![BELL POTTER]

23 September 2024

Analyst
Michael Ardrey 613 9256 8782

Authorisation
Hayden Nicholson 613 9235 1757

REA Group (REA)

The best (and final) potentially yet to come

Recommendation
Buy (unchanged)
Price
$194.00
Target (12 months)
$226.00 (unchanged)

Sector

Media

Expected Return	
Capital growth	16.5%
Dividend yield	1.2%
Total expected return	17.7%
Company Data & Ratios	
Enterprise value	$25.7bn
Market cap	$25.6bn
Issued capital	132.1m
Free float	39%
Avg. daily val. (52wk)	$31.9m
12 month price range	$140.50-$221.69

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	190.69	184.27	162.24
Absolute (%)	7.8	11.5	26.7
Rel market (%)	3.5	8.9	17.8

Absolute Price

SOURCE: IRESS

Further Improved Offer under consideration

REA has made two further indicative, non-binding proposals for 100% of issued and to be issued shares in UK property listings platform, Rightmove (RMV.UK, not rated), following the initial cash and scrip offer at an implied value of £5.6bn/A$10.9bn (705p/A$13.80ps). The third/Further Improved Proposal for 341p in cash and 0.0422 new REA shares for every RMV share implies an increase in total offer value to approximately £6.1bn/A$11.9bn (761p/A$14.90ps). The second/Improved Proposal was rejected on the basis that the bids are "wholly opportunistic" and fundamentally undervalues RMV. RMV's Board of Directors are yet to engage with REA, though are currently considering the latest Proposal.

Where to from here?

REA remains "immediately ready" to engage with the RMV Board to work towards a recommended transaction ahead of the 30 September deadline for a firm offer, under the UK code. In our view, RMV Directors can leverage the deadline to pressure REA into a compelling offer to RMV shareholders, which potentially requires a higher cash component within the deal structure than currently being offered to reflect RMV's long-term prospects. Use of REA scrip in the deal allows for RMV shareholders to maintain exposure to potential value creation. We estimate the Further Improved Proposal would be around 10% EPS accretive in FY26 (5% net synergies), which decreases to around 6% at a 45% premium, factoring estimated increases in share count and interest payments relating to third party debt required for the cash component

Investment view: Maintain Buy, TP $226.00/sh

We make no changes to our recommendation and do not factor in a possible RMV acquisition to our estimates at this stage. REA's market leadership position in its core Australian market is currently returning 30%+ on invested capital through a virtuous free cash flow/platform re-investment cycle. Guidance for a return to the top end of its 7-9% range of capex/revenue likely signals positive expectations for operating conditions during FY25 at this stage.

Earnings Forecast

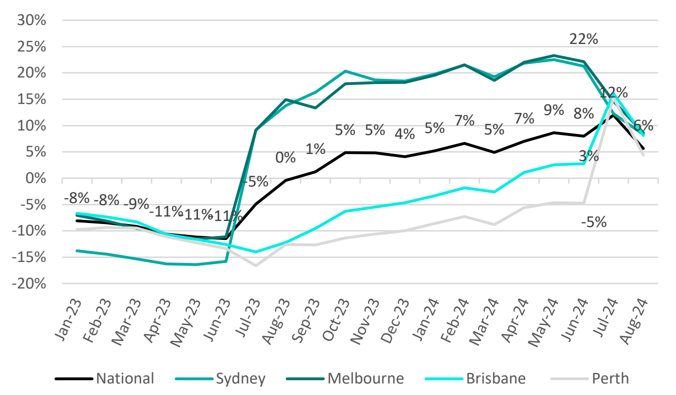
Year end June	FY24a	FY25e	FY26e	FY27e
Sales (A$m)	1452.8	1697.3	1907.7	2133.7
EBITDA ($m)	824.6	1007.8	1160.1	1338.7
NPAT (adjusted) (A$m)	460.5	571.4	684.0	810.5
NPAT (reported) (A$m)	302.8	569.9	684.0	810.5
EPS (adjusted) (Acps)	348.6	432.5	517.8	613.5
EPS growth (%)	29%	24%	20%	18%
PER (x)	55.7	44.9	37.5	31.6
FCF Yield	0.0	0.0	0.0	0.0
EV/EBITDA (x)	31.2	25.5	22.2	19.2
Dividend (A cps)	189.0	242.2	289.9	343.6
Franking (%)	100%	100%	100%	200%
Yield (%)	1.0	1.2	1.5	1.8
ROE (%)	19.6	32.2	32.3	33.1

SOURCE: BELL POTTER SECURITIES ESTIMATES

Listings trends

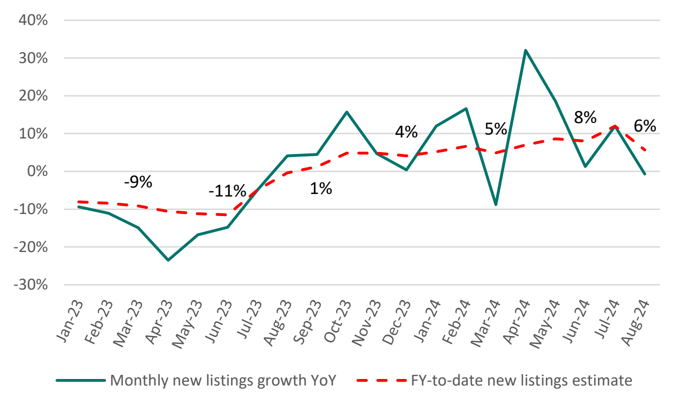
PropTrack listings growth

Figure 1 - FY-to-date listings growth estimates



SOURCE: PROPTRACK, BELL POTTER SECURITIES ESTIMATES

Figure 2 - National new listings growth YoY



SOURCE: PROPTRACK\

PropTrack listings table

Table 1 - PropTrack new listings growth

PropTrack New listings growth

YoY	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24
National	-9%	-11%	-15%	-24%	-17%	-15%	-5%	4%	5%	16%	5%	0%	12%	17%	-9%	32%	19%	1%	12%	-1%
Sydney	-16%	-19%	-23%	-25%	-18%	-9%	9%	18%	21%	33%	12%	17%	28%	34%	1%	45%	29%	8%	12%	4%
Melbourne	-15%	-16%	-21%	-23%	-19%	-7%	9%	21%	10%	32%	19%	19%	28%	35%	-5%	53%	36%	9%	15%	3%
Brisbane	-7%	-12%	-16%	-32%	-21%	-23%	-14%	-10%	-4%	3%	-2%	-1%	5%	9%	-9%	34%	17%	5%	16%	0%
Perth	-15%	-7%	-10%	-26%	-23%	-26%	-17%	-9%	-13%	-7%	-8%	-7%	0%	2%	-21%	24%	5%	-6%	15%	-7%
R6M ending:	**Jan-23**	**Feb-23**	**Mar-23**	**Apr-23**	**May-23**	**Jun-23**	**Jul-23**	**Aug-23**	**Sep-23**	**Oct-23**	**Nov-23**	**Dec-23**	**Jan-24**	**Feb-24**	**Mar-24**	**Apr-24**	**May-24**	**Jun-24**	**Jul-24**	**Aug-24**
National	-11%	-16%	-17%	-18%	-17%	-15%	-14%	-12%	-9%	-2%	2%	4%	7%	9%	7%	9%	12%	12%	12%	9%
Sydney	-19%	-26%	-19%	-22%	-22%	-17%	-6%	6%	16%	24%	22%	21%	19%	26%	21%	27%	25%	27%	16%	8%
Melbourne	-9%	-20%	-17%	-20%	-21%	-16%	-5%	8%	13%	21%	20%	23%	22%	27%	19%	28%	28%	33%	20%	9%
Brisbane	-8%	-17%	-12%	-20%	-23%	-25%	-20%	-16%	-10%	-4%	-1%	0%	1%	4%	2%	11%	14%	19%	13%	7%
Perth	-12%	-16%	-11%	-14%	-20%	-25%	-22%	-17%	-13%	-10%	-9%	-7%	-5%	-2%	-7%	1%	2%	8%	5%	1%
FTYD	**Jan-23**	**Feb-23**	**Mar-23**	**Apr-23**	**May-23**	**Jun-23**	**Jul-23**	**Aug-23**	**Sep-23**	**Oct-23**	**Nov-23**	**Dec-23**	**Jan-24**	**Feb-24**	**Mar-24**	**Apr-24**	**May-24**	**Jun-24**	**Jul-24**	**Aug-24**
National	-8%	-8%	-9%	-11%	-11%	-11%	-5%	0%	1%	5%	5%	4%	5%	7%	5%	7%	9%	8%	12%	6%
Sydney	-14%	-14%	-15%	-16%	-16%	-16%	9%	14%	16%	20%	19%	18%	20%	22%	19%	22%	23%	21%	12%	8%
Melbourne	-7%	-8%	-10%	-11%	-12%	-11%	9%	15%	13%	18%	18%	18%	20%	22%	19%	22%	23%	22%	15%	9%
Brisbane	-7%	-7%	-8%	-11%	-12%	-13%	-14%	-12%	-10%	-6%	-5%	-5%	-3%	-2%	-3%	1%	3%	3%	16%	8%
Perth	-10%	-9%	-9%	-11%	-12%	-13%	-17%	-13%	-13%	-11%	-11%	-10%	-9%	-7%	-9%	-6%	-5%	-5%	15%	4%

SOURCE: PROPTRACK

REA Group

Company background

REA Group engages in online property advertising, property-related services and financial services. In Australia, REA operates its flagship website: realestate.com.au which is Australia's leading residential property website, it also operates several other websites including realcommercial.com.au, Australia's leading commercial property website, Flatmates.com.au, a share property website, property.com.au, a property research website, PropTrack Pty. Ltd., a provider of property data services. REA group also operates in Financial Services through Mortgage Choice Pty Ltd, a mortgage broking franchise group and Campaign Agent Pty Ltd, a provider in vendor paid advertising and home preparation finance solutions. REA owns a 78% interest in REA India Pte. Ltd. operator of Housing.com, Makaan.com and PropTiger.com, which are online property advertisement and related services businesses.

Founded in 1995 with the launch of realestate.com.au, REA Group has evolved from a property listings portal to a property, finance and data business. REA listed on the ASX in 1999 and is the no 1 property website in Australia.

Investment Thesis

We maintain a Buy recommendation and a $226/sh Target Price, set using a weighted blend of SOTP (40%), DCF (20%) and P/E (40%). We prefer REA due to its large audience and network effect, generating pricing power and an economic moat that is difficult to duplicate. REA's continues to entrench its market leader position through a virtuous free cash flow/platform re-investment cycle which is returning 30%+ on invested capital. We see some relative value emerging end-FY25 with REA trading on fwd looking discounts to current TTM multiples.

Risks to our thesis and valuation include: REA's ability to pass through targeted double digit price rises, stubborn inflation/hawkish outlook for interest rates negatively impacting market activity, or competitors taking market share

Key risks

Key risks related to REA include, but are not limited to:

Economic risk: Fluctuations in economic conditions, including changes in interest rates, inflation, housing prices, global economic growth and unemployment could negatively impact real estate listings volumes, new developments and mortgage transactions (for REA's Mortgage Choice), driving revenue lower.

Technology risk: Aged and fragmented technology systems may impact REA's flexibility, speed and funding of the business in its normal operations and getting products to market.

Competition & disruption risk: The development of new technologies and increased competition from existing or new products (e.g. the recent launch of view.com.au) could affect the existing business model.

Cyber security risk & system failure: Given the online nature of the businesses, cybersecurity breaches and system failures could result in business disruption, loss of consumer data and loss of corporate IP which would adversely impact the reputation and ability to meet business objectives.

Loss of talented personnel: Loss of talented and key personnel could result in a deterioration in company culture and impact the businesses ability to deliver on strategy and business performance.

Compliance & regulatory risk: Particularly relevant laws and regulations that REA, but are not limited to, laws governing the collection, storage and use of personal information, the provision of credit and credit assistance (REA) and general consumer protections. Failure to adhere to legal requirements could result in litigation and reputational damage.

International risks: Specific to REA. Economic, political and legal risks exist in REA's overseas markets, particularly in the USA and India. Different laws and customs increase risk of litigation resulting in potential reputational damage.

REA Group
as at 23 September 2024

Recommendation	Buy
Price	$194.00
Target (12 months)	$226.00

Table 2 - Financial summary

REA Group (REA)

Year end June	2023a	2024a	2025e	2026e	2027e
Profit & Loss (A$m)					
Revenue	1,183.2	1,452.8	1,697.3	1,907.7	2,133.7
. . . Change	*2.0%*	*22.8%*	*16.8%*	*12.4%*	*11.8%*
Operating Expenses	532.3	628.2	689.5	747.6	795.0
Operating EBITDA	**650.9**	**824.6**	**1,007.8**	**1,160.1**	**1,338.7**
Deprec. & amort.	(91.8)	(113.5)	(139.2)	(138.1)	(146.5)
EBIT	**523.2**	**525.9**	**849.0**	**1,010.2**	**1,187.2**
Net interest	(10.3)	(14.3)	(10.9)	(4.3)	4.8
PBT	**512.9**	**511.6**	**838.1**	**1,005.9**	**1,192.0**
Tax expense	(168.2)	(218.3)	(268.2)	(321.9)	(381.4)
. . . tax rate	*33%*	*43%*	*32%*	*32%*	*32%*
Minorities	11.4	9.5	1.5	0.0	0.0
NPAT Attributable	**356.1**	**302.8**	**571.4**	**684.0**	**810.5**
Abs. & extras.	0.0	157.7	0.0	0.0	0.0
Reported NPAT	**344.7**	**293.3**	**569.9**	**684.0**	**810.5**

Cashflow (A$m)	2023a	2024a	2025e	2026e	2027e
EBITDA	650.9	824.6	1,007.8	1,160.1	1,338.7
Net Interest Expense	(10.1)	(12.6)	(10.9)	(4.3)	4.8
Tax Paid	(173.2)	(186.8)	(268.2)	(321.9)	(381.4)
Change in Wkg Capital	(18.2)	(138.4)	3.4	(23.2)	(24.9)
Other	23.3	102.6	(1.5)	0.0	0.0
Operating Cash Flow	**472.7**	**589.4**	**730.6**	**810.8**	**937.2**
Capex	(118.6)	(137.3)	(151.8)	(151.1)	(161.0)
Asset Sales	0.0	0.0	0.0	0.0	0.0
Acquisitions	(15.0)	(67.9)	0.0	0.0	0.0
Free Cash Flow	**339.1**	**384.2**	**578.8**	**659.7**	**776.2**
Dividend paid	(217.1)	(224.9)	(281.7)	(348.7)	(415.3)
Other	0.0	(0.4)	0.0	0.0	0.0
Equity Issues (Reduction)	(8.4)	(22.0)	0.0	0.0	0.0
Change in debt	(103.8)	(192.5)	0.0	0.0	0.0
(Inc.) /dec. in net debt	**9.8**	**(55.6)**	**297.1**	**311.0**	**360.9**

Balance Sheet (A$m)	2023a	2024a	2025e	2026e	2027e
Cash & near cash	259.8	204.2	501.3	812.4	1,173.3
Receivables	169.2	308.3	322.5	362.5	405.4
Other	183.7	152.0	151.1	151.1	151.1
Current assets	**612.7**	**664.5**	**974.9**	**1,325.9**	**1,729.8**
Fixed assets	17.7	16.2	15.2	14.7	14.3
Right of use asset	72.7	65.2	65.2	65.2	65.2
Intangibles	299.2	318.9	332.5	346.0	360.8
Other	1,624.3	1,590.2	1,590.2	1,590.2	1,590.2
Non current assets	**2,013.9**	**1,990.5**	**2,003.1**	**2,016.1**	**2,030.5**
Total assets	**2,626.6**	**2,655.0**	**2,978.0**	**3,342.0**	**3,760.3**
Creditors	123.0	144.6	135.8	152.6	170.7
Borrowings	0.0	0.0	0.0	0.0	0.0
Lease liabilities	10.5	8.8	10.5	10.5	10.5
Commission liabilities	117.5	118.2	118.2	118.2	118.2
Other	109.8	161.6	139.8	139.8	139.8
Current liabilities	**360.8**	**433.2**	**404.3**	**421.1**	**439.2**
Borrowings	316.7	272.4	316.7	316.7	316.7
Lease liabilities	76.0	0.0	0.0	0.0	0.0
Commission liabilities	314.1	335.4	335.4	335.4	335.4
Other	42.0	35.2	35.2	35.2	35.2
Non current liabilities	**748.8**	**643.0**	**687.3**	**687.3**	**687.3**
Total liabilities	**1,109.6**	**1,076.2**	**1,091.6**	**1,108.4**	**1,126.5**
Net assets	**1,517.0**	**1,578.8**	**1,886.4**	**2,233.6**	**2,633.8**

Rating	Buy
Share price (A$ps)	194.00
Target price (A$ps)	226.00
Shares on issue (m)	132.1
Market cap (A$m)	25,630.7
Net Debt (A$m)	68.0
Enterprise Value (A$m)	25,698.7

Year end June	2023a	2024a	2025e	2026e	2027e
Valuation Ratios					
Adjusted EPS (¢ps)	269.5	348.6	432.5	517.8	613.5
Change (%)	-7.5%	29.3%	24.1%	19.7%	18.5%
Adjusted PE (x)	72.0	55.7	44.9	37.5	31.6
EV/EBITDA (x)	39.5	31.2	25.5	22.2	19.2
EV/EBIT (x)	49.1	48.9	30.3	25.4	21.6
P/CF (x)	54.2	43.5	35.1	31.6	27.3
FCF/share ($ps)	2.6	2.9	4.4	5.0	5.9
FCF yield (%)	1%	1%	2%	3%	3%
NTA ($ps)	17.62	17.68	20.02	22.68	25.73
P/NTA (x)	11.01	10.97	9.69	8.55	7.54
Book Value ($ps)	11.48	11.95	14.28	16.91	19.94
Price/Book (x)	16.90	16.23	13.59	11.48	9.73
DPS (¢)	158.0	189.0	242.2	289.9	343.6
Payout (%)	58.6%	54.2%	56.0%	56.0%	56.0%
Yield (%)	0.8%	1.0%	1.2%	1.5%	1.8%

Performance Ratios	2023a	2024a	2025e	2026e	2027e
Revenue growth (%)	2.0%	22.8%	16.8%	12.4%	11.8%
EBITDA growth (%)	-5.1%	4.0%	54.5%	16.2%	16.1%
EBITDA margin (%)	55.0%	56.8%	59.4%	60.8%	62.7%
EBIT margin (%)	44.2%	36.2%	50.0%	53.0%	55.6%
OCF Realisation (%)	132%	175%	114%	99%	98%
FCF Realisation (%)	108%	191%	115%	96%	96%
ROE (%)	24.7%	19.6%	32.2%	32.3%	33.1%
ROIC (%)	29.3%	34.3%	35.4%	34.6%	34.1%
Capex/Depn (x)	1.29	1.21	1.09	1.09	1.10
Interest cover (x)	50.80	36.78	77.97	235.24	(248.11)
Net Debt/EBITDA (x)	0.22	0.09	(0.17)	(0.42)	(0.63)
Net debt/equity (%)	9%	5%	-9%	-21%	-32%
Current ratio (x)	1.70	1.53	2.41	3.15	3.94

Divisional Revenue (A$m)	2023a	2024a	2025e	2026e	2027e
Property & Online Advertising	1,043.5	1,276.1	1,486.3	1,662.7	1,849.5
Residential	804.9	995.7	1,176.3	1,329.2	1,502.0
Commercial & developer	141.6	158.7	170.0	178.5	187.4
Media, Data & other	97.0	121.7	140.0	155.0	160.0
Financial Services	60.9	73.6	81.0	85.0	89.3
India	78.8	103.1	130.0	160.0	195.0

Divisional EBITDA (A$m)	2023a	2024a	2025e	2026e	2027e
Property & Online Advertising	705.1	871.0	1,018.1	1,139.0	1,266.9
Financial Services	11.1	18.6	21.5	23.0	24.1
India	(39.1)	(35.8)	(15.0)	0.5	19.6

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Rob Crookston	Strategy	612 8224 2813	rcrookston
Analysts			
John Hester	Healthcare	612 8224 2871	jhester
Martyn Jacobs	Healthcare	613 9235 1683	mjacobs
Thomas Wakim	Healthcare	612 8224 2815	twakim
Michael Ardrey	Industrials	613 9256 8782	mardrey
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
Joseph House	Industrials	613 9325 1624	jhouse
Baxter Kirk	Industrials	613 9235 1625	bkirk
Daniel Laing	Industrials	612 8224 2886	dlaing
Hayden Nicholson	Industrials	613 9235 1757	hnicholson
Chami Ratnapala	Industrials	612 8224 2845	cratnapala
Jonathan Snape	Industrials	613 9235 1601	jsnape
Connor Eldridge	Real Estate	612 8224 2893	celdridge
Andy MacFarlane	Real Estate	612 8224 2843	amacfarlane
Regan Burrows	Resources	618 9236 7677	rburrows
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9325 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
James Williamson	Resources	613 9235 1692	jwilliamson
Associates			
Leo Armati	Associate Analyst	612 8224 2846	larmati
Kion Sapountzis	Associate Analyst	613 9235 1824	ksapountzis
Ritesh Varma	Associate Analyst	613 9235 1658	rvarma

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Bell Potter Securities Limited
ABN 25 006 390 772
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited
Room 1601, 16/F
Prosperity Tower, 39 Queens Road Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC
Floor 39
444 Madison Avenue, New York NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
16 Berkeley Street London, England W1J 8DZ, United Kingdom
Telephone +44 7734 2929