DirecTV (NASDAQ: DTV)

Sector: Cable and Other Subscription Programming (NAICS: 515210)

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
$111.86	$71.98	$73.59	$47.71	1.11	13.82	$37.92 (Large Cap)	N/A

Industry Trends

Domestically, the cable and television-providing market has not seen growth in recent years. Most households that desire digital television have purchased access. Cable companies, therefore, have resorted to advertising against each other as a means of increasing subscribers. Most areas have a limit to the amount of cable providers available, but other options such as satellite or other alternatives offer customers different providers. In Latin America, the digital television market has seen subscriber growth rates at 30% over the past decade. The market is estimated to grow to about 140 million households by 2018, representing 84% of total households for the region. Satellite providers are estimated to lead this growth, as they require little capital investment, and do not need cables to be laid to each household.

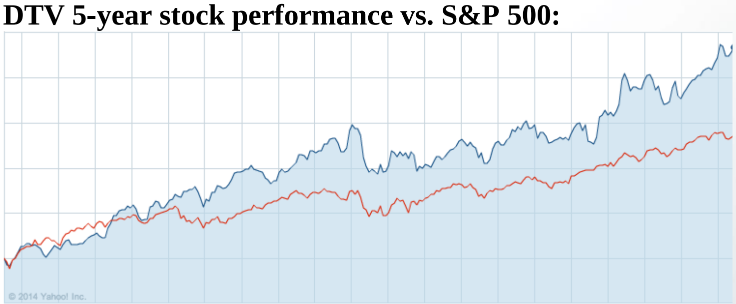
Investment Thesis

DirecTV has a large domestic customer base, with 20 million subscribers. The company has started to focus on offering high margin technology and channel packages domestically. In Latin America, the digital television industry is poised to see drastic growth over the next decade. DTV has the scalability to expand in the region quickly, with low capital expenditures, since it does not have to lay cable to each house. Since DTV also has a large international presence and subscriber base, the company is able offer cable packages that tailor better to consumers of the region. Over the next 10 years, subscriber base in the region is estimated to see annual growth of 5-7%. The company is also depreciating its capital expenditures at a rapid pace. As a result, earnings for the company will see rapid growth. Lastly, the company has made a commitment to repurchasing shares, having bought back 60% of its float over the last seven years.

Business Summary

DirecTV is a television provider that operates through the use of satellites. The company purchases orbit slots, giving it the right to broadcast signals over a specific region. The company operates in the United States and Latin America, including Brazil, Mexico, Argentina, Chile, Ecuador, Puerto Rico, Venezuela, and Colombia. The company has exclusive rights through multiple sports divisions to offer special packages. The company also has the largest offer of high-definition, and three-dimensional channels.

DTV 5-year stock performance vs. S&P 500:



Corporate Social Responsibility:

ESG Disclosure Rating	0 (Ind. Avg.: 0)
Environmental Disclosure Score	N/A (Ind. Avg.: 28.19)
Carbon Disclosure Score	91.00 (Ind. Avg.: 86.60)
Number of Women on Board	2 (Ind. Avg.: 1.53)
Governance Disclosure Score	51.79 (Ind. Avg.: 53.33)
Equal Opportunity Policy	1 (Ind. Avg.: 1)
Community Spending	0 (Ind. Avg.: 0)
Total Energy Consumption	0.62 (Ind. Avg.: 17.07)

Source: Bloomberg, Value Line Investment Survey, Yahoo Finance, ValuePro

Competition:

- Dish Network (DISH)
- Time Warner Cable (TWC)
- Comcast (CMCSA)

Pros:

- Latin American market is seeing rapid growth, and DTV is expected to expand its customer base in the region by 5-7%.
- Domestically, DTV has the highest profit margin for content providers, at 17.9%, and has a large subscriber base of 20 million that spend more per unit that any competitor.
- The company has a strong free cash flow, with nearly $4 billion estimated for 2014. Management has committed significant amount of cash flows for shareholder growth, by share repurchases. The company has removed over 60% of the company's float over the past 7 years.

Cons:

- "Cutting the cord" or removing all cable and satellite services is becoming popular. Nearly 1% of American households have now cut the cord, up from 0.5%. This trend is decreasing the size of the domestic market.
- The company has a large amount of debt. The amount of debt is $17 billion, which is larger than the company's asset base. Management has been taking this debt out in order to repurchase stock. Management has also stated that it is not going to be taking out any more debt. The debt could also be covered in less than 6 years using free cash flow, versus the industry average of 8 years to cover debt.
- Competition in the United States is looking to consolidate, to make large companies with significant subscriber bases that may leverage that base against competition.

Value Estimate:

$105-$160

(2016-2018)

Estimated Real Annual Return: 11%-24%

Overall Rating:	**Four Stars**
Expected inflation	3%
Current EPS	$4.58
Forecasted EPS Growth	14.57 %
Credit Quality	BBB
ROE	N/A% (Negative Equity)
ROA	25.4%
Price/Book	N/A (Negative Equity)
Debt/Equity	N/A (Negative Equity)
Debt/Capital	147.67
Current Ratio	0.94
Price/Cash Flow	6.99
10 yr. Risk Free Rate	2.8%
WACC	7.10%

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Student Managed Fund