NFLX Earnings Call Approaching – Is It a Buy or Sell?

Streaming giant Netflix (NFLX) will publish its first-quarter earnings on April 18. The company is expected to report revenue and earnings growth over the prior-year quarter. Therefore, is the stock a buy or sell ahead of its earnings? Read on to learn my view.

Netflix, Inc. (NFLX) is scheduled to report its first-quarter results on April 18. Wall Street expects the streaming giant to post higher revenue and earnings in the first quarter. With NFLX's earnings expected shortly, I have discussed why it could be wise to buy the stock now.

For the first quarter, NFLX's EPS and revenue are expected to increase 57.5% and 13.7% year-over-year to $4.54 and $9.28 billion, respectively. The company reported adding 13.1 million subscribers during the fourth quarter, which was much higher than Wall Street expectations. Moreover, NFLX's global streaming paid memberships grew 12.8% year-over-year to 260.28 million.

For fiscal 2024, the company expects a solid double-digit revenue growth driven by continued membership growth and investments in its advertising business. NFLX increased its full-year 2024 operating margin forecast from between 22% and 23% to 24%. It expects its first-quarter revenue to grow 13.2% year-over-year to $9.24 billion, and its operating income and margin to come in at $2.42 billion and 26.2%, respectively.

In addition, the Los Gatos, California-based company expects its net income and EPS to be $1.98 billion and $4.49, respectively. However, the company expects paid net sub-additions to be down sequentially but rise by 1.8 million

year-over-year. NFLX’s stock has gained 70.7% over the past six months and 79.3% over the past year to close the last trading session at $607.15.

Here’s what you might want to consider ahead of its upcoming earnings release:

Robust Financials

NFLX’s revenues for the fiscal fourth quarter that ended December 31, 2023, rose 12.5% from the year-ago value to $8.83 billion. Its operating income stood at $1.50 billion, up 172.1% year-over-year. The company’s net income and EPS increased significantly over the prior-year quarter to $937.84 million and $2.11, respectively. Also, its non-GAAP free cash flow increased 375.9% year-over-year to $1.58 billion.

For the fiscal year ended December 31, 2023, NFLX’s revenues increased 6.7% year-over-year to $33.72 billion. Its operating income rose 23.5% over the prior-year period to $6.95 billion. The company’s net income increased 20.4% year-over-year to $5.41 billion. Its EPS came in at $12.03, representing an increase of 20.9% year-over-year. In addition, its non-GAAP free cash flow increased 327.9% year-over-year to $6.93 billion.

Favorable Analyst Estimates

Analysts expect NFLX’s fiscal 2024 EPS and revenue to increase 43.2% and 14.4% year-over-year to $17.22 and $38.58 billion, respectively. Its fiscal 2025 EPS and revenue are expected to increase 23.2% and 12% year-over-year to $21.22 and $43.21 billion, respectively.

Similarly, analysts expect NFLX’s EPS and revenue for the quarter ending June 30, 2024, to increase 38.2% and 16.3% year-over-year to $4.55 and $9.52 billion, respectively.

Stretched Valuation

In terms of forward non-GAAP P/E, NFLX's 35.25x is 176.6% higher than the 12.75x industry average. Its 7.07x forward EV/Sales is 293.2% higher than the 1.80x industry average. Likewise, its 27.35x forward EV/EBITDA is 262.7% higher than the 7.54x industry average.

High Profitability

In terms of the trailing-12-month EBITDA margin, NFLX's 21.68% is 17.2% higher than the 18.50% industry average. Likewise, its 0.69x trailing-12-month asset turnover ratio is 43.7% higher than the industry average of 0.48x. Furthermore, its 26.15% trailing-12-month Return on Common Equity is 795.7% higher than the industry average of 2.92%.

POWR Ratings Show Promise

NFLX has an overall B rating, equating to a Buy in our proprietary POWR Ratings system. The POWR Ratings are calculated considering 118 distinct factors, with each factor weighted to an optimal degree.

Our proprietary rating system also evaluates each stock based on eight distinct categories. NLFX has a B grade for Quality, consistent with its high profitability.

It has a B grade for Sentiment, which is in sync with its favorable analyst estimates.

NFLX is ranked #18 out of 53 stocks in the Internet industry. Click here to access NFLX's Growth, Value, Momentum, and Stability ratings.

Bottom Line

NFLX expects a strong start to the year, with its first-quarter revenue and earnings rising over the prior-year quarter. The company is seeing strong growth in its advertising-based plan, surpassing 23 million global monthly active users, up more than 50% from the 15 million reported in

November last year. Given its strong portfolio of content, it is likely to be one of the key beneficiaries of the demise of cable TV services.

It also announced its foray into live entertainment, inking a deal with TKO Group Holdings to carry the WWE flagship wrestling program “Raw” beginning in January 2025. Moreover, its gaming business is slowly gaining steam and is expected to continue garnering higher user engagement and downloads throughout the year. Meanwhile, its ads business is expected to significantly boost its top-line growth in 2025 and beyond.

Given its robust financials, favorable analyst estimates, and high profitability, it could be wise to buy the stock now.

How Does Netflix, Inc. (NFLX) Stack Up Against Its Peers?

While NFLX has an overall grade of B, equating to a Buy rating, you may also check out these other A (Strong Buy) or B (Buy)-rated stocks within the Internet industry: Despegar.com, Corp. (DESP), Travelzoo (TZOO), and Amazon.com, Inc. (AMZN). To explore more Internet stocks, click here.

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NFLX shares fell $3.15 (-0.52%) in premarket trading Tuesday. Year-to-date, NFLX has gained 24.70%, versus a 6.46% rise in the benchmark S&P 500 index during the same period.

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Since he was in grade school, Dipanjan was interested in the stock market. This led to him obtaining a master’s degree in Finance and Accounting. Currently, as an investment analyst and financial journalist, Dipanjan has a strong interest in

reading and analyzing emerging trends in financial markets.

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