Twitter Thread by Charlie Munger Fans



Charlie Munger Fans
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EXCERCISE, showing how Discount Rates impact Valuation, using $NFLX as an example.

Why?

“Interest rates are to asset prices what gravity is to the apple. When there are low interest rates, there is a very low gravitational pull on asset prices"

--- Warren Buffett

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The Futures curve is pricing in 8 Interest rate increases, or +210bp that the ANALYTS at Investment Banks have NOT yet adjusted for in Models

Investment Banks typically use the 10yr Bond, + Equity risk Premium + Beta Adjustment to arrive at a Discount Rate■

Cont ..

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Scenario 1 - Use todays scenario Consensus (Factset) with a 7% Discount Rate, gets +10% upside in Share price for $NFLX to $416 (36.3x P/E)

Yet ...

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DCF Valuation		2021 Actual	2022 Consensus	2023 Consensus	2024 Consensus	2025	2026	2027	2028	2029	2030	2031
EBITDA	$m	6,800	7,245	9,143	11,342	11,683	12,033	12,394	12,766	13,149	13,543	13,950
less Capital	$m	-552	-551	-601	-690	-776	-873	-899	-926	-954	-983	-1,012
less Working Capital movement	$m	-6,407	-908	801	-303	-457	81	83	85	88	91	93
less Tax	$m	0	-985	-1,375	-1,826	-1,722	-1,937	-1,995	-2,055	-2,117	-2,180	-2,246
Net Cash Flow	**$m**	**-159**	**4,802**	**7,967**	**8,524**	**8,727**	**9,303**	**9,582**	**9,870**	**10,166**	**10,471**	**269,629**
NPV	$m		192,905									
Less Net Debt / (Cash)	$m		7,975									
NPV Equity	$m		**184,931**									
Issued shares (millions)	#		444									
NPV per share	$/share		$416.55	Upside to last price		*10%*		Implied PE	36.3			
Assumptions												
Discount Rate	7.0%											
EBITDA growth - 2025-2031	3.0%											
Capex growth - 2025-2031	3.0%											
Terminal growth	3.0%											

Scenario 2 - Same Consensus forecast but add 210bp to the Discount Rate. Surprise Surprise■ Now there is -31% to todays Share price, with a price of $263 (22.9x P/E)

What do you choose ■■

DCF Valuation		2021 Actual	2022 Consensus	2023 Consensus	2024 Consensus	2025	2026	2027	2028	2029	2030	2031
EBITDA	$m	6,800	7,245	9,143	11,342	11,683	12,033	12,394	12,766	13,149	13,543	13,950
less Capital	$m	-552	-551	-601	-690	-776	-873	-899	-926	-954	-983	-1,012
less Working Capital movement	$m	-6,407	-908	801	-303	-457	81	83	85	88	91	93
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Net Cash Flow	**$m**	**-159**	**4,802**	**7,967**	**8,524**	**8,727**	**9,303**	**9,582**	**9,870**	**10,166**	**10,471**	**176,806**
NPV	$m		124,734									
Less Net Debt / (Cash)	$m		7,975									
NPV Equity	$m		**116,759**									
Issued shares (millions)	#		444									
NPV per share	$/share		$262.99	Upside to last price		*(31)%*		Implied PE	22.9			
Assumptions												
Discount Rate	9.1%											
EBITDA growth - 2025-2031	3.0%											
Capex growth - 2025-2031	3.0%											
Terminal growth	3.0%											

This is why there is always a focus on the 10 Yr Bond, as Equities are priced to Bonds & the cashflow they can generate

Now you can see how sensitive valuations can be to changes in Interest Rates. The Bond Market is pricing in rises, YET Analysts at Investments Banks have not