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A Play on Some Tasty Cable TV Assets

By BOB O'BRIEN

Shares of Scripps Networks are a bit pricey, but they're probably worth it.

If you want to improve what's on your dinner plate, what's in your living room, or even what's on your travel itinerary, Scripps Networks Interactive can help.

And if you want to spruce up your portfolio, several analysts say, shares of **Scripps Networks** (ticker: SNI) aren't a bad choice either.

Scripps Networks is the media company behind a host of cable-television programming networks familiar to many television viewers, especially women 18 to 54 years old, a highly coveted demographic.

At a Glance

Scripps Networks Interactive (SNI)

Stock Price:	$50.10
52-Week High:	$53.34
52-Week Low:	$37.94
Market Cap:	$ 8.6 billion
Est. 2011 EPS:	$ 2.67 per share
2011 P/E:	19 times
Est. Long-Term EPS Growth:*	14%
Est. ('11/'10) EPS Growth:	13%
Revenue (trailing 12 months):	$ 1.9 billion
Dividend Yield:	0.60%
CEO:	Kenneth Lowe
Headquarters:	Knoxville, Tenn.

* Based on analyst estimates looking ahead three to five years.
Sources: Thomson Reuters

Its lineup of networks includes Food Network, HGTV and the Travel Channel, as well as some less familiar titles, such as DIY Network and Great American Country. Scripps Networks was spun out as a separate, publicly traded company in July 2008 by its former parent, E.W. Scripps, the newspaper and television-station company.

Each of Scripps Networks' three best-known networks reaches slightly less than 100 million households.

The company also owns online comparison shopping operations, including Bizrate and Shopzilla.

To be sure, Scripps' stock isn't cheap. Shares have risen 23% over the last 12 months, about double what the Standard & Poor's 500 has posted.

But the stock has stalled lately. Since topping out in November at just over $53, the stock has traded slightly lower, and over the last seven months it has gained 8%, in line with the S&P 500's performance.

Besides, most analysts say the valuation doesn't matter much. Its current enterprise value to Ebitda (earnings before interest, taxes, depreciation and amortization, a measure of cash flow) is an admittedly lofty 14 times, higher than broadcasters like **CBS** (CBS) at about nine times, or media titans such as **Walt Disney** (DIS) at 10 times.

But Scripps' multiple isn't any higher than what its one true peer in the cable programming business, **Discovery Communications** (DISCA), garners.

"I'm not that worried about the premium multiple, given the company's expected growth rate," says Eric Handler, who follows media companies at MKM Partners.

He adds that growth forecasts could prove to be conservative.

Analysts following the company cite several factors that could lead to additional revenue expansion and the overall growth of the business.

They say there are opportunities to expand its two key sources of revenue: advertising and the subscription fees that cable television operators pay the company to offer Scripps' networks to subscribers.

There are also good chances that Scripps could capture more of the revenues that its networks generate by buying out the minority stakeholders of some of those operations.

In addition, Scripps has begun to look abroad for some acquisition opportunities, giving it a chance to leverage its expertise on an international platform.

But mostly, analysts following the company say, Scripps is considered among the best-run, best-positioned operators in the media sector.

"The revenue growth is near the top in the industry, the operating leverage is the best in the industry," says David Bank, an analyst at RBC Capital Markets.

That's evident in the way Scripps has managed its businesses, investing heavily in programming and marketing for, say, its Food Network, and then using the network's prominence to force cable operators to pay up for programming.

The advertising environment has been improving, especially as auto makers recover. Analysts say the so-called scatter market for advertising buys – essentially the inventory of commercial time that advertisers buy one spot at a time – has experienced double-digit price increases.

That means there are still opportunities for Scripps to monetize those ads, especially for networks where cable operators aren't currently paying real market rates.

The biggest overhang weighing on Scripps is the threat of alternative delivery mechanisms, such as the Internet. Analysts worry about the whole business model if viewers stop paying cable operators for subscriptions because they can watch programming for free on their computers.

Most experts say that concern has been overblown. "I don't believe that this so-called cord-cutting is having a material impact on the business," says Richard Greenfield, an analyst at BTIG Research. "At the end of the day, there's a lot of value to programming networks."

And Scripps, even at a relatively rich valuation, has strong appeal for investors.

"The company's performance, relative to the group, is extremely strong," Bank says. "You're getting what you pay for."

Full Disclosure

MKM Partners has a Buy rating on Scripps Networks Interactive.

RBC Capital Markets has an Outperform rating on Scripps Networks Interactive.

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