

NETFLIX

(NFLX US)



**Netflix, Inc.** is a global streaming entertainment service (spanning 190+ countries) that generates revenue almost entirely through subscriptions (99.6%). Netflix continues to be the dominant streaming provider filling the entire list of top 10 viewed streaming originals of 2022. The cumulative end of year 4Q22 subscription count for Netflix was 230.747mn and cumulative revenue \$31.615 bn.

Netflix aims to focus on attacking the segment of customers who want entertainment whilst not having to compete with other steaming services like HBO by specifically going for exclusive entertainment to build a reliable consumer base.

Password Ban and Ads

Currently Netflix can be shared with 5 accounts but later in March, Netflix claimed they would remove the ability for users to share accounts beyond their network which could alter revenue depending on whether shared and existing users buy new subscriptions or move to other streaming services (Netflix estimates over 100 mn users of Netflix are using shared accounts). Netflix hasn’t announced how the ban will roll out but due to recent outcry (05.02.23) Netflix has decided to not go through with the password sharing ban in NA but will trial some version of it in Latin America.

Netflix has also introduced a new ‘basic’ version of their premium subscription (\$16.99 rather than \$19.99) that comes with ads in order to make it more affordable. This new subscription aims to target newer viewers as well as those who have left due to rising living costs such as the 1.3 mn subscribers Netflix lost between July–November 22.

Netflix Originals and Exclusives

Netflix has been continuously expanding their catalogue by introducing a series of Netflix exclusive movies and shows such as ‘Stranger Things 4 and ‘Wednesday’ as well as including popular older media such as ‘Gladiator’ and ‘The Color Purple’. Recent releases have resulted in continued growth despite the loss of subscribers at the start of the year (growth per quarter 2021–2022, –0.09%, –0.44%, +1.09%, +3.43%).

Netflix plans to continue this trend, having already spent \$100M over five years to develop their content pipeline for underrepresented talent through their ‘Netflix Fund for Creative Equity’ as well as completing acquisitions in 4Q22 animation studio ‘Animal Logic’ and games studio ‘Spry Fox’.

Netflix over the years has experienced large positive reception to their K-content (such as ‘Squid Game’ and ‘All of Us are Dead’). They have confirmed the release of over 34 Korean movies and TV shows.

Number of new subscriptions increased by 218% due to efforts in marketing and improved accessibility, offering localizations of popular series/movies. This is reflected in the selling and marketing expense increase of 46.4% which partly explains the decrease in profit margins by 59.62%

Industry

Entertainment Content

Last Price

USD347.96

Bloomberg TP

USD359.13

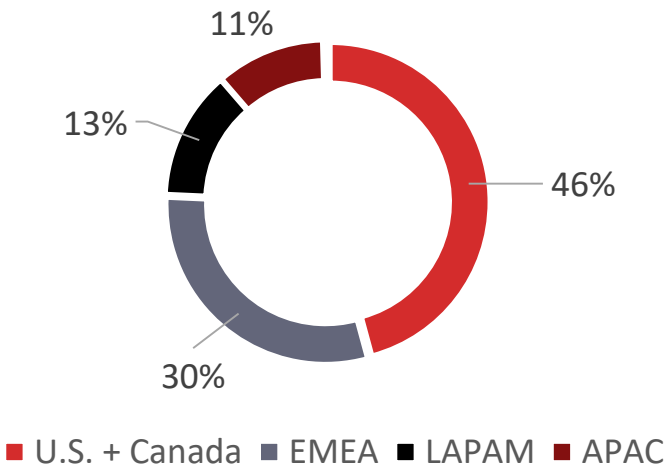
Upside/Downside

3.2% %

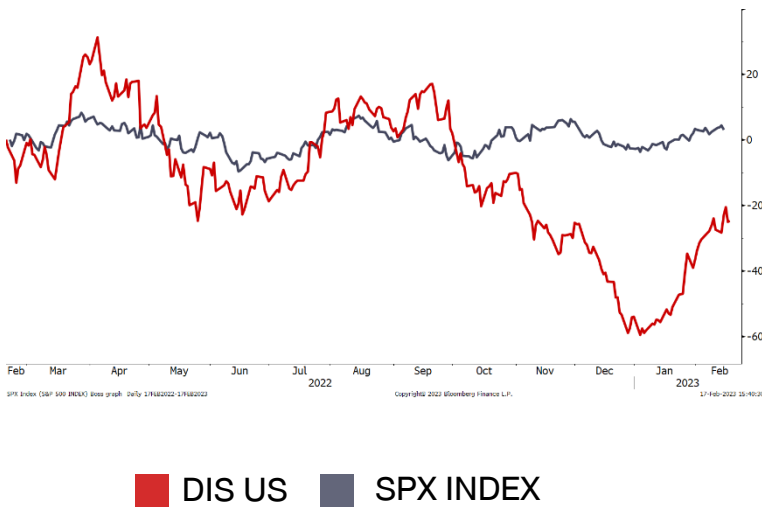
Financial (\$)	22A	23E	24E
Revenue (Millions)	31,615	34,332	38,364
Net Profit (Millions)	4,331	5,483	6,804
Profit Margin	13.7%	16.0%	17.7%
EBITDA Margin	20.7%	21.7%	24.1%
Earning Per Share	9.95	11.50	14.41

Valuation	22A	23E	24E
P/E (x)	30.73	28.17	22.86
P/B (x)	6.32	6.27	5.01

Revenue Breakdown



YTD Return VS S&P 500 Index (Beginning of 2022)



Netflix Undervalued

Netflix Inc. compared to its competitors Amazon.com Inc. and Walt Disney Co is under-valued with a PE ratio of 38.81 smaller than the industry average of 48.95. Netflix has a high PBV of 7.54 which is expensive compared to its competitors and especially so when comparing it to predominantly media and entertainment services. The PEG of 1.12 on the other hand is much lower, potentially due to competitors struggling to grow into the streaming market or lacking in Netflix’s specialization/experience.

**Disclaimer:** This report has been prepared by Finansia Syrus Securities (FSS). The information has been obtained from sources believed to be reliable and accurate; however FSS is not responsible for the accuracy and completeness of such information. Information and opinions contained in the report are subject to change, correction or addition at any time without prior notice. FSS has no intention to persuade or solicit investors to buy or sell securities mentioned in the report. In addition, FSS does not guarantee returns or prices of securities based on the information presented in any way. FSS is therefore not liable for any loss or damage that occurs due to use of information or opinions in the report. Investors should study this report carefully in making investment decisions and exercise discretion when making investment decisions. The company reserves all rights to the information and opinions contained in this report. This report may not be reproduced, distributed or published by any person for any manner or purpose without written permission from FSSIA. Investing in securities has risk. Investors are advised to carefully study all available information before making any investment decision.

Sources: Barclays, JP Morgan, Netflix, Bloomberg(as of 12.02.23)

