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Walt Disney (DIS) CEO Robert Iger says he's "always believed" The Mouse is positioned to compete with the digital-first companies that are coming for his industry. But do investors believe?

When they do, MoffettNathanson wrote Wednesday, the Barron's Next 50 company's shares could take a welcome step up.

From AT&T and Time Warner to the hot pursuit of 21st Century Fox and Sky, media mergers are in full swing. Why now? WSJ's Amol Sharma answers all your questions about the forces driving media deals.
Disney must "convince the market that its strategy"—meaning, its moves to aggressively tackle direct-to-consumer competitors such as Netflix (NFLX) and Amazon.com (AMZN)—"makes sense in the long-term with near-term signposts that affirm the decision to embark on this path," according to MoffettNathanson's note.

Iger, who on Tuesday reiterated plans to launch a Disney streaming service late next year, said on a conference call with investors that "we have the brands and content to be extremely competitive and to thrive alongside Netflix, Amazon and anyone else in the market." (The planned acquisition of 21st Century Fox (FOXA) assets, he noted, only bolster that. Seeking Alpha has a transcript of that call.)

For investors, MoffettNathanson wrote, "the Disney investment case from here has to be about the re-rating of the forward Disney multiple back to a market premium." That can happen, they wrote, when:

• "The core Disney divisions that have caused the negative revisions—Cable Networks and Consumer Products—have to regain their past form and hit expectations," they wrote. Both divisions have shown signs they can do so starting next year, according to the note.

• The Fox deal needs to close "in a timely manner." (Barron's Nicholas Jasinski recently took a look at the latest there, including the battle against Comcast for the balance of Sky (SKYAY) Fox doesn't own.)

• And, more than anything else, investors need to believe in the transformation.

“Investors have seen transformations like this in other sectors and stocks,” they wrote. “On the plus side, see Adobe (ADBE) and other names that moved to a software-as-a-service model. On the negative side, see Walmart (WMT), which only temporarily held on to its inflated P/E multiple.

“For Disney to work, investors must believe in their growth story and be willing to look past the near-term earnings hit while adding some valuation for over-the-top success,” wrote MoffettNathanson.

• Disney reported fiscal Q3 financial results on Tuesday night, turning in numbers that met Wall Street’s EPS expectations but missed on revenue.

MoffettNathanson currently has a “buy” rating and a $132 price target, 15% above current levels and 10% higher than FactSet’s mean, on Disney stock. (The company’s shares are up about 6% in 2018, trailing the S&P 500, though they were off roughly 2% as of Wednesday afternoon.) – **Barron’s**