British sky broadcasting group

Finance, Financial Analysis

British Sky Broadcasting Group, better known as BSkyB, plays an important role in the British TV and radio landscape. BSkyB is one of the world's leading entertainment companies, with over 17 million viewers in more than nine million households across the UK. They employ cutting edgetechnologyto enable the exceptional TV, broadband and phone experiences. BSkyB is a top 100 FTSE company with over 15, 000 employees. Conducting a top-down analysis of BSkyB analyzes the media market from the big picture, all the way down to the individual stocks, which will indicate how exactly this investment has been considered beneficial.

The top down analysis is also known as the macro to micro approach. The top-down approach begins at the top, by analyzing thehealthof the UK economy and the effect on the performance and profitability of the companies in it. Economic Analysis A series of economic indicators can successfully describe the pattern of projected, current or past economic activity, which is vital for any potential investor to carefully examine before deciding whether to purchase shares and equity.

Firstly, looking at the growth domestic product, or GDP, of the current UK economy. GDP is basically the direct measurement of the economy, it is a measure of a country's economic activity, namely of all the services and goods produced in a year. However the UK economy has just recently entered 2009 in recession, on the brink ofdepression, after unlimited bailouts and running a colossal 15% of GDP budget deficit, the UK economy has now managed to start recovery.

Figure 1 shows the UK GDP growth since 1990, and the impact of the recession which began mid 2008. It illustrates how the UK economy has fallen by 0. 2% in the first 3 months of 2010 compared to the previous quarter at the end of 2009, although this shows that the economy is continuing to recover from recession, the growth was weaker than many economists has expected. Figure 1. 1 shows a slightly condensed version of Figure 1, detailing the fall of the economy.

Many economists accused the bad weather which was seen at the beginning of the year to have had an impact on output, particularly in the retail and industrial sectors, but many economic indicators have seen a dramatic pick up since then. Unemployment in the UK is now around 2. 5million. Macro theory predicts that when unemployment increases, GDP will fall, and this has proven to be correct. Figure 3 shows the unemployment rate in millions of the UK. From the year 1992 to 2009, it shows there was a significant increase in unemployment; this was the time of recession and so was expected.

However now the economy is in recovery, the graph shows unemployment slightly rising again, but the amount of UK residences signing up for job seekers allowance (claimant count) decreases in the fourth quarter of 2010. Unemployment is known as a counter cyclic indicator, it goes against the economy. Interest rates and inflation rates are also types of economic indicators. As the economy begins to recover from recession, with a lower unemployment rate and an increase on GDP, the government can gradually begin to bring the inflation rate back to a steady level.

Figure 2 shows the inflation rate percentage change over the recession period, the graph illustrates that when the economy began to fall dramatically, the inflation declined, this caused uncertainty about future inflation and discouraged many investors and saving opportunities were put on hold. When the inflation declines, there is a lack ofmoneyto supple the economy, so spending decreases and reduces the overall economic productivity rates this is because the capital required to retool companies becomes more elusive and experience.

Because the recession was so unexpected, it resulted in a sudden change in interest rates. Figure 4 shows the record low interest rates that the UK economy has been experiencing and has resulted in cheap credit available to the public, and so with the UK economy now starting to move out of the trough, it is beginning the recovery stage. Through figures 1 to 4, the economy is showing signs of a slow yet sure recovery; it is difficult to predict how fast the economy will recover. Many investors fear that Britain could be pitched into a double dip recession due to a weak demand in the services sector.

Should this be the case, it should be wise to invest in companies that are mildly affected by a trough dip in an economic cycle, such as utilities and oil. The UK economic recovery is expected to continue into the forth quarter of 2010, the total recession from peak to trough is expected to see GDP contract by 6. 3%. Industry Analysis It is clear that a safe yet profitable industry to invest in would be one whose assets were mildly affect by the recession.

The confectionary industry saw profits soaring during a poor economy, as Cadbury's had a 30% profit margin in 2008 as well as Nestle who saw a 10. 9% growth, it is also fact that whilst America was in thegreat depressionin the 1930's, some of the most famous chocolate bars were invented including Snickers and Mars Bars. Discount retail is also a good industry to invest in around this time.

Companies such as Asda saw an increase in profits during 2008/2009 (Figure 5) whilst supermarkets such as Tesco and Marks and Spencer had decrease. Industries that fall under the banner of non cyclical mean they survive through the peaks and the troughs of the cycle, so these industries are vital to invest in.

Public utilities like gas, electricity and waste disposal are necessary for a society so these industries would never decrease dramatically, however with the forthcoming 2010 events; forecasts suggest an increase in the media industry (figure 5. 1). Digital and pay television, publishers and diversified agencies are best placed to have weathered the recent economic downturn; where as commercial television and radio are highly exposed, performing worse than in previous recessions.

The UK media industry is suffering from the 'multiplier effect' many companies' structural challenges have been exacerbated by the unexpected recession. " The primary structural challenges faced by the media sector include the migration online and viewer fragmentation. These trends were not as prevalent in previous recessions and have been amplified in the recent downturn as consumers increasingly turn to the web for free content and advertisers increasingly demand measurable return on investment for their reduced advertising spends. "