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BSkyB's share price expectations reduced after scandal

City analysts have responded to yesterday's announcement that the News of The World would be closed down in the light of the "phone hacking scandal" by revising downwards their expectations for the share price of BSkyB (LON:BSY).

In a note published this morning, entitled 'Deal now doomed?', Panmure Gordon said that the closure of the News of the World is a "significant negative" for BSkyB "though some of this is already priced in".

Daniel Stewart has issued a 'sell' note, saying that Prime Minister David Cameron's declaration of an end to the "cosy relationship" between the media and politicians means a speedy approval of News Corp's bid for BSkyB "is unlikely".

In Panmure's view the rationale for the closure of the NOTW is twofold: "With the collapse in advertising the product itself was rapidly becoming commercially unviable" and it said: "It is a cynical attempt to improve the prospects of regulatory approval for the News Corp deal with BSkyB."

Panmure said that by exiting the NOTW, News International is attempting to "draw a line in the sand", at least in terms of likely regulatory interference in the NewsCorp/BSkyB deal.

"However, the probability of a successful deal is now much reduced," said the broker.

"Previously, we would have estimated a 90 percent-plus chance of a deal getting approval, and completed in the near term. Now the probability can be no higher than 50 percent, and the time-line is likely to be drawn out."

Fellow broker Daniel Stewart added: "The bid for BSkyB is not related to the hacking scandal. However, it remains that the creation of an independent Sky News entity is central to the process of approving News Corp's bid. It is also possible that far-reaching review of standards and ethics in journalism may follow the enquiry into hacking enquiry, once that has run its course. Given the association of News Corp, via the (now gone) News of the World with this broad debate a straightforward approval its bid for BSkyB must now be unlikely."

Panmure said that it was reducing its target price for BSkyB's shares to 730 pence. Prior to the deal announcement last year, it noted, the company's shares traded between 500 pence and 600 pence. "Since then, the market has gone up and, more importantly, EPS expectations have gone up materially," the broker pointed out. "The company is performing well. As a 100 percent standalone, we think BSkyB is worth circa 675 pence."

Consequently, the broker has retained its 'hold' stance on the shares and expects "further weakness".

Daniel Stewart has set a price target of 690 pence for the shares. By 10.30am today BSkyB's shares were trading three 3.25 percent lower at 785 pence each.

1 Year Share Price Graph



Share Information

Code: SKY
Listing: LSE
Sector: Media & Publishing
Website: corporate.sky.com

Company Synopsis:

Sky plays an important role in the British TV and radio landscape. It brings us entertainment, information and sport through mass programme distribution, and also provides telecoms and Internet services.

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Panmure also noted that there would also be positive implications for Trinity Mirror (LON:TNI). "As we have written elsewhere, the opportunity for [Trinity Mirror] here is much-improved market share of circulation and advertising," it said. "In terms of demographic, the Mirror titles are arguably closest to the [NOTW], and there is conceivably 2.6 million circulation up for grabs. Note, however, that after a period of grace, we would expect News International to re-launch a Sunday title, akin to The Sun."

However, Panmure warned that an important risk factor to bear in mind would be that there "is no tabloid-wide broadening out of the phone hacking scandal, and even more advertiser rejection of tarnished print franchises".

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