PALI RESEARCH

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News Corporation

We Dislike Newspapers, but They Do Not Drive the News Corp. Story and They are Growing in Aggregate

Richard Greenfield
(212) 259-5176
rgreenfield@palicapital.com

Ari Danes
(212) 259-2037
adanes@palicapital.com

NWS'A: BUY
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Price $14.43/$14.51
Target Price: $27.00

52 Week Range: NWSA	**$13.75-$23.58**
Market Cap. (mm):	**$38,010**
Avg. Daily Volume (100 day):	**8,901,900**
4-Yr. Est. EPS Growth Rate:	**11%**

NWSA Fiscal June	**2007A**	**2008E**	**2009E**
Q1	$0.18A	$0.23A	N/A
Q2	$0.25A	$0.29A	N/A
Q3	$0.27A	$0.30A	N/A
Q4	$0.31A	$0.35E	N/A
FY	$1.00A	$1.16E	$1.30E
PE	NM	12.4x	11.1x
Consensus	NM	$1.16E	$1.40E
Prior EPS	NM	NM	NM
Revenues	$28,655	$32,697	$34,628
EBITDA	$5,413	$6,660	$6,904
EV/EBITDA	NM	5.2X	4.3x

Source: Pali Research Estimates and Company Documents
Note: Our EPS estimates exclude non-recurring items reflected in News Corp.'s Other Income Line items. EV/EBITDA multiples are based on CY estimates.

Newspapers are a lightning rod for investor criticism of News Corp. and its Chairman and CEO, Rupert Murdoch. While we cannot defend the price paid for Dow Jones (given the rapid deterioration of Newspaper advertising), nor can we fathom why News Corp. has continued to operate/own the money-losing New York Post for years, understanding the components of News Corp.'s Newspaper and Information Services division highlights stark differences with pure-play US Newspaper stocks - which should drive a less negative view (Newspapers are simply not a reason to avoid owning NWS'A shares, particularly at today's valuation).

Newspaper and Info. Services in fiscal (June) 2009, the first full-fiscal year of Dow Jones ownership, should comprise about 20% of News Corp.'s total revenue and 15% of total operating income (which still overstates their contribution to the overall earnings of News Corp., given the unconsolidated earnings of BSkyB). More importantly, **we expect NWS'A's Newspapers and Info Services division to grow modestly on an organic basis in fiscal 2009.**

- Within the Newspaper/Info Services division roughly 30% of revenues are from US-based Newspapers and Information Services. Dow Jones makes up almost 90% of this component, with only an estimated 60% of its $2 bn of revenues related to Newspapers, and more importantly, the vast majority of profits coming from its Information Services business (that continue to show growth). In addition, about 10% of the WSJ's advertising is related to international editions (which are growing advertising).

- While national US newspaper advertising declines are accelerating (and beginning to look pretty similar to local US newspaper advertising), News Corp. is looking to significantly increase subscription revenues to mitigate advertising declines. NWSA doubled the newsstand price of the NY Post to $0.50 on May 19 and is set to increase the price of the WSJ 33% to $2.00 starting on July 28th (both will have their first real benefit in fiscal 2009).

Please Read: Important disclosures and analyst's certification appear in Appendix

- Australian Newspapers represent about 40% of Newspaper and Info Service revenues and continue to experience solid growth. Inevitably, we assume that this business will begin to look like its US/UK peers. However, over the next year, it appears the strength of the Australian economy should lead to continued growth.

- UK represents about 30% of revenues and is the most troubled component within News Corp.'s Newspaper division due to advertising declines, however, subscription revenues exceed ad revenues and the UK papers do not have the exposure to classified advertising that has plagued their US peers.

In aggregate, we believe the Newspaper and Information Services division can organically grow revenues modestly in fiscal 2009 (if one pro formas fiscal 2008 for the Dow Jones acquisition). From an operating income standpoint, while declining US/UK newspaper advertising and investment in Dow Jones will pressure year-over-year growth, the lack of accelerated depreciation within the UK operation and continued growth in Dow Jones Info Services and Australian Newspapers should lead to "modest" organic growth in fiscal 2009 division operating income.

Transaction with Daily News Could Boost FY 2009 Growth and Would Hurt Cablevision

- Newspaper and Info Services Operating Income could be improved by a transaction with the Daily News to pair losses at the NY Post. While News Corp. should simply sell or shutdown the New York Post, meaningfully reducing losses via cover price increases and back-office/operational combinations with another paper could result in stronger Newspaper division growth in fiscal 2009 than we or investors are anticipating.

- Negative for Cablevision. If the NY Post and Daily News combine operations we believe it leaves Cablevision's recent purchase of Newsday as an orphan. Cablevision had hoped to create a joint operating agreement with either the Post or Daily News. Cablevision paid north of 10x EBITDA for a declining (profitability) local newspaper, whose potential to reduce costs could be severely curtailed by a Daily News/NY Post agreement.

We continue to believe that News Corp. should be able to grow organic operating income at least 7% in fiscal 2009, with reported EPS up at least 12%.

APPENDIX

IMPORTANT DISCLOSURES AND ANALYSTS' CERTIFICATIONS

Analyst Certification

I, Richard S. Greenfield, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been, and will not be, receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report.

I, Ari Danes, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been, and will not be, receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report.

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BUY – A stock that is expected at initiation to produce a positive total return of 15% or greater over the 12 months following the initial recommendation. The BUY rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

SELL – A stock that is expected at initiation to produce a negative total return of 15% or greater over the next 12 months following the initial recommendation. The SELL rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

NEUTRAL – A stock that is not expected to appreciate or depreciate meaningfully over the next 12 months.

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	Rating Distribution		
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Pali Research	52%	41%	7%

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Unless otherwise noted, all prices are as of the close on July 16, 2008.

Other Companies Mentioned
Cablevision (CVC, Neutral)

Valuation Methodology

- Our $27.00 price target is based on 19.5x calendar 2009E EPS, 9x calendar 2009E EBITDA and 19x calendar 2009E adjusted free cash flow.

Risks to our valuation and price target

- Further News Corp. acquisitions. Investors are always concerned with News Corp.'s acquisition appetite, with the acquisition of Dow Jones ($5.6 bn) viewed as another example of Rupert Murdoch's continued empire building.

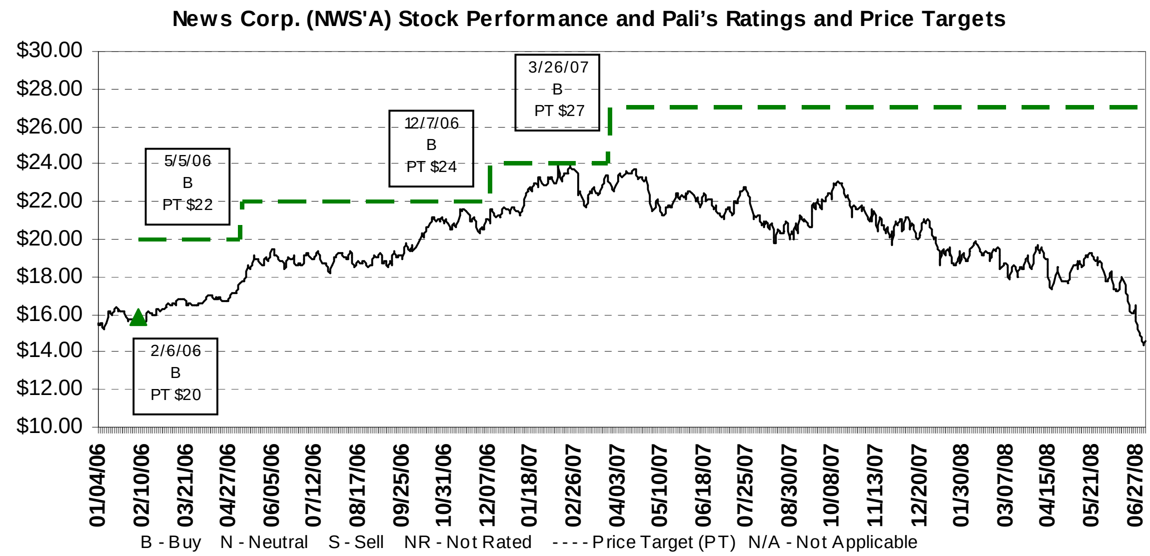
- Inherent unpredictability of film and television content that affects News Corp's movie business and television network business. Furthermore, we continue to believe the broadcast network business will increasingly be pressured by technological change and fragmentation. It is critical that News Corp. continues to drive its cable network business to mitigate this risk.

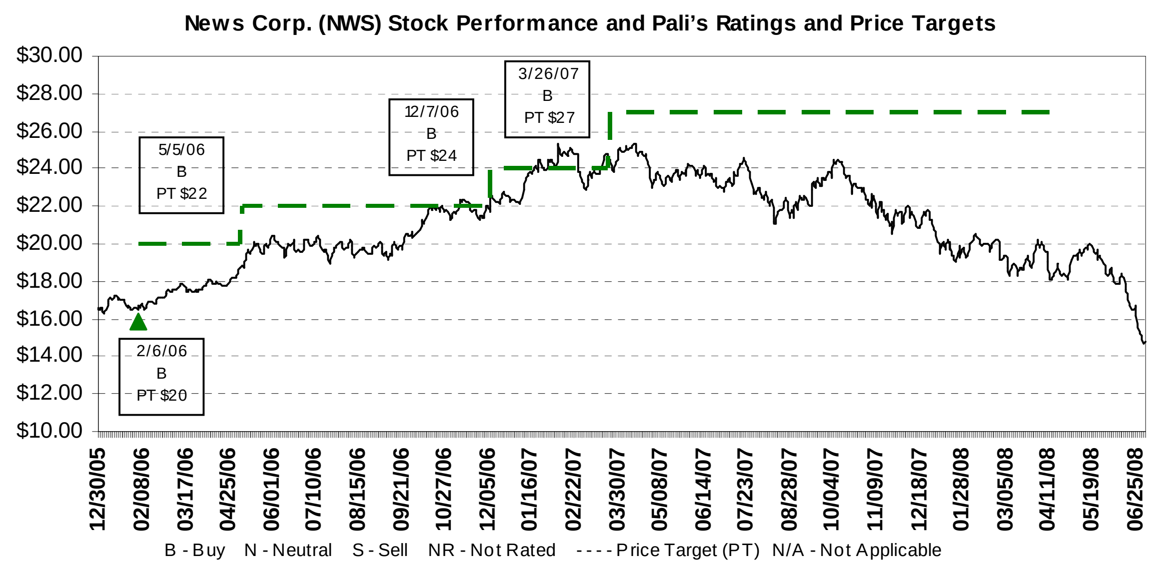
- Beyond earnings weakness, any significant adverse changes in the geopolitical/regulatory environment in China, India, and Italy or across Latin America, where News Corp. has its largest developing businesses, could pressure News Corp.'s stock as investors would be concerned about the stranding of capital.

General Risks of Equity Investing

Investors need to be aware that investments in equity securities may pose significant risks due to the inherent uncertainty associated with relying on forecasts of various factors that can affect the earnings, cash flow and overall valuation of a company. Any investment in equity securities should be facilitated only within the context of diversification by asset class, industry, company, as well as investment objectives and time horizon.

Disclosure Charts for NWSA and NWS





Source: Thomson

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