

CBS Corp. (CBS - \$49.74- NYSE)

Best Idea - Buy

Year	EBITDA	EV/EBITDA	PMV		
2021P	\$3,860 M	7.3x	\$109	Dividend: \$0.72	Current Return: 1.4%
2020P	3,670	7.6	90	A Shares O/S: 22.9 million (1 vote)	(a)
2019E	3,290	8.5	75	B " " : 352.0 " (no votes)	
2018A	3,270	8.6	69	52-Week Range: \$59.56 - \$41.38	

(a) Sumner Redstone owns 34.5 million A shares (b) B shares pro forma for 44.7 million shares surrendered in July 16, 2014 CBSO split-off transaction (now Outfront Media)

COMPANY OVERVIEW

CBS, located in New York, NY, operates the CBS television network, the premium cable network Showtime, and owns thirty local television stations and 130 radio stations. In 2019, we estimate CBS will generate \$15.5 billion of revenue, \$3.3 billion of EBITDA and earn \$5.45 per share.

Reason for Comment

We recommend investors Buy shares of CBS as our 2H 2019 Best Idea:

- We expect a combination of CBS and VIA could be a catalyst for shares. We believe both the economics and industrial logic are more compelling now than ever. We expect the two companies to reach an agreement to merge at roughly current share prices, with Viacom CEO Bob Bakish managing the combined company. We expect there could be \$500 million to \$1 billion of merger synergies which would represent 7% to 15% of pro forma EBITDA. CBS has sports, Viacom does not. CBS benefits from a broad array of sports rights that include: The NFL, NCAA, college basketball & football and PGA Tour. Sports rights often make a network must-carry. CBS and Viacom would have better scale to build existing global OTT channels: CBS All Access, Showtime, and Pluto TV.
- CBS should generate \$1 billion of revenue growth from retransmission and reverse compensation revenue through 2020. In addition to further shifting the company's revenue away from more volatile advertising towards contractually recurring affiliate fees, subscription revenue will generate high incremental free cash flow. As a broadcast network, CBS is included in all major skinny bundles which insulate the company from cord shaving.
- CBS All Access and Showtime Anytime, the company's OTT products, are growing faster than expected and give the company a natural hedge should cord cutting accelerate. CBS increased its OTT subscriber guidance to 8 million by the end of 2019. Assuming an \$8 ARPU for both products, the company should add \$250-300 million of highly incremental OTT subscription revenue in 2019 alone exiting the year with close to \$1 billion of run-rate revenue. CBS All Access in particular gives the company inventory of digital, target and addressable advertising to sell to clients.
- CBS's station group covers 48% of households in the US, but only 30% including the UHF discount. CBS will be well positioned to make strategic acquisitions should the FCC change the National Ownership Cap. We expect the acquisition of either CBS affiliate stations or independents would be highly accretive to the company and help accelerate retransmission growth. We also expect CBS to benefit from 2020 political spending.

Table 1

**CBS Earnings Model
2017A - 2023P**

(in millions, except per share data)

FYE 12/31	2017A	2018A	2019E	2020P	2021P	2022P	2023P	'18A-'23P CAGR
Revenue	\$13,692	\$14,514	\$15,456	\$16,117	\$16,928	\$17,736	\$18,584	5.1%
EBITDA	3,040	3,270	3,290	3,670	3,860	4,320	4,150	4.9
EPS, continuing ops.	\$4.40	\$5.14	\$5.45	\$6.45	\$7.40	\$8.85	\$8.55	10.7
TEV / EBITDA	9.3x	8.6x	8.6x	7.7x	7.3x	6.5x	6.8x	
P/E	11.9	10.1	9.6	8.1	7.1	5.9	6.1	
Capex	\$160	\$162	\$160	\$162	\$163	\$165	\$166	

Source: Company reports, g.research estimates.

-Please Refer To Important Disclosures On The Last Page Of This Report-

Table 2 CBS-VIACOM Pro Forma Analysis*(in millions, except per share data)*

	CBS	Viacom	Exchange	Viacom	Pro Forma				
	3/31/19	3/31/19	Ratio(a)	@ exch.	Combination				
Balance Sheet as of:									
Class A - 1 vote	23	49	0.6696	49	56				
Class B - no votes	352	354	0.5902	354	561				
Basic Shares	375	403		403	617				
Market Price - A	\$52.15	\$34.92		\$34.92	\$52.15				
Market Price - B	52.19	30.80		\$30.80	\$52.19				
Equity Market Capitalization	\$19,561	\$12,618		\$12,618	\$32,179				
Plus: Debt	\$9,358	\$8,959		\$8,959	\$18,317				
Less: Cash and Equivalents	(500)	(486)		(\$486)	(986)				
Net Debt	\$8,858	\$8,473		\$8,473	\$17,331				
Less: Hidden Assets	(197)	(980)		(\$980)	(1,177)				
Total Capitalization	\$28,221	\$20,111		\$20,111	\$48,332				
EBITDA			Synergies						
2020P	\$3,670	7.7x	\$3,034	6.6x	\$750	\$3,034	6.6x	\$7,454	6.5:
2019E	3,290	8.6	2,868	7.0	400	2,868	7.0	6,558	7.4
2018A	3,271	8.6	2,968	6.8	400	2,968	6.8	6,639	7.3
Debt / EBITDA									
2020P	2.4x		2.8x					2.3x	
2019E	2.7		3.0					2.6	
2018A	2.7		2.9					2.6	

(a) CBS/VIA exchange rate based on current market prices

Source: company reports, g.research estimates

Other Companies Mentioned:

Viacom (VIA – NYSE)

CBS Corp. – Price Performance

Source: Public data. As of July 19, 2016 CBS had a BUY recommendation.

I, **Brett Harriss**, the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

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