



**Time Warner Inc., TWX**  
**Overweight, Target: \$107.50**

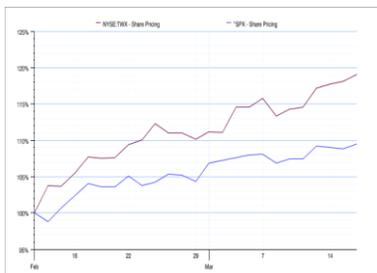
**Share Statistics**

Price	86.07
Shares Out (MM)	798
52Wk Range	91.34-55
MCAP (USDx 1000)	68684
Cash	2155
Balance Sheet Net Debt	21637
Enterprise Value	88165.9
Short Interest	14.5

\*Target 12 to 18 Months

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**Earnings per Share**

Year	1Q	2Q	3Q	4Q
2014A	1.42	0.95	1.11	0.85
2015A	1.15	1.15	1.26	1.06
2016E	1.51	1.20	1.86	1.04

A-Denotes Actual  
 E-Denotes Estimate

**TWX; Politics Make Strange Bedfellows: Reiterate Overweight and \$107 Target**

**Thesis:** We thought TWX shares were inexpensive on a relative and absolute basis. TWX had two divisions which are poised to execute better than Wall Street expects, Turner and Warner Brothers. We also like HBO. Lastly, Warner's Movie Catalogue is a hidden asset on the Time Warner Balance sheet in our view; the T deal unlocks that value.

**Risks to Thesis:**

- **Cord Cutting, competition, affiliate fee disputes, and A La Cart is not the opportunity we expect**
- **An economic downturn weights on spending, interest rates rise dramatically, FX deteriorates more than expected.**

**Risks:** [http://www.sec.gov/Archives/edgar/data/1105705/000119312515064862/d862821d10k.htm#toc862821\\_3](http://www.sec.gov/Archives/edgar/data/1105705/000119312515064862/d862821d10k.htm#toc862821_3)

**Key Levers:**

- We think President Elect Trump does not need a dust up with Time Warner and Time Warner does not need a President Elect with an ax to grind. Thus Trump's comments at Gettysburg made during the heat of the election and while Wikileaks was posting information on CNN contributors should be viewed as Political and not investment actionable.
- The Atlantic wrote "The Media takes Trump literally and not seriously and Trumpers Take Trump seriously and not literally." No truer words have been written about this election in our view. We think the Trump's push back on the ATT Time Warner Deal should be taken seriously not literally and investors that do just that will benefit.
- Looking at the situation seriously the merger is good for competition. ATT can nationally compete with the local monopolies engineered by Comcast (NC) and Charter (NC) on a local level. New ATT will compete with MSNBC which is also was a topic of the Wikileaks. So from a certain standpoint, CNN is not alone and cannot be targeted in some kind of fraud purge.
- However ATT must be looking at TWX as an International Asset and we argue after this election the Y/Y comparisons will be tough so why not sell or spin off CNN which is predominately a domestic outlet like ESPN. If ATT views TWX's content globally, we argue CNN is a nice to have asset but not a must have asset. Thus ATT can spinout or sell and not cross own CNN. If CNN is worth \$5 billion or more on a standalone basis, we think spinning CNN out eases some of leverage risk in the deal.
- From The President's elects perspective his argument may not be with Superman but rather Donna Brazille the Wikileaks Target. If we take Mr. Trump Seriously and not literally we suspect the administration would appreciate a more independent CNN not conflicted by its ownership structure. A spinout makes sense to us. If a spinout is pursued the President has a success that makes voters, investors and business happy and sends a message America is open for business.

**Target:** We value TWX by applying a 7X EV/AOCF (EBITDA) multiple to our 2016 AOCF estimate of \$16 billion. (Our AOCF estimate does not compare with company provided EBITDA metrics and is defined as operating income, excluding D&A expense and non-cash operating expenses. Our AOCF measure is the same for all companies we cover) our multiple approaches the peer media multiple, 10x, and S&P 500 and reflects AT&T's bid to acquire TWX. Thus with a premium bid outstanding and the marginal possibility for a second bidder to be interested in TWX we reiterate our Overweight rating.

Key Metrics	2013A	2014A	2015A	2016E	2017E	2018E
Revenue	26,461	27,359	29,879	29,814	31,826	33,014
Operating Income (loss)	5,497	6,268	6,865	7,451	7,220	7,360
GAAP EPS	3.92	4.34	4.62	5.63	6.02	6.24
AOCF	14,527	14,967	15,047	16,550	16,710	16,850
Multiples						
EV/Sales	3.0x	2.9x	2.8x	2.6x	2.4x	2.3x
EV AOCF	5.4x	5.2x	5.2x	5.2x	5.0x	5.0x
PE	18.4x	16.6x	15.6x	13.4x	12.6x	11.7x

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Price and Ratings Table

Date	1/21/2016	10/24/2016
Target	\$90	\$107
Price	\$67.93	\$90.00
Rating	Overweight	Overweight
Type	Report	Report
Direction	Initiation	Note

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