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Business, Marketing

Digital and pay TV have been the best recessionary performers thanks to their low exposure to advertising and a large subscriber base as there revenues are solely generated through advertising, licensing and subscriptions. Figure 5. 2 shows the level of relative exposure in the media segments. It is clear to see that those industries dependent of advertising will have suffered the most during the economic down turn, such as regional newspapers, commercial TV and radio.

However as advertising spend tends to overreact to GDP growth (figure 5. 3) there is an expected upturn in the first half of 2010. " Unlike the previous two downturns, this one does not follow an advertising spend boom. In 2007, advertising spend as a percentage of GDP was at its lowest level since 1993 (figure5. 3). As a result, advertisers will be quicker to increase advertising spend during the recovery this time round. With advertising rates expected to fall throughout 2009 many advertisers will see some traditional platforms (e. g. TV) as good value for money when the recovery does happen to help them push their brands back into the market.

" Luca Mastrodonato, media analyst at Ernst & Young Since television has been one of the first areas to have felt the impact of the recession; it is also likely to benefit from the recover. Regional newspapers, which generate half of their revenues from local classified which are already suffering from the migration online, will find the recovery more challenging. Figure 5. 4 shows the United Kingdom media industry values over a number of years, between 2007 and 2008 the industry saw an increase in growth, however just recently the market has declined by 1. 2%, perhaps due to inflation rises as the economy recovers.

In 2014 the media industry is forecast to have a value of 36. 9 billion pound, an increase of 9. 9% since 2009, this is a positive sign for any potential investor. Fundamental Analysis a fundamental analysis is an investors technique that attempts to examine a security's value by focusing on underlying factors that affect a company's business and future prospects, it refers to the analysis of the financial well being of a company as opposed to only its share price movements.

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 edge technology to enable the exceptional TV, broadband and phone experiences. BSkyB is a top 100 FTSE company with over 15, 000 employees. The decision to invest in BSkyB was seen as beneficial because having constantly reviewed the share prices on a day to day basis, it showed to be recovering well from the economic downturn last year (Figure 6).

It was also seen favourable to invest in BSkyB due to the upcoming World Cup Season, which is predicting to bring a significant increase to instalments and subscriptions due to the large advertising campaign the company has set up, such as large billboards and catchy television commercials, where they illustrated watching the matches in crystal clear HD, with the tag line, 'You may have watched the World Cup, but have you ever watched the World Cup on HD? '

BSkyB offers the largest selection of high definition (HD) channels and programming, covering some of the top channels such as ITV and BBC. It also has the most popular premium sports channels and a large range of movies and documentaries all in HD. BSkyB have also announced that it would begin to broadcast selected programs in 3D by April 2010. This action will include new 3D channels including Sky Sports 3D and Sky Movies 3D. Analysts believe the increase of this 3D availability through new channels and events could boost sky's profits and turnovers.

From looking at the companies financial and annual reports (Figure 6. 1), it is clear to see at first glance revenues have increased over the years, however there has been a dramatic decrease in profits between 2008 and 2007, where profits have fallen to -127m in 2008, although this was expected due to the falling economy at the time the profit figures have soared back up in 2009 to 259m, showing a positive sign of recovery.

From the balance sheet (Figure 6. 2) it shows that the net current assets of 2009 was to the value of 187m, a 90m increase of 390m from the previous year, this amount indicates how much capital (money they have to spend for the company) is being used up by daily and weekly normal activities. Since the net current assets are positive, they are sustaining their day to day operation costs.

Net current assets also reflect on the shareholders equity. Financial ratio analysis is used for working out how profitable a business is, it can tell on its year on year changes and if it's making more profit than any other companies in the sector. The current ratio stands at 0. 92, asset turnover at

1. 15 and the net profit margin at 12. 5% (figure 6. 5) this shows the liquidity of the company is in an okay situation.

Financial ratios (Figure 6. 5) also provide a difference perspective on the financial affairs of the firm, especially with regards to the balance sheet and cash flows. Some of the more important ratios for the company are Rate on Assets (ROA) and Rate on Equity (ROE) ratios are ratios used to especially measure the profitability of a company. ROA looks at the amount of resources needed to support operations, it reveals if the manager is effective in generating profits from the assets it has available.

For BSkyB, the company earned 8. 5% on its asset investments in 2009, a healthy return and the company has maintained this high ROA throughout the years. The ROE is a measure of the overall profitability this company, it shows the annual payoff to investors , so BSkyB amounts to around 8 pence for every pound of equity, this suggests that the company is keeping the shareholders happy , falling ROE could lead to a low profitability as no shareholders would carry on. The company's Earning per Share is 0. 23, so the company's profits of 396m translate into earning of 0. 23 for each share of outstanding stock, also in this year dividends are shown as 0 must be due to the company having no preferred stock outstanding.

Market ratios such as Price/Earnings (P/E) is a measure to determine how the market is pricing the company's common stock, the P/E of BSkyB is 25, this means that shares are currently selling at a multiple of 25 times its 2008 earnings. BSkyB ratios have been increasing for a number of years; this is a positive sign because higher P/E ratios usually mean higher future share prices and a lot better returns for shareholders. The market has also developed a ratio to compare with the P/E ratio called the PEG.

This looks at the latest P/E relative to the three to five year growth in earnings. BSkyB have a PEG of 2. 76 Current operating margin stands at 11. 61% and return on capital employed stands at 45. 22% and suggests that the company is operating at an effective level and should see larger profits in future. The intrinsic value of BSkyB is 617. 13 (Figure 6. 6), this is the actual value of their assets based on an underlying perception of its true value, including all aspects of the business in terms of tangible and intangible factors. It tells us whether the share price is undervalued or overvalued or fair.

Comparing this with the current share price shows that it would be considered undervalued because it is trading slightly higher then the current share price, this is considered to be the best time to purchase the share. Although the director dealings show no significance to the companies buy or sell future, these mean little to the current or future performance of the company and as they are not large amounts, they are said to be small bonuses received by the directors and are usually ignored by potential investors. The brokers forecast also indicate that there is a positive future ahead for BSkyB. (Figure 7)(Figure 7. 1)