health care. On the other hand, UnitedHealthcare strives to deliver a full range of health benefits. These are designed to simplify the health care experience and make it more affordable for consumers to access high-quality care.

The company's four reportable segments are Optum Health, Optum Insight, Optum Rx, and UnitedHealthcare. The latter includes UnitedHealthcare Employer & Individual, UnitedHealthcare Medicare & Retirement, and UnitedHealthcare Community & State.

Key Takeaways:

- Based on our valuation, UNH seems undervalued and it's a strong buy recommendation. We believe the company will outperform in the future with an expected upside of 69.92% (price as of 19 March 2024).
- On the 21st of February, a cyberattack targeted one of the company's subsidiaries, Chance Healthcare, resulting in the compromise of the payment processing system which caused financial distress to multiple healthcare providers, pharmacies, and insurers.
- In the fourth quarter of 2023, UNH recorded a YOY increase of 16.1% in medical costs, which may have repercussions on future revenues.
- UNH, on December 22, 2023, agreed to sell its operations in Brazil. They completed the disposition on February 6, 2024, and will record a loss of approximately $7 billion in the quarter ended March 31, 2024, the majority of which was due to foreign currency translation losses in accumulated other comprehensive income.
- From the UNH 2023 results, the cash flows from operations were strong at $29.1 billion, and the company returned $14.8 billion to shareholders through dividends and share repurchases. On the other hand, the company's revenues grew by 15% YOY to $371.6 billion, with significant contributions from both Optum and UnitedHealthcare.
- In 2022, UNH established an ESG Steering Committee, a cross-enterprise group chaired by their CSO and composed of key business and functional leaders. The ESG Steering Committee serves in an advisory role regarding ESG strategy and objectives, supports execution and results, and disseminates information.
- Within the company, women occupy 40% of the top management positions. UNH is also committed to environmental sustainability, intending to reduce its emissions by 60% by the year 2030.

Key Risks:

- In the healthcare sector, companies must ensure effective cybersecurity measures to safeguard sensitive data and guarantee the normal course of their activities. However, recent events have highlighted the challenges in this area.
- A decrease in reimbursement rates within state programs such as Medicaid may harm the company's profits.
- The company could potentially face reputational risks related to high prices and antitrust investigations.
- UNH's current cash-to-debt ratio is 0.45, indicating a leveraged position worse than 68.42% of the companies in the Healthcare plans. This could potentially affect the firm's ability to meet its debt obligations.

Discounted Cash Flow Model:

By applying the DCF method for a 5Y period, we estimated a price target of $834.58, which represents a substantial increase of 69.92% from its current price (March 19, 2024). This finding suggests that UNH is markedly undervalued and has the potential to outperform in the future. Regarding our assumptions, we projected a future revenue CAGR of 9.59% which represents a slight decrease compared to 2019-2023. This reduction may be driven by the significant increases in medical costs. Regarding the perpetual growth rate, we projected a rate of 2.45%, based on the average US inflation rate over the past 20 years.

	2024E	2025E	2026E	2027E	2028E	Perpetuity
Revenues ($M)	401,306	432,930	476,310	524,036	576,545	
EBITDA ($M)	40,114	43,923	47,819	52,611	57,883	
- Depreciation & Amortization ($M)	- 4,492	- 4,469	- 6,554	- 7,210	- 7,933	
= EBIT ($M)	35,622	39,454	41,266	45,401	49,950	
NOPLAT ($M)	27,963	30,971	32,394	35,639	39,211	
+ Depreciation & Amortization ($M)	4,492	4,469	6,554	7,210	7,933	
=Operational Cash Flow ($M)	32,455	35,440	38,947	42,850	47,143	
+/- Change in WC ($M)	530	544	558	572	587	
- CAPEX ($M)	- 3,709	- 4,010	- 4,174	- 4,592	- 8,127	
+ Stock-Based Compensations ($M)	1,228	1,424	1,652	1,916	2,222	
= FCFF ($M)	30,504	33,398	36,983	40,745	41,825	
PV ($M)	28,535	29,226	30,274	31,201	721,924	689,761
Enterprise Value ($M)	841,159					

Equity Value ($M)	766,227	
Shares Outstanding (#M)	918	
Price Target ($)	834.58	
Last Close ($)	491.17	March 19, 2024
Upside/Downside (%)	69.92%	

Assumptions:	
Revenue CAGR	9.59%
Taxes	21.50%
WACC	6.90%
Risk-free rate	4.29%
Risk Premium	5.32%
Market Return	9.62%

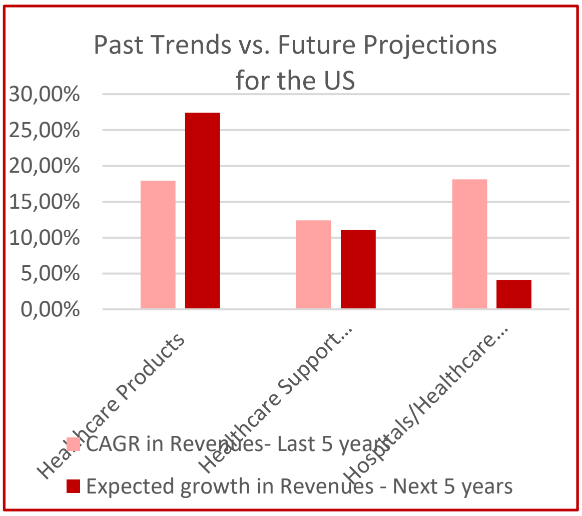
Multiples analysis and explanations:

Moreover, our multiple analysis reveals that UNH's ratios surpass its peer group. In an initial analysis, we might consider that the company is overvalued. However, considering UNH's leadership in terms of revenues and market share of 31.68%, the highest in the industry, leads us to believe that investors hold significant confidence and expectations for the company.

	Mkt Cap ($M)	EV/EBITDA	P/E	P/FCF
UNITEDHEALTH GROUP INC	448,180	13.15	20.39	17.6
CENTENE CORPORATION	40,484	7.67	12.34	5.73
HUMANA INC	41,857	5.45	14.08	15.25
ELEVANCE HEALTH INC	117,828	8.28	15.9	17.77
MEDIBANK PRIVATE LTD	7,010	N.A	17.12	22.64
MOLINA HEALTHCARE INC	23,679	9.31	21.2	14.85
HAPVIDA PARTICIPAÇÕES E INVESTIMENTOS SA	5,949	17.88	N.A	17.91
Peers Average	39,468	9.72	16.13	15.69

Industry outlook:

In the US, the healthcare services sector is projected to increase its revenues by 11.07% over the next five years, slightly lower than the CAGR of 12.42% observed in the previous five years. Meanwhile, the healthcare products sector is expected to see a substantial revenue increase of 27.43% over the next five years. AI is set to play a transformative role in the US healthcare system, with potential annual savings projected to reach $360 billion over the next five years. The per capita healthcare expenditure in the US currently stands at approximately $12,500. The COVID-19 pandemic has significantly impacted the global healthcare industry, leading to widespread labour shortages and rising costs due to increased demand for medical services and supplies. However, it has also accelerated the adoption of AI, which is being leveraged to improve healthcare delivery and address labour shortages.



ESG – Environmental, Social and Governance:

Despite the not-so-remarkable scores achieved by UnitedHealth Group, it is evident that the company has been becoming more sustainable over the years, focusing on improving the Environmental and Social pillars. In total, the company scored 6.34 out of 10 across all ESG pillars- 5.17, 5.37, and 8.56 for Environmental, Social, and Governance, respectively. These scores contribute 11.11%, 55.56%, and 33.33% to the total ESG score, respectively. Upon analysing the remaining competitors, it becomes clear that UnitedHealth Group is a leader among its peers in the Social and Governance pillars and is above the median for the Environmental pillar.

	FY2019	FY2020	FY2021	FY2022
ESG Score	C-	C-	B	B
Environmental Pillar Score	DD	DD	B	CC
Social Pillar Score	DD	DD	C+	CC
Governance Pillar Score	A-	A-	A	A+

Warner Bros, Inc. (NASDAQ: WBD)

Performance and Risk
Beta: 1.51
5-Y Return: -68.09%

Dividend and Valuation
EPS: -$2.72
P/E ratio: -$3.33
P/B ratio: 0.4698
P/FCF ratio: 3.61
Dividend Yield: 0%
DPS: $0
Pay-out Ratio: 0
3-Yr. Div. Growth Rate: 0%

Ratio and metrics
Market Cap: $22.01 Billion
Short Interest: 4.29%
52 Week range: 8.02-15.56
ROA: -1.30%
ROE: -3.56%
ROIC: -0.21%
Gross Margin: 40.6%
Operating Margin: 1.69%
Net Margin: -3.4%
D/E ratio: 101.76%
Current ratio: 0.93
Piotroski F-Score: 5
Altman Z-Score: 0.43
Beneish M-Score: -2.84
5Y Revenue CAGR: 31.4%

ITIC's Fair Value
Recommendation: BUY
Target Price: $21
Last Close: $8,65
Upside: 145%

Major shareholders
The Vanguard Group: 10.10%
Blackrock Inc: 6.30%
State Street Corporation: 5.60%
Susquehanna Securities: 0.70%

Company overview
Established in 1923, Warner Bros. is an iconic American entertainment company with a rich history spanning nearly a century. The studio has evolved into a global powerhouse in the entertainment industry that has produced and distributed some of the most successful content in entertainment history.
As a leading player, Warner Bros. continues to innovate and adapt to the ever-changing landscape of consumer preferences and technological advancements. With a focus on creativity, quality, and market relevance, the company remains committed to delivering compelling entertainment experiences while driving financial success for its stakeholders.

Key Takeaways
The recommendation for Warner Bros. Discovery is to buy, driven by its anticipated growth potential following the merger between WarnerMedia and Discovery. With a strong presence in the media industry and an extensive portfolio of intellectual properties, Warner Bros. Discovery is well-positioned to capitalize on emerging trends and consumer preferences. While market adjustments may have already factored in some aspects of the merger, there is still considerable room for growth, making it an attractive investment opportunity. Furthermore, the company's innovative initiatives and leadership in content creation bolster confidence in its long-term performance.

In the final quarter of 2023, Warner Bros. achieved revenues of $41.321 billion, marking a robust growth of approximately 22.19% compared to the previous year.The earnings also reflected a notable 33% surge in free cash flow, reaching $3.3 billion from $2.48 billion compared to Q4 of the previous year. Similarly, the company concluded the year with $6.2 billion in free cash flow, marking an impressive 88% increase from the preceding year. This substantial rise reflects the chief executive officer's prioritization of free cash flow generation as a component of the ongoing restructuring efforts.This success is particularly significant as it aligns with the anticipation surrounding the airing of triple-A titles, indicating promising prospects for the company moving forward.
In DTC, although the company is not showing accelerated subscriber growth, its profitability initiatives are paying off, with Annual Revenue Per User reaching 7.94 dollars, compared to 7.54 dollars at the beginning of 2023. In addition it is possible to mention their latest partnership between Disney and Fox, which aim to create a sports streaming service, which analysts project will cost between $40 and $50/m.
The Studios segment is showing positive signs with successful films like Dune, Wonka, and Barbie. The launch of the Hogwarts Legacy game further demonstrates Warner Bros.' ability and intent to leverage its IPs across various entertainment platforms. Warner Bros. is poised to explore a turnaround opportunity by considering a possible merger with Paramount (PARA). The strategy aims to create an entertainment brand that can compete with other major streaming companies in the industry. Should this merger come to fruition, Warner Bros. stands to gain access to a substantial subscriber base, comprising over 60 million Paramount and streaming subscribers. This expanded reach not only bolsters Warner Bros.'s market presence but also positions it strongly for future growth and competition in the streaming market.

Key Risks and Catalysts
- **Market Competition:** Intense competition from streaming platforms like Netflix, Amazon Prime, and Disney+ could impact Warner Bros' market share and revenue streams.
- **Technology Disruption:** Rapid advancements in technology, such as augmented reality (AR), virtual reality (VR), or blockchain-based content distribution, could disrupt traditional distribution channels and revenue models.
- **Risk of Recurring Labor Strikes:** Recurring labor strikes, akin to the one witnessed in 2023, poses a threat to Warner Bros' operations and revenue. Strikes may lead to production delays or cancellations, impacting revenue streams from theatrical releases, streaming content, and merchandise sales.
- **Brand Synergies within Parent Company:** Leveraging synergies with parent company WarnerMedia and other subsidiaries like HBO Max for cross-promotion and content integration could amplify Warner Bros' market presence and revenue potential.
- **Ability to generate strong free cash flow**: fueling its innovative content creation and strategic investments in the entertainment industry.

Olavo, Andre, Vicente, April 04, 2024.
All materials are strictly for educational purposes and should not be taken as investment advice.

Discounted Cash Flow Model

By applying the DCF method for a 5Y period, we estimated a price target of $21, which represents a large increase of 145% from its current price which permits a good margin of safety. This price target suggests that WBD is significantly undervalued and has the potential to outperform in the future.

	2024E	2025E	2026E	2027E	2028E
FCFF Growth %		12,31%	0,52%	6,72%	0,00%
Free Cash Flow	4,98	5,59	5,62	6,00	6,00
PV of FCF	4,61	4,80	4,46	4,41	4,08
Sum of PV	22,36				

Terminal Value - Growth in Perpetuity Approach	
Long term growth rate	2,00%
Terminal Value in 2023	102
PV of TV	69,42

Price Target	
Enterprise Value	92
Equity Value	52
Dilutive Shares Outstanding	2
Price Target	21,27
Price (last quote)	8,65
Upside/Downside	145,87%

Multiple's Analysis and explanation

Our multiple analysis shows that Warner Bros Discovery has solid ratios. All of them are below peers average that demonstrate an undervalue signal. However, WBD obtained negative earnings that suggest the company is facing financial difficulties. Even with this problem the company is trading at a low level as we can see when we look to other ratios of his peers.

	P/E	EV/EBITDA	P/S	P/B	P/FCF	Mkt Cap ($B)
Warner Bros Discovery	N/A	8,32	0,5	0,45	3,35	20,46
Walt Disney	38,4	18	2,53	2,24	28,31	222,87
Netflix	50,2	35,52	8,19	12,91	39,86	265,15
Paramount Global	21,72	8,16	0,26	0,34	93,53	7,97
Fox Corp	8,52	5,34	0,98	1,32	13,8	14,12
Peers Average	29,71	16,76	2,99	4,20	43,88	127,53

Industry Outlook

The media and entertainment industry are witnessing intensified competition in the streaming landscape, driven by major players like Disney and Warner Bros Discovery. Original content remains a focal point for success, with companies investing heavily in diverse content offerings. This competition extends beyond streaming, with companies also vying for market share in the theme park industry. Global expansion, adaptation to new technologies, and evolving advertising models are key trends shaping the industry across streaming and theme parks alike. Regulatory challenges, including antitrust concerns and content regulation, require careful navigation in both sectors. Additionally, companies are exploring alternative monetization strategies and prioritizing sustainability practices to meet evolving consumer expectations across all facets of their operations.

ESG – Environmental, Social and Governance:

Despite initially facing lower evaluations across the ESG spectrum, the company has made significant strides, particularly in governance, a pillar that has seen substantial growth as of 2022. Moving forward, Warner Bros. is dedicated to enacting comprehensive initiatives to address environmental concerns, promote diversity and inclusion, and further refine governance practices.

	FY 2019	FY 2020	FY 2021	FY 2022
ESG Score	CCC	CCC	CCC	CCC
Environmental Pillar Score	CCC	CCC	CCC	CCC
Social Pillar Score	CCC	CCC	B	B
Governance Pillar Score	BB	BB	BB	A