

News Corporation

ASX Code: NWS

NWS looks cheap

Recommendation: Buy

30 September 2005

Investment Rating

NWS has been re-incorporated in the US, with one Australian CHESS Depository Interest (CDI) equal to one US share. Shares are divided into Class A non-voting (NWSLV) and Class B voting (NWS). NWS is a globally integrated and diversified media company. Creation of in-depth regional and national content is distributed through different media channels. The core operational EBIT is derived from Film 27%, Television 24%, Cable Programming 18%, Magazines 8%, Newspapers 19% and Book Publishing 4%. Consistent cash flow derived from these divisions is redirected to growing global satellite subscriber numbers and internet exposure. This stock suits an investor looking for exposure to global economic growth and growth in the home entertainment market.

Event

- At the FY05 profit review our recommendation was a buy. The share price has since been floundering downwards in a whip saw action.
- In a process of clarification we decided to review the valuation of NWS, investigate how the US competitors are performing and look at a break up valuation.

Impact

- Over the last year NWS has endured a transfer of domicile to the US, leading to the gradual down weighting from Australian indices to the US S&P500.
- A glut of stock owned by Australian institutions can take time to clear if NWS is not readily embraced by US investors.
- The overhang of Australian stock could see a period of short term price weakness but over time we believe that the true fundamentals of the business should emerge and the market will efficiently price the value of the assets.

Recommendation Impact

NWS represents a long term buy, but be wary of volatile short term price weakness, of little consequence as long as our longer term view is correct.

Snapshot

Last Price	\$21.36
Market Cap.	\$28,693 million
52 Week High	\$24.90
52 Week Low	\$19.88
Shares on Issue	1,343.3 million
Sector	GICS - Media

Valuation

Intrinsic Valuation \$26.00

Risk

Risk	Medium
Company Beta	1.93
Sector Beta	1.62

Investment Fundamentals

Year-end Jun	FY04A	FY05A	FY06E	FY07E
NPAT (\$m)	2,166.0	2,786.4	3,594.7	4,193.6
EPS (¢)	77.1	90.9	1.1	1.2
EPS Growth (%)	-26.7	17.9	-98.8	11.6
PE Ratio (x)	27.7	23.5		
DPS (¢)	3.0	13.1	16.5	18.5
Dividend Yield (%)	0.1	0.6	0.8	0.9
Franking (%)	50	0	0	0

Source: Aspect Huntley analyst estimates

Price Chart



Business Description

The News Corporation operates in the media industry throughout the US, the UK, Europe and Australasia. The principal activities of the group are printing and publishing of newspapers, books and magazines; television broadcasting; film production and distribution.

Event Analysis

At the FY05 profit review our recommendation was a buy. The share price has since been floundering downwards in a whip saw action. In a process of clarification we decided to review the valuation of NWS, investigate how the US competitors are performing and look at a break up valuation. The exercise leads us to maintain a buy recommendation.

Over the last year NWS has endured a transfer of domicile to the US, leading to the gradual down weighting from Australian indices to the US S&P500. This process was completed on September 19 with local institutional selling adding downward pressure to NWS and upward pressure to other stocks as fund managers reallocate capital across the ASX Board.

Source: Telerate

A review of substantial shareholders indicates that 65% of the stock is tied up with long term holders, with the Murdoch's (through Cruden Investments) owning 28.5%, Liberty Media (Malone) blocked at 18% and Fidelity and Citicorp between them owning a further 18%. NWS itself has instigated a US\$3bn buy back of shares of both NWS and NWSLV. A glut of stock owned by Australian institutions can take time to clear if NWS is not readily embraced by US investors. This means more sellers than buyers and short term price weakness.

The table provides a comparable valuation matrix of listed US competitors. Competitors hold different assets and march to very different strategic drums so the value of this information is limited.

	Market Cap	P/E	PEG	EV/EBITDA
Time Warner	\$84.40	20.4	2.08	9.7
Viacom Inc	\$52.90	16.7	1.46	10.5
News Corp	\$50.10	16.0	1.12	10.9
Walt Disney	\$46.70	15.6	1.25	9.2

Source: Yahoo.com and AspectHuntley

The data shows that NWS has the lowest PEG ratio. This indicates that earnings growth dilutes the future P/E multiple, meaning it's the cheapest growth investment in the pack. NWS has the highest EBITDA multiple. This is explained by the contraction in short term cash flow as a result of high capital expense to roll out new set top boxes and build customer loyalty through trialling by new subscribers.

NWS has a number of listed assets that can be valued while core internal assets are valued using an EBIT multiple.

Sum of the Parts				
Listed (\$m)	Shares	Price	Loc Val	US Val
British Sky Broadcasting (GBP)	686	5.56	3,814	6,762
DIRECTV Group	470	14.85	6,985	6,985
Gemstar -TV Guide	175	2.96	518	518
NDS Group	42	36.82	1,546	1,546
PHOENIX TV (HK)	1,854	1.15	2,132	275
Sky Network Television (NZD)	170	5.95	1,011	690
Unlisted (\$m)	FY06F EBIT	Multiple	Loc Val x Share	US Val
Sky Brazil (49.7%) (BRL)	66	14	459	204
Innova (30.0%)	120	14	504	504
FOXTEL (25.0%) (AUD)	35	14	123	92
Internal Operations (\$m)	FY06F EBIT			
Filmed Entertainment	1,126	12		13,514
Television	899	12		10,792
Cable Network Programming	587	14		8,219
Direct Broadcast Satellite Television	173	14		2,429
Magazines and Inserts	317	12		3,806

Newspapers	939	10	9,391
Book Publishing	125	10	1,252
Total			66,980
Net debt			6,490
Enterprise Value			60,490
Average weighted shares			3,221
US value per share			18.78
AUD exchange rate			0.75
AUD value per share			25.04

A higher multiple is awarded to an asset that offers growing EBIT while more mature assets delivering consistent cash flows derive a lower EBIT multiple.

Our discounted cash flow (DCF) valuation is calculated using the following variables and comes to a value of \$26.72 (exchange rate of 75 US cents).

DCF Assumptions	
Discount Rate	11%
Avg growth in next 4yrs	15%
Growth 5 -10yrs	13%
Growth to perpetuity	4%

Assuming that NWS continues to build up its pay TV subscriber base and derive further revenue synergies from piping NWS content through set top boxes then the stock looks undervalued. The overhang of Australian stock could see a period of short term price weakness but over time we believe that the true fundamentals of the business should emerge and the market will efficiently price the value of the assets. The stock is volatile but long term investors looking for exposure to the global media industry should follow John Malone's lead and acquire a globally diversified premium media company with top rated content.

We are confident that Murdoch's strategic clarity will ensure that he is the best market operator to tackle the evolving media industry through the acquisition of key internet sites. Local content is king and Murdoch has the assets that are difficult to replicate. NWS is now adding different mediums that include cable, satellite and the internet to leverage content by adding more eyeballs. NWS represents a long term buy, but be wary of volatile short term price weakness, of little consequence as long as our longer term view is correct.

Profit & Loss (\$M)

Year to --	2001A	2002A	2003A	2004A	2005A
Sales Revenue	25,578	34,641	44,820	29,428	31,474
Total Revenue ex. Int.	25,578	34,641	45,838	29,643	31,474
EBITDA	3,460	2,764	7,409	5,570	6,213
Depreciation & Amort.	-706	-749	-1,163	-844	-849
Goodwill Amortisation	-53	-64	-118	-93	--
EBIT	2,754	2,015	6,247	4,726	5,365
Net Interest	-935	-1,000	-1,185	-845	-702
Profit Before Tax	1,819	1,015	5,061	3,881	4,663
Income Tax	-428	-640	-1,482	-1,245	-1,597
Outside Equity Int.	-196	-348	-626	-296	-279
Profit after Tax	1,195	27	2,953	2,339	2,786
Significant Items after Tax	-1,941	-11,989	-244	-27	--
Reported Profit after Tax	-746	-11,962	2,709	2,312	2,786
Preferred Dividends	-243	-172	-292	-266	--

Ratios and Substantial Shareholders

Year to --	2001A	2002A	2003A	2004A	2005A	
Profitability Ratios						
EBITDA Margin	%	13.53	7.98	16.53	18.93	19.74
EBIT Margin	%	10.77	5.82	13.94	16.06	17.04
Net Profit Margin	%	3.72	-0.42	5.94	7.04	8.85
Return on Equity	%	2.24	-0.42	5.49	5.20	7.24
Return on Assets	%	2.24	1.14	4.04	3.91	4.58

Debt/Safety Ratios

Net Debt/Equity	%	35.42	23.07	14.68	18.25	15.42
Interest Cover	x	2.17	1.56	4.17	5.59	7.64

Top 5 Substantial Shareholders

Cruden Investments Pty Ltd	28.5%
Liberty Media Corporation	18.0%
Citicorp Group	11.7%
FMR Corporation	6.2%

Previous Research

11/08/2005	FY05 Result, record performance from all divisions
02/08/2005	Doubles web traffic, full report
24/06/2005	Share Buyback
03/02/2005	Some clouds break up the blue sky
05/11/2004	First quarter and Malone
12/08/2004	News FY04 Results
24/06/2004	Index slaves have to sell
07/05/2004	News delivers
20/04/2004	Plans to Reincorporate in US
12/02/2004	Record US\$ results
04/02/2004	Another reason to Buy!
21/01/2004	Hughes transaction provides long term growth opportunities!
06/11/2003	Quarterlies show continued strength
14/08/2003	Another Record Year Ahead
21/05/2003	Impressive Quarterly Results
17/04/2003	Big Month for Satellite Television
10/04/2003	US\$6.6 Billion Acquisition of DirecTV

Cash Flow (\$M)

Year to --	2001A	2002A	2003A	2004A	2005A
Receipts from Customers	25,176	28,970	43,993	28,946	--
Funds from Operations	2,056	4,547	5,694	4,544	--
Net Operating Cashflow	920	3,078	3,720	3,432	4,414
Capex	-1,113	-505	-826	-517	-1,180
Acquisitions & Investments	-3,053	-3,379	-2,372	-5,058	-265
Sale of Invest. & Subsid.	--	--	--	--	1,048
Net Investing Cashflow	-1,779	400	-2,693	-4,330	-397
Proceeds from Issues	56	133	2,887	834	115
Dividends Paid	-205	-278	-408	-289	-314
Net Financing Cashflow	1,188	-2,333	683	211	-892
Net Increase Cash	329	1,145	1,711	-687	3,126
Cash at Beginning	4,638	5,615	9,495	6,746	5,304
Exchange Rate Adjust.	648	-423	-1,098	-254	42
Cash at End	5,615	6,337	10,108	5,805	8,472

Balance Sheet (\$M)

Year to --	2001A	2002A	2003A	2004A	2005A
Cash & Equivalent	5,615	6,337	10,108	6,217	8,472
Receivables	6,683	5,809	8,542	6,039	5,700
Inventories	3,259	1,935	2,893	2,193	1,985
Other Current Assets	616	566	724	563	576
Current Assets	16,173	14,647	22,267	15,012	16,733
Prop. Plant & Equipment	7,110	6,671	9,438	5,565	5,691
Intangibles	31,570	35,803	49,597	31,503	31,317
Other Non-Current Assets	1,378	1,362	2,550	1,639	1,457
Non-Current Assets	68,788	56,794	79,242	58,726	54,881
Total Assets	84,961	71,441	101,509	73,738	71,615
Interest Bearing Debt	22,472	15,441	18,623	14,525	14,402
Other Liabilities	59,712	43,702	62,015	39,630	45,162
Total Liabilities	37,366	31,973	43,491	28,211	33,148
Net Assets	47,595	39,468	58,018	45,527	38,467
Share Capital	20,735	28,239	42,594	34,424	39,382
Reserves	10,899	6,351	4,135	2,771	--
Retained Earnings	10,906	1	1,704	2,682	-915
Outside Equity Int.	5,055	4,877	9,585	5,650	--
Total Shareholders Equity	47,595	39,468	58,018	45,527	38,467

Principals & Directors**Principals**

Chairman	Mr Keith (Rupert) Rupert Murdoch
CEO/MD	Mr Keith (Rupert) Rupert Murdoch
Company Secretary	Laura A O'Leary
	Mr Keith (Ken) Douglas Brodie
	R K Moon

Directors

Mr John L Thornton(Non-Executive Director)
Mr Arthur Michael Siskind(Sen Exe Vice President, Group General Consul News Corp)
Mr Stanley S Shuman(Non-Executive Director)
Mr Thomas James Perkins(Non-Executive Director)
Mr Lachlan Keith Murdoch(Non-Executive Director)
Mr Keith (Rupert) Rupert Murdoch(Chairman, Chief Executive Officer, Managing Director)
Mr Andrew Stephen Bower Knight(Non-Executive Director)
Mr Roderick (Rod) Ian Eddington(Non-Executive Director)
Mr Peter Leslie Barnes(Non-Executive Director)
Mr Geoffrey Cyril Bible(Non-Executive Director)
Mr Chase Gordon Carey(Executive Director)
Mr Peter J Chernin(Executive Director, President, Chief Operating Officer)
Mr Kenneth Edward Cowley(Non-Executive Director - Aust Operations)
Mr David Francis DeVoe(Chief Financial Officer & Executive Director - Finance)
Mr Viet Dinh(Non-Executive Director)

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