

27 January 2000

Capital Markets Research

Publishing and Broadcasting (Finance) Ltd

Opportunity To Diversify – Media and Entertainment

- Publishing and Broadcasting (“PBL”) (Finance) will issue its first MTN from a recently established A\$500m combined MTN/CP programme. The MTNs will be fully guaranteed by PBL and the significant operating companies within the PBL group.
- PBL holds dominant positions in its core businesses:
 - Nine Network - consistently Australia’s highest rating free-to-air television (“FTA-TV”) operator;
 - ACP – 40% market share of the mature circulation driven magazine market;
 - Crown Ltd (acquired June 1999) – Australia’s largest gaming and entertainment venue, with a regional monopoly until 2005;
 - Core businesses are complemented by rapidly growing technology investments such as ecorp, Foxtel, Fox Sports and One.Tel.
- Rated A minus by Standard & Poor’s, with a stable outlook, underpinned by:
 - Leading market shares and strong diversified cash flows from core businesses;
 - Supportive regulatory environment for FTA-TV and the gaming businesses;
 - Consistently strong operating margins, sound debt service cover and gearing, which sit comfortably within the S&P range of measures for an A-rated credit;
 - Vulnerability of advertising and gaming revenues to economic conditions is recognised, though the current outlook for economic growth and buoyant consumer spending is favourable;
 - Strong cash flow from core businesses, maintenance of liquidity in cash and committed bank lines, provides PBL with the flexibility to continue cash contributions to the “Enterprise” investments and still exhibit the ability to repay debt rapidly if necessary.
- PBL MTNs represent a stable A minus rated investment offering exposure to a portfolio of businesses delivering strong cash flow growth in the media and entertainment industry.

Research

Luke Fay
Analyst Capital Markets
Research
ph: (612) 9227 1960
email: fayl1@anz.com

Janet Pennington
Head of Capital Markets
Research
ph: (612) 9227 1142
email: penningj@anz.com



Profile

Diversified Media and Entertainment company.

PBL is a diversified media and entertainment company, which is listed on the ASX. On a market capitalisation basis, PBL is among Australia's top 20 listed companies with a market capitalisation in excess of A\$ 7.0 bn. PBL's core businesses are: television production and broadcasting (Nine Network), magazine publishing and distribution (ACP), and through its recent acquisition of Crown Limited ("Crown"), gaming and entertainment. These businesses are complemented by a number of investments through its Enterprises division in the Internet, pay television, telecommunications and other media and entertainment sectors. These include:

- an 80% interest in publicly traded ecorp, a collection of Internet content and e-commerce businesses including ninemsn, a joint venture between Nine Network and Microsoft;
- a 25% stake in Foxtel, Australia's leading pay TV venture;
- a 50% stake in Fox Sports; and
- 18.3% ownership of telephony company One.Tel which offers GSM, long distance and Internet services and phone card products in Australasia, Europe and Hong Kong.

37% owned and ultimately controlled by CPH.

PBL is 37% owned and ultimately controlled by Consolidated Press Holdings Ltd (CPH), a private company owned by the family of Mr Kerry Packer.

Credit Rating

Table 1. Credit Rating

	Long Term	Short Term	Outlook
Standard & Poor's	A-	A-2	Stable
Moody's	Baa1	-	Stable

Ratings reflect leading market positions in core businesses, supportive regulatory environment, and moderate financial structure.

The ratings from both agencies reflect:

- PBL's leading positions in broadcasting, magazine publishing and gaming and entertainment markets;
- a supportive regulatory environment that limits competition in broadcasting and gaming;
- moderate finances and cash flow diversification; and
- the substantial involvement of the Packer family.

On the downside, both rating agencies acknowledge the vulnerability of advertising revenue, circulation levels and gaming revenues to economic conditions and consumer spending patterns.

The outlook is stable. Both agencies generally believe PBL's businesses are well positioned and that credit quality will be sustained provided financing remains moderate.

Moody's has taken a more conservative view but

Moody's one notch ratings differential stems from a slightly more conservative stance with respect to the following issues:

- PBL's limited experience in managing a large gaming and entertainment complex, now the company's largest revenue source.
- Crown's limited operational history and brief record of profitability.
- Acquisition risk and uncertainties as to the scope of business activities moving forward.
- The potentially adverse effect on PBL's financial leverage if it were to commit major funding to support losses or expansion costs of its investments.
- The potential for cash flow to be impacted by traditionally large dividend payments and the potential for sizeable stock repurchases. Added to this is uncertainty surrounding CPH (major shareholder) and the extent of pressure that it can apply in this regard.

.....state that upward rating pressure may result from increased predictability as well as consistency in Crown's performance.

Moody's state that upward rating pressure is possible should Crown's performance become more proven and the company's longer term business profile becomes more predictable. This will be tempered by PBL's use of financial leverage and its payments to shareholders.

Comparison of PBL's key financial ratios with the Standard & Poor's median ratios indicates a comfortable fit within the "A" rating band, further evidence of the current low risk of downgrade.

Table 2. PBL Comparative Ratio Analysis

Ratios	PBL				S&P Medians (Aust/NZ)	
	1997	1998	1999*	Estimate 2000	Rating BBB	Rating A
Operating Income to Sales (%)	31.3	53.8	30.1	n/a	15.8	16.2
EBITDA Interest Cover (x)	5.1	8.1	5.3	5.2	4.7	5.0
FFO/Total Debt (%)	26.2	8.3	8.7	17.0	27.8	28.8
Total Debt/Capital (%)	31.5	40.1	38.3	38.0	42	41.1

Source: 1997-1999 Historical Data - Standard & Poor's
2000 estimates provided by PBL management

* Excludes earnings from Crown, but includes debt associated with Crown.

Profitability, debt service, and gearing measures comfortably meet the S&P medians for an A-rated credit

Recognising that no earnings for Crown are included in the 1999 figures, (despite the inclusion of the associated debt upon acquisition date 30 June 1999), profitability, debt service and gearing measures easily meet the A rating medians. The relatively low FFO/Total Debt for both 1998 and 1999 can be explained by unusual circumstances:

- for 1998, significantly higher income tax paid and the adjustment for non-cash abnormals;
- for 1999, again the inclusion of Crown debt as at the balance date, but not Crown cashflow.

With the consolidation of Crown's earnings for FYE 6/2000, FFO/Total Debt will improve.

In any event, any weakness in this ratio is offset by the high cash balances, low capital expenditure commitments, and ability to sell listed investments.

It is ANZ Investment Bank's view that credit quality is stable and that investors should focus on the S&P rating. We further believe that upside rating action from Moody's is possible in the medium term, given the favourable outlook for PBL's core business, including Crown, and the prudent approach to its financing structure.

Summary Financial Analysis

Table 3. PBL - Summary (A\$m)

	12 Months to June		% Change
	1998	1999	
PROFIT AND LOSS			
Sales Revenue	1,161	1,228	5.8
Total Revenue (includes "Other Revenue")	1,731	1,610	(7.0)
EBITDA ^a	374	348	(7.0)
EBIT	355	327	(7.9)
Gross Interest	77	71	(7.8)
NPBT	278	256	(7.9)
NPAT	191	170	(11.0)
NPATA	476*	174	(63.5)
<i>EBITDA/Sales %</i>	<i>32.2%</i>	<i>28.3%</i>	
<i>EBIT/Sales %</i>	<i>30.6%</i>	<i>26.6%</i>	
<i>EBITDA Interest Cover_(x)</i>	<i>4.9_x</i>	<i>4.9_x</i>	
BALANCE SHEET			
Total Assets	3,723	6,246	67.8
Borrowings	1,289	2,033	57.7
Net Debt	1,020	1,564	53.3
Shareholders Equity	1,972	3,389	71.8
<i>Debt to Capitalisation %</i>	<i>39.5%</i>	<i>37.5%</i>	-
<i>Net Debt To Equity %</i>	<i>51.8%</i>	<i>46.2%</i>	-

* Includes the upward revaluation of TV licences by \$341m.

^a Excludes Abnormals (\$259m: 1998, \$27m : 1999); S&P includes abnormals in EBITDA figures.

1999 Full Year Result

1999 result was flat, however generally in line with market expectations.

In line with market expectations, PBL reported a NPAT of A\$170.2m. Earnings were 7.0% down on previous corresponding period (pcp) largely as a result of:

- **Television:** Impacted by a soft revenue market in the June half and losses associated with the broadcast of Commonwealth Games;
- **Magazines:** Reduced circulation levels in major magazine titles, partially offset by the success of new titles; operating costs associated with the launch of new magazine titles and increased paper costs.
- **Enterprises:** A reduced contribution due to the sale of the stake in Fairfax and the Sky Channel investment.

PBL's debt levels increased over the period as a result of the acquisition of Crown; however gearing levels reduced as an increase in equity more than offset the increased debt.

Segmental Analysis

Table 4. Segmental Analysis (A\$m)

A\$m	Magazines		Television		Enterprises	
	1998	1999	1998	1999	1998	1999
Sales ⁽¹⁾	484	513	676	709	1.6	6.5
EBIT	117	99	207	208	9.6	0.7
Assets ⁽²⁾	1,353	1,336	1,746	1,723	625.1	1,202
EBIT/Sales	24.2%	19.4%	30.6%	29.3%	n/a	n/a

¹⁾ Excludes 'Other Revenue' – largest contributor being asset sales

²⁾ Excludes Crown, though acquired effective 30/06/1999, with assets of \$1,984m.

MAGAZINES

Dominant position in magazine business, with 40% market share.

Market Position:

- Through ACP, PBL has the dominant position, with 40% market share of the circulation driven magazine market, and with nine of the top twenty titles.

New titles lead to revenue growth, and also to increased costs. Combined with increased paper cost, resulted in a flat EBIT.

Performance FYE 6/1999

- While magazine revenue increased by 6.0%, EBIT decreased due to increased operating costs.
- Increased revenue was driven by growth in advertising revenue, attributable to new magazine titles and increased cover prices (10c-30c) for most major titles. The increase was partly offset by reduced average circulation of some of the major titles in New Zealand and Australia.
- Operating costs increased due to the additional costs (approximately A\$34m) associated with launching and operating 10 new titles and increased paper costs (approximately A\$11.1m). Paper costs increased as a result of the fall in the USD/AUD exchange rate.

Full year impact of new titles will contribute to increased advertising and circulation revenue.

Outlook FYE 6/2000

- Advertising revenue is anticipated to remain reasonably buoyant over the next 12 mths, with industry commentators expecting growth in the region of 5%. However circulation levels are anticipated to remain under pressure. The full year impact of new titles launched in 1999 should contribute to increased advertising and circulation revenue.



TELEVISION

Nine Network is consistently the highest rating FTA-TV, in a favourable regulatory environment.

Market Position:

- The regulatory environment is favourable: No licences for FTA-TV can be issued before December 2006. The December 1999 government announcement which protects established broadcasters, by confirming that, with the advent of digital TV broadcasts by January 2001, prospective datacasters (such as News Corp and Fairfax) will be restricted from providing content similar to traditional TV.
- Consistently Australia's highest rating free-to-air television ("FTA-TV") operator on a national level and to the largest markets of Sydney and Melbourne.

Performance FYE 6/1999

Strong 3rd quarter offset by weak 4th quarter.

- Television revenue increased 4.9% over the pcp with the Nine Network delivering another strong ratings performance. Gross advertising revenue for the three metropolitan stations increased 4.8% over the pcp, with a strong 3rd Quarter offset by a soft 4th Quarter.
- Operating costs increased by A\$29.6m or 6.3% over the period, resulting in an EBIT increase of 0.7% for the period. This was largely the result of one-off costs incurred during the year, primarily the coverage of the Commonwealth Games (approximately A\$10m) and the broadcast of the World Cup Cricket (approximately A\$4m). The television division is expected to benefit in the year ahead from a restructure, which resulted in the reduction of staff numbers by approximately 160.

Outlook FYE 6/2000

Nine is expected to maintain its leading position despite the competition from Seven's coverage of the Olympics.

- The television advertising market has rebounded from the soft June 1999 half, with growth in the December half in the region of 4-5%. This level of growth is anticipated to continue through the year, and will be boosted by spending on one-off events such as the Olympics and GST implementation.
- Nine is expected to maintain market share, though this will be tempered by a loss of market share to Seven in the lead up to the Olympics.

Table 5. National Metropolitan Ratings "All People" - Commercial Market Share (does not include ABC/SBS)

	Seven	Nine	Ten
YTD 20/11/1998	35.3%	39.4%	25.2%
YTD 21/11/1999	36.0%	40.2%	23.8%

Source: AC Neilson

Capex will be required for the launch of digital technology.

- Operating costs are likely to be contained moving forward following the restructure. The scheduled launch of Digital TV in January 2001 is anticipated to increase capital expenditure for all participants in the short term (FY 2000 and 2001).

ENTERPRISES

'Enterprises' includes strategic investments.

Contribution in 1999 significantly lower than pcp, due to sale of assets.

20% of ecorp floated in June 1999.

Recent positive events have lead to an increased value of the Enterprise investments, though are likely to require further cash contributions.

Market Position:

- These investments are of a strategic nature designed to place PBL in a prominent position as the telecommunications and media markets converge.

Performance FYE 6/1999

- The revenue/earnings contribution from Enterprises was significantly lower than the pcp due to the sale of its stake in Fairfax (loss of dividend income).
- The division's 25% interest in Foxtel resulted in the recording of an equity accounted loss of A\$5.2m in fiscal 1999. The business has however generated strong growth in subscriber numbers in both cable and satellite businesses, which is anticipated to continue and grow as it gains further household acceptance and penetration.
- 20% of ecorp was floated in June. PBL spent an estimated \$80m (including the Ticketek acquisition) developing ecorp and sold 20% for \$160m.

Outlook FYE 6/2000

- The first half year has seen some significant positive events, which increase the value of these investments:
 - exercise of the option to acquire 50% interest in the pay-TV sports programming venture, Fox Sports, from New Corporation (A\$70m);
 - within ecorp:
 - (i) the launch of the ebay JV with eBay Inc., the world's largest person-to-person Internet trading site;
 - (ii) the JV with US Internet share broker Charles Schwab;
 - Jointly through PBL and ecorp, a 50% interest in Wizard Financial Services ;
 - One.Tel continues its strong subscriber and revenue growth in interim figures to December, but reported \$22m loss.
- Whilst further cash contributions are likely (e.g. share of costs associated with the roll-out of the satellite service for Foxtel; contribution to losses in ecorp), the longer term prospects for these investments are very promising.



GAMING – CROWN CASINO

PBL's acquisition of Crown was completed 30 June 1999, and Crown will become PBL's largest contributor to revenue.

Since acquisition on 30 June 1999, Crown will become PBL's largest contributor to revenue with an EBITDA contribution which will rank 2nd to Nine. Historical performance follows.

Table 6. Crown Limited - Summary Operating Performance

A \$m	1998	1999
Revenue		
Gaming	753	716
Food and Beverage	121	118
Other	96	91
Total Revenue	971	925
EBITDA	108	182
EBIT	9	90

Source: *Extracted from Crown Limited's Annual Report FYE 30 June 1999*

Market Position:

Crown Casino has a 40-year licence with monopoly to year 2005.

- Australia's largest gaming and entertaining venue with significant barriers to entry for other competitors. The 40 year licence entitles Crown to a casino monopoly within 150 kms of Melbourne until 2005.

Performance FYE 6/1999

EBITDA 1999 generally in line with expectations.

- Revenue was slightly down across all sectors with a win ratio below the theoretical level for the "VIP" business. Turnover levels for international business have substantially reduced from levels experienced prior to the Asian economic crisis.
- Operating margins improved considerably, based on labour and operational efficiencies, and reduced overheads.

Outlook FYE 6/2000

Improved operational efficiencies will flow through into FYE 2000. 85% of cashflow is generated from domestic business.

- The incorporation of Crown's earnings into PBL will be a key driver of earnings growth in 2000. The volatility of Crown's earnings in relation to international players remains. However a significant portion (85%) of cash flow is generated by Crown's domestic business. Crown's bank debt has been refinanced and PBL has significantly reduced Crown's funding costs. Additionally PBL anticipates the utilisation of tax losses, identified at the time of acquisition, to effectively deliver a tax free return for almost 4 years.

PBL Abnormals FYE 6/1999

Abnormal profits on the sale of investments offset by the diminution of assets and rationalisation.

- Pre tax abnormals totalled A\$27.1m (after tax A\$3.7m) and were comprised of the following:
 - A\$180.5m profit on the sale of TAB and Cable & Wireless Optus shares.
 - A\$90.2m diminution relating to the write down in the carrying value of TV Week magazine and New Regency film studio. PBL has a 50% interest in TV Week and based on its operating performance the board has written down the carrying value of the magazine by A\$20m. The board also reduced the carrying value of New Regency by A\$70m to approximately A\$110m.
 - A\$27m in restructure and closure costs relating to Magazines and Television.
 - A\$36.3m in programme rationalisation costs.



Cash Flow, Capex and Gearing

Strong operating cash flow underpinned by market share leadership in core business.

- Operating cash flow generated by core businesses remained strong during the year and are supported by:
 - The Nine Network's leading share of advertising revenue in FTA-TV markets.
 - ACP's commanding market share of the circulation driven magazine market.
 - The 85% proportion of Crown's revenues which are contributed by domestic business (or non international VIP businesses).

Borrowing increased, however gearing decrease following equity placement.

- Gross borrowings increased to A\$2,033m from A\$1,289m at 30 June 1998. This was primarily due to a combination of the following factors:
 - Inclusion of the debt associated with the Crown acquisition which has been consolidated effective 30 June 1999;
 - Investment in Foxtel (\$157m for 25%);
 - Investment in One.Tel (\$237m for 18.3%) and
 - Equity placement in March 1999 for \$500m, proceeds used to reduce debt.

Financial risk further mitigated by considerable liquidity.

- Although debt levels increased, PBL's gearing reduced from 40.1% in 1998 to 38.3% in 1999 (S&P calculations). The increase in equity and the proceeds from the sale of equity investments more than offset the increased debt. Financial flexibility is maintained by:
 - Significant cash balances (A\$468m at June 30, 1999);
 - Undrawn committed bank lines (approx. \$750m as at June 30, 1999);
 - Listed equity investments which could be readily sold;
 - Spread of debt maturities.
- Subsequent to balance debt, PBL has raised:
 - Eur 300m (A\$ 500m) from eurobonds maturing 2006; (senior unsecured, pari passu with the proposed domestic MTN and bank debt, and rated A-/Baa1).
 - A\$ 300m via perpetual adjusting rate securities (PARS) (subordinated to senior debt, and rated BBB/Baa3).

The PARS provide some cushion for senior debt.
- Capital expenditure has historically been low - \$20-\$30m p.a. This will increase in the medium term, with the advent of digital TV and including Crown's capital expenditure, but will be comfortably funded from operating cashflow.

Liquidity and cash flow provide sizeable discretionary cash flow that could be applied to rapid debt reduction.

PBL's cash flow and ample liquidity therefore provide it with sizeable discretionary cash flow, which would enable the rapid pay down of debt if necessary.



Summary of PBL - Strengths and Risk Factors

Strengths

Leading positions of core businesses.

- Leading positions in Australia's broadcasting, magazine publishing, and gaming and entertainment mass consumer markets:
 - The Nine Network is Australia's leading free-to-air TV network by audience ratings and share of advertising revenues.
 - ACP is Australia's number one magazine publisher both by copies sold and share of circulation and advertising revenues, and is a leading wholesale magazine distributor in Australia.
 - PBL owns and operates the largest gaming and entertainment complex in Australia, the only licensed casino in the State of Victoria. The casino effectively has regulated monopoly status till 2005.

Supportive regulatory environment.

- Supportive regulatory environment limiting competition in its TV and Gaming markets.
- Free to air TV and magazine businesses reach a large proportion of Australia's population, creating a strong consumer base and brand image for PBL. Further synergies between core businesses enables PBL to actively cross promote to enhance its combined business results.

Cross promotion opportunities.

Well positioned for technological driven opportunities.

- Prominent distributor and product provider in converging media and telecommunications markets and is well placed to leverage its access to both distribution systems and products to sustain and grow its current position.

Involvement of Packer family.

- Moderate finances and significant cash flow diversification.
- The Packer family provides leadership and considerable strategic direction. Kerry Packer is currently a Director of PBL, while Mr James Packer is PBL's Executive Chairman.
- PBL maintains sophisticated management information systems, which permit it to recognise and respond rapidly to developments in its core businesses.

Risks

Favourable economic outlook to support core businesses.

- PBL's core businesses are vulnerable to a downturn/slowdown in economic activity. A reduction in consumer spending could adversely impact advertising, circulation and gaming revenues. *ANZ's latest economic outlook (January 2000) forecasts moderate GDP growth and that consumer spending will remain buoyant. Furthermore, PBL's revenue has recently demonstrated a degree of recession resilience, underpinned by Nine and ACP's leading market share positions and the core cash flow contribution from non-premium players at Crown.*

➤ Competition from :

- Other free to air (FTA) broadcasters with regard to programming initiatives i.e. the Sydney Olympics. This is somewhat mitigated by Nine's long track record of market leadership both on a ratings and market share basis.



Competition risk somewhat mitigated by strong market positions and investment in new technology

- Pay TV via increased household penetration and viewer acceptance. PBL, via its Foxtel investment, is well positioned to capitalise on opportunities in this area. Therefore, leakage from its FTA business will be recouped to a degree by its pay TV venture. In any event, pay TV is still highly fragmented and not likely to impact heavily on FTA advertising revenue in next 1-2 years.
- The release of new titles by magazine competitors. Again, this is somewhat mitigated by ACP's market share leadership and its own suite of new title releases;
- A new casino in Victoria after 2005. This is mitigated by the substantial entry costs, regulatory barriers and Crown's established position.
- Alternative forms of electronic media, including the Internet. PBL, via its Enterprises businesses is well positioned to capitalise on opportunities as the media and telecommunications markets converge.

Regulatory risk.

- Regulatory risk in relation to PBL's television and casino/gaming licences.

Taxation risk.

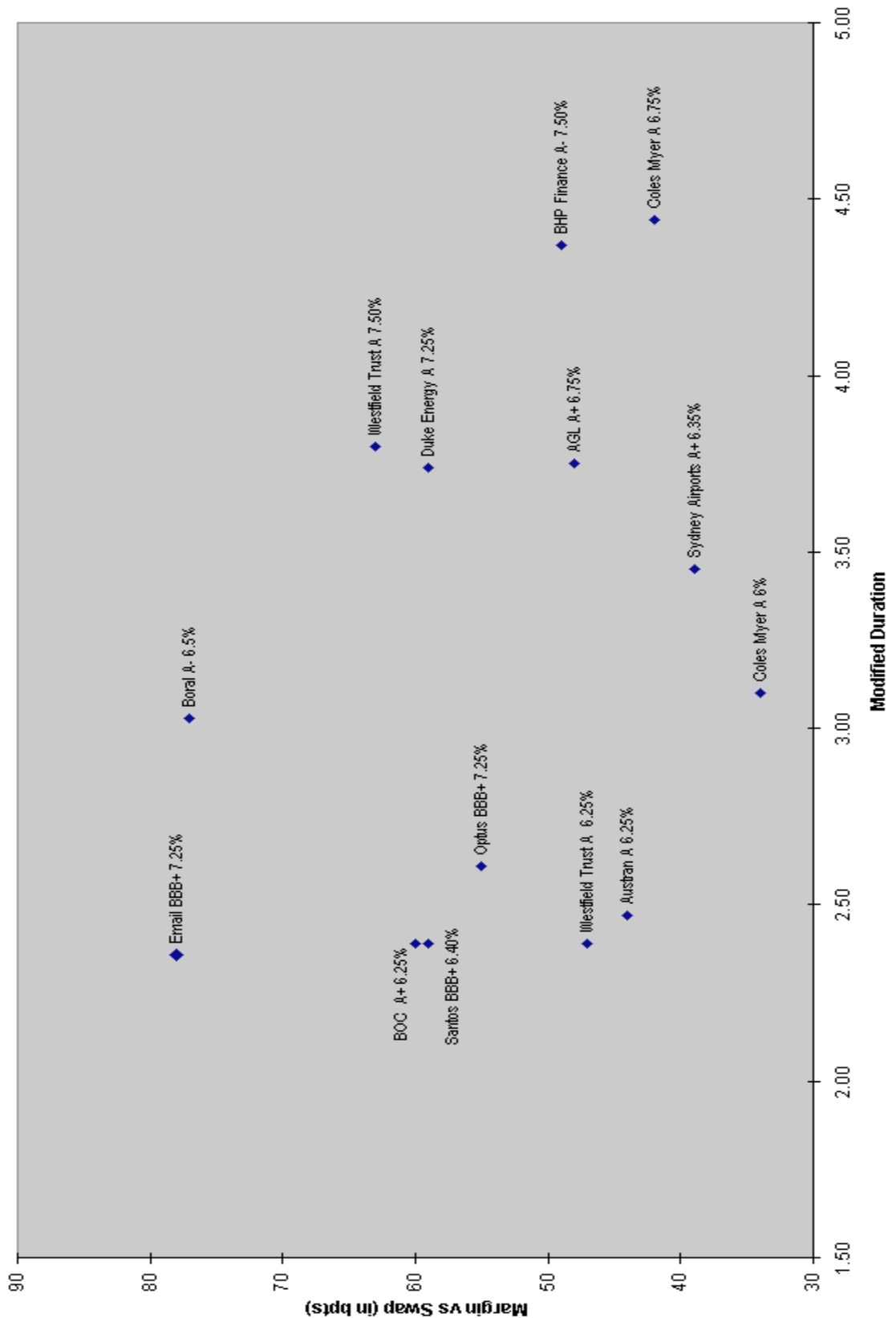
- Taxation risk in relation to gaming taxes and the implementation of a GST. The introduction of a GST has the potential to adversely impact Crown's costs without appropriate adjustment to gaming taxes and adversely impact ACP's circulation levels via increased cover prices.
- The risk of increased programming costs for the Nine Network should long term contracts be terminated.
- The inherently volatile nature of paper prices and the potentially adverse impact it may have on ACP's cost structure.

Investment in new businesses will require support.

- As part of the group's growth strategy, investments in complementary businesses have the potential to adversely impact PBL's financial performance should support for any business losses prove extensive. Whilst initially being a drain on PBL's earnings profile, the majority of these businesses are poised to capitalise on opportunities which should become key drivers of growth and earnings in the future.

Relative Value

Table 7 Comparative Australian Corporate Bond Returns Over Swap (as at 27 January 2000)



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