

5 May 2022

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News Corporation

Consumer Services

BUY

NWS A\$28.84 TARGET PRICE A\$34.03

News Corp. engages in the creation and distribution of media, news, education, and information services. It operates through the following segments: News and Information Services, Book Publishing, Digital Real Estate Services, Subscription Video Services, and Other.

Company Data

Number of shares	199.6M
Market Capitalisation	\$16,258.2M
Free float (%)	N/A
12-month high/low	\$35.23/\$28.13
Average Daily Turnover (\$m)	4.461206
% S&P/ASX200	0.298
DDM Ranking	50
% All Ordinaries	0.257
GICS Industry Group	Consumer Services

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	12,725.0	13,859.4	14,216.4	14,586.2
EBITDA (\$M)	1,750.7	2,230.4	2,398.5	2,587.8
Reported NPAT (\$M)	448.7	849.5	889.1	1,020.7
Adjusted NPAT (\$M)	539.8	631.2	723.6	846.7
Reported EPS (¢)	76.1	137.6	150.6	173.2
Adjusted EPS (¢ - FD)	91.1	105.9	121.9	142.8
Adjusted EPS growth (%)	197.2	16.2	15.1	17.1
Adjusted P/E (x)	34.7	29.8	25.9	22.1
Dividend (¢/sh)	27.2	26.8	28.0	29.2
Gross yield (%)	0.9	0.8	0.9	0.9
Net yield (%)	0.9	0.8	0.9	0.9
ROIC (%)	4.7	5.1	6.2	7.4

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance.



Source: FactSet, Barclay Pearce Capital

FY 2022 Third Quarter Earnings Release

On 5th May 2022, News Corporation (NWS) announced its FY 2022 Third Quarter Earnings Release with the following highlights:

Financial Highlights:

- Revenues in the quarter were \$2.49 billion, a record for third quarter revenue and a 7% increase compared to \$2.34 billion in the prior year;
- Net income in the quarter was \$104 million, an 8% increase compared to \$96 million in the prior year;
- Total Segment EBITDA in the quarter was \$358 million, a 20% increase compared to \$298 million in the prior year, and includes \$15 million of one-time transaction costs;
- In the quarter, Reported EPS were \$0.14 compared to \$0.13 in the prior year – Adjusted EPS were \$0.16 compared to \$0.09 in the prior year;
- Dow Jones reported its highest third quarter revenue since its acquisition with 16% growth and saw continued digital subscription gains as well as strong performance in advertising;
- As of the end of March, Foxtel's total paid streaming subscribers grew 62% compared to the prior year with both BINGE and Kayo at approximately 1.2 million subscribers;
- Digital Real Estate Services segment revenues grew 19% in the quarter and Segment EBITDA expanded 17% despite a difficult prior year comparison; and
- News Media continued to benefit from the rebound in the advertising market, new content licensing revenues and strong digital subscriber gains.

NWS Chief Executive, Robert Thomson commented: "News Corp revenues and profitability set new records for the third quarter, building on the momentum of preceding record quarters. We have now achieved more in profitability through the first three quarters of fiscal 2022 – at over \$1.3 billion and rising 27 percent compared to the prior year – than in any entire fiscal year since our rebirth in 2013.

For the third quarter of fiscal 2022, News Corp delivered \$2.5 billion of revenues, up 7 percent, despite significant currency volatility, while profitability improved by 20 percent, including one-time transaction costs for the OPIS acquisition. That growth has been underpinned by our continued transformation to a digital-led company. We benefited from a surge in digital advertising revenue, including 21 percent growth at Dow Jones, and more than 15 percent growth in paid digital subscribers across our key markets."

Earnings changes

NWS has reported EBITDA in the third quarter of US\$358m, which is a 20% increase from the prior year. This is in line with market expectations of US\$359.5m. Hence, we don't expect any significant earnings revisions for FY22 and future years.

Valuation

We are updating our 12-month target price from \$50.86 to \$34.03 and retaining our BUY recommendation. The price target is underpinned by our valuation.

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Disclaimer

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over thirty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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Valuation Methodology

Barclay Pearce Capital's methodology for assigning stock and credit ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of peer comparisons, market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

Barclay Pearce Capital Recommendation Proportions

Buy	40.7%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	23.4%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	35.9%	(0.0% of stocks with recommendations are Barclay Pearce clients)