



## FEATURED OPTIONS RADAR REPORT



### Better Days Seen Ahead for Media Giant as Bold M&A Deal Plays Out

**Ticker/Price:** DISCA (\$28)

#### Analysis:

**Discovery Communications (DISCA)** last week saw massive opening activity of more than 25,000 January 2023 \$30 calls bought \$5.50 to \$6.20 to open, sizable premium. DISCA has also seen some bullish activity in August and October options but these long-term plays a focal point. DISCA had a parabolic run earlier this year and have been pulling back ever since with the Archegos Capital news and more recently **AT&T (T)** announcing a \$43B deal to merge its WarnerMedia unit with DISCA. The NY Post reported that the former TikTok CEO could lead the new JV. DISCA is in an ugly trend and really needs to get back above \$32 to inflect the trend higher. The \$14B media company now trades 8.6X Earnings, 7.6X EBITDA and 6.1X FCF, a low multiple attributed to its 3.75X Debt/EBITDA ratio. Forecasts see revenues rising 13.3% in 2021 and 5% in 2022 with EBITDA -9.9% and +10% respectively. The deal is structured as an all-stock, Reverse Morris Trust transaction where AT&T would receive \$43B in a combination of cash and debt. AT&T shareholders would hold a 71% stake in the new entity, while Discovery shareholders would own a 29% stake. The new company is projected by management to generate 2023 revenue of \$52B with EBITDA of \$14B and is expected to create at least \$3B in cost synergies annually to increase its investment in content and scale the DTC business. Analysts have an average target of \$43 and short interest now at 19% of the float. RBC rates DISCA Outperform with a \$52 target and notes the challenge of a large-scale integration and business model pivot but the strong content combination makes it a clear leader in the global streaming marketplace. Moffett-Nathanson downgraded shares after the deal though its \$37 target now well above the current price and noted the higher debt load and equity issuance weighing on shares near-term and worries about regulatory review and leadership changes.

#### Hawk Vision:



**Hawk's Perspective:** DISCA seems like a set-it, and forget it type trade positioning January 2023, shares are way undervalued but a lot of near-term headwinds/challenges, the deal should create a true streaming media leader longer-term.

**Confidence Ranking:** \$\$