



Discovery Puts Accumulate on Debt Obligation Concerns

Ticker/Price: DISCA (\$19.65)

Analysis:

Discovery (DISCA) buyer yesterday of 3,000 July \$20 puts for \$2.50, a more than \$800k buy, and comes with some April \$22.50 and \$25 puts adjusting down. DISCA recently had 2,850 October \$17.50 puts for more than \$675k that remain in OI. DISCA with a weak bounce yesterday unable to reclaim the 20-MA with much of the market making the same move. A move under recent support and bear flag lows at \$18.25 has a measured move to \$14. Longer-term, DISCA sits right at multi-year support at \$16. The \$9.86B company trades 5X FY20 estimates and 0.9X sales with a significant amount of debt – around \$15.4B and doubled since 2017 when they acquired Scripps Networks. They have a \$2.5B credit facility to draw on. DISCA was the international distributor for the Olympics this Summer and the delay pushes back a potential recovery in international operations to 2021 while also leading them to lower EBITDA by around \$200M on the shift. DISCA's pay-tv networks include TLC, HGTV, and Food Network to Travel Channel, OWN, Animal Planet, DIY, and more. The company has also been assembling sports programming like the rights to GolfTV and Eurosport, both likely to see advertising impacted heavily by the lack of live sports. DISCA is also playing catch-up in the streaming world with a series of DTC products rolling out in 2020, but developing and expanding those products will weigh on profitability in 2020. Analysts have an average target for shares of \$31.50. MKM cutting estimates on 3-31 but noting it remains an "attractive" free cash flow play since its networks - particularly Food Network and HGTV - have a good propensity to hold up well during the more difficult economic periods. Barrington with a \$34 PT noting that while they view Q4 as mixed, the analyst continues to like the company from a longer-term point of view. Short interest is 4.4%. Hedge fund ownership fell 1.65% in Q4. In November, a director bought \$4.5M in stock at \$28 while John Malone bought \$75M at \$28.

Hawk Vision:



Hawk's Perspective: DISCA has barely rebounded which is an ominous sign, and likely a name that comes under even more pressure.

Confidence Ranking: \$\$