SANDSTONE INSIGHTS

COMPANY REPORT

REA

REA Group Ltd

RECOMMENDATION 16 JUL 2024

Buy (Prev Hold)

RECOMMENDATION CHANGE

The property ladder

NEED TO KNOW:

- **Property listings and sales volumes are robust despite high interest rates.**
- **EPS growth over the next 3 years is well above REA's strong history.**
- **We upgrade our recommendation to BUY.**

REA Group has an impressive record of growth, but we think the company is entering a period of even higher growth as interest rates peak, demand for housing outstrips supply and REA expands its products and services.

According to Proptrack, sales volumes over the first five months of 2024 were up 13.9% nationally, driven by Sydney and Melbourne, where the largest stock increase has occurred. CoreLogic estimates the national sales count reached just over 508,000 in the 6 months to June, an increase of 8.6% over last year (Sydney +13.7%, Melbourne +12.0%). CoreLogic adds that total listings are 0.6% higher than last year but remain ~17% lower than the historic 5-year average highlighting the undersupply issue.

REA's Proptrack market outlook for 2023-24 points to a buoyant market for property listings growth. REA Director of Economic Research Cameron Kusher said: "The volume of new stock coming to market has continued to rise and broaden to more capital cities and the overall volume of stock for sale has persistently increased. Despite the lift in stock for sale, there has also been a significant increase in sales volumes; subsequently, price growth has been stronger than anticipated early in 2024. The market is proving much more resilient to the sustained pause in interest rates and uplift in stock than we had anticipated."

REA has been investing in its international assets REA India, PropertyGuru (17%), and MOVE (20%), where combined losses from associates will be $25-30m in FY24f.

But it has not been neglecting its dominant Australian business. Expanding into mortgage broking and financial services greatly broadens the potential revenue streams related to the core listing business. But even within listings, there is scope for innovation. REA recently completed its purchase of Realtair, which enables agents to create customisable digital listing presentations, sign agreements on the spot, and manage auction and private treaty transactions.

Listings growth is only part of the growth equation. REA expects residential buy yield to be +18-19% in FY24f. A 10% price increase ensures FY25 will be just as positive even if listing volumes ease to a simmer.

Over the last eight years, REA has increased its revenue from residential depth products by 13.4% pa and Australian total revenue by 10.4% pa. This has generated EBITDA growth of 11.8% pa and EPS growth of 8.1% pa. That is a strong track record of growth.

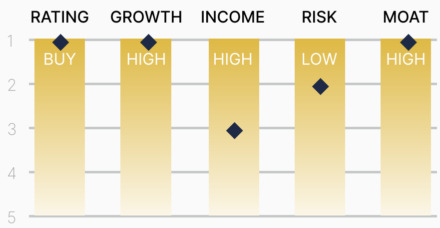
Looking forward over the next 3 years, however, consensus forecasts show an even stronger period of growth ahead. Listing depth revenue is expected to

Stock Overview

ASX code	REA
Price at Review (16 Jul 2024)	$204.33
GICS Sector	Communication Services
Market Cap (AUD$m)	$26,996m

Source: LSEG

Key Properties



Financial Forecast

Year JUN A$M	2022	2023	2024E	2025E	2026E
Revenue	1,160	1,183	1,436	1,622	1,814
Gross Profit (%)	74.1	92.2	68.4	69.8	71.1
EBIT	580	543	685	807	945
Pre-tax Profit	571	529	660	810	959
Net Profit	408	372	453	554	657
EPS (cps)	3.08	2.82	3.50	4.18	4.95
PE (x)	**36.4**	**50.7**	**58.4**	**48.8**	**41.3**
DPS (cps)	1.64	1.58	1.92	2.34	2.79
Dividend Yield (%)	**1.5%**	**1.1%**	**0.9%**	**1.1%**	**1.4%**
EV/EBITDA (x)	23.6	28.2	31.2	26.9	23.3
ND/EBITDA (x)	0.4	0.2	-0.1	-0.3	-0.5

Source: LSEG, Sandstone Insights

Share Price

Share Price S&P/ASX 200 rebased

Source: LSEG, Sandstone Insights. Index rebased into share price terms

Company Description

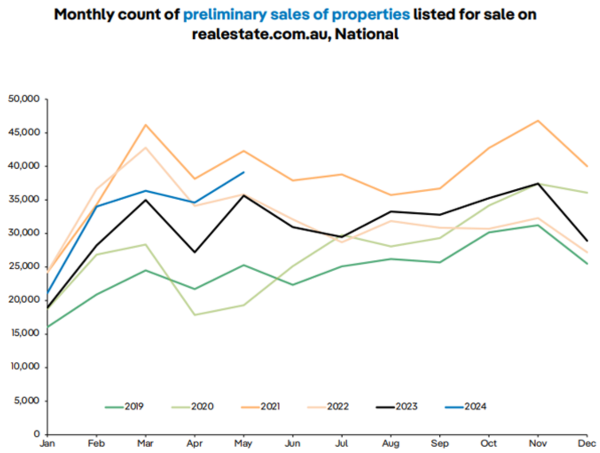
REA is a global online real estate company with a strong market position in Australia. It also offers home loans, property data services, and other related services.

grow by 16.5% pa, Australian revenue by 15.6% pa and EBITDA by 16.9% pa. This culminates in EPS growth of 21.9% pa from FY23 to FY26. (Figure 5).

REA's average EV/EBITDA multiple is 26x over the last 10 years. On FY26f consensus forecasts, REA is valued at 23x multiple suggesting the stock is not expensive.

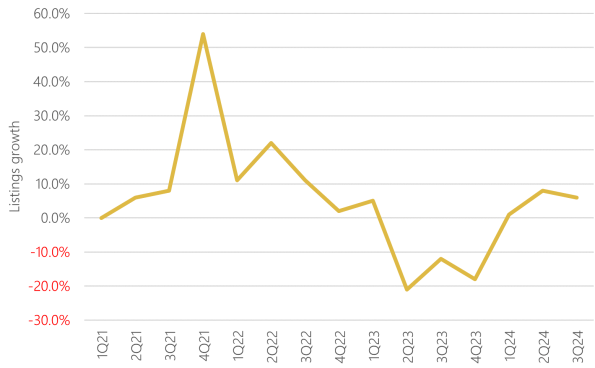
Free cash flow growth is just as impressive over the next three years at 24% pa compared to 11.5% pa from the last eight years.

Figure 1: Proptrack data shows vibrant listings market



Source: REA Proptrack

Figure 2: REA listings growth



Source: Company data, Sandstone Insights

INVESTMENT VIEW

REA's dominant position in the Australian residential property market gives it a big advantage in terms of innovation and price-leading on new products. We expect double-digit yield growth to accompany a strong phase of the property market driven by high immigration and potentially falling interest rates.

REA has displayed a long track record of growth through investment which could accelerate over the next few years. It will depend to some degree on the need to invest in its international investments.

The Australian residential real estate market is worth approximately $10.8tn with $2.3tn of outstanding mortgage debt across 11.2m properties, according to CoreLogic. There are just over 500k sales each year. REA's share of that market is miniscule with turnover just over $1bn, but it can generate meaningful earnings and growth as it expands into adjacencies such as mortgage broking and related financial services.

RISKS TO INVESTMENT VIEW

Changes that impact the residential housing market such as interest rates could affect REA's earnings. The supply and demand of residential property turnover can change under different economic circumstances which affect listings growth.

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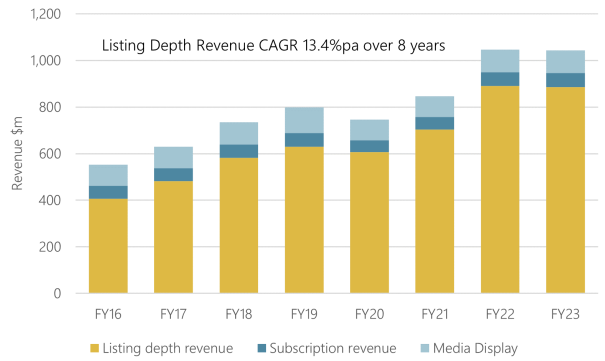
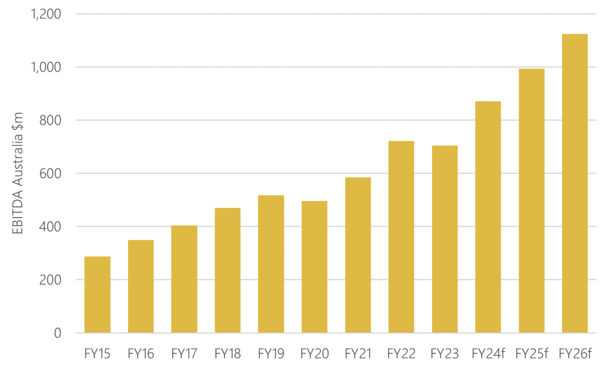
Figure 3: REA Australia revenue



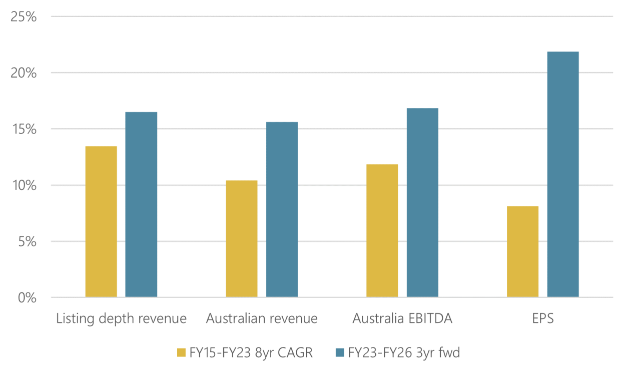
Source: Company data, Sandstone Insights

Figure 4: EBITDA Australia



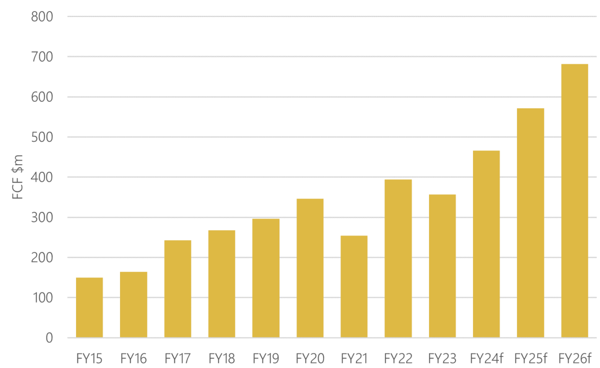
Source: Company data, Sandstone Insights

Figure 5: 3-year growth outpaces strong history



Source: Company data, Visible Alpha, Sandstone Insights

Figure 6: Free cash flow growth is 24% pa next 3 years



Source: Company data, Visible Alpha, Sandstone Insights

Figure 7: REA vs peers. Premium multiple, but is growth is not too shabby either

Company	Ticker	Currency	Last Price	Market Cap A$bn	PER CY2024E	PER CY2025E	EV/EBITDA CY2024E	EV/EBITDA CY2025E	EPS 3yr Fwd CAGR
REA Group	REA.AX	AUD	178.01	25.5	50.4	42.1	29.6	25.4	18.9%
Seek	SEK.AX	AUD	24.12	7.1	33.7	27.5	16.0	14.2	13.4%
Car Group	CAR.AX	AUD	34.34	12.8	38.6	32.9	22.3	19.8	14.2%
News Corp	NWS.AX	AUD	40.24	23.8	38.3	30.4	11.1	10.0	23.0%
Domain Holdings	DHG.AX	AUD	3.17	1.8	32.6	27.7	14.2	13.0	20.9%
Nine Entertainment	NEC.AX	AUD	1.67	2.1	11.6	10.4	6.3	5.9	3.7%
Seven West Media	SWM.AX	AUD	0.19	0.3	3.4	3.2	3.5	3.5	-11.4%
oOh!media	OML.AX	AUD	1.76	0.7	12.7	11.2	11.1	10.0	11.6%

Source: LSEG, Sandstone Insights.

Equities Research Methodology.

Sandstone Insights' recommendations of Buy, Hold or Sell, are based on detailed qualitative and quantitative analysis of a company's income and growth risk profile to derive an estimate of the total return an investor can expect over a 12-month period. We define total return as the share price return plus gross dividend yield and use this analysis to derive our recommendations below:

Buy	Expect the total return to be more than 10% in the 12-month period from the date of recommendation
Hold	Expect total return to be between +10% and -5% in the 12- month period from the date of recommendation
Sell	Expect the total return to be more than -5% in the 12-month period from the date of recommendation

Sandstone Insights' quantitative model utilises historical and forecast consensus data points to determine and classify our recommendation for each security, including:

- Forecast changes in earnings or sales over the next 12 months.
- The company's dividend or distribution yield forecast, grossed up for any franking credit benefit a shareholder will receive.
- The change in the valuation multiple paid for the stock. The choice of multiple will depend on the nature of the business. We may use PE, EV/EBITDA, EV/Sales, dividend yield or price to book depending on the most suitable measure for the industry and life-stage of the company. We review the multiple and compare it to its three-year average and adjust the suitable multiple depending on our judgement about the quality of the business. Quality factors will include reputation of management, consistency of delivery, visibility of earnings drivers and the dispersion of analyst forecasts.

Sandstone Insights' recommendations are not static and will be updated as consensus data and analyst forecasts are changed. Accordingly, the income and growth risk profiles for each stock may change over time as the data changes.

KEY PROPERTIES DEFINITIONS

Sandstone Insights' model will derive a Key Properties profile based on important factors in assessing a company's future performance. We consider the level and sustainability of a company's income, the level of risk and the moat position, or the defensive characteristics of the company. Each of these factors is rated on a scale and explained as follows:

RATING

Buy	Expect the total return to be more than 10% in the 12-month period from the date of recommendation
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INCOME	1. High sustainable income. A dividend yield above the market average and expected to be sustainable over several years. 2. High income. Dividend yield above market average 3. Dividend yield in line with market average 4. Below market average dividend yield 5. No dividend, no prospect of imminent shareholder payments
GROWTH	1. High growth business with above average earnings growth and momentum 2. Growth business with positive earnings growth 3. Earnings growth in line with market expectations 4. Declining earnings growth 5. High income. Dividend yield above market average
RISK	1. Low risk business with low operational, regulatory and financial risk 2. Low risk business with below average operational, regulatory or financial risk 3. Average degree of business risk 4. Above average operational, regulatory or financial risk 5. Multiple risk exposures that could be detrimental to the business
MOAT	1. A business with a high degree of defensive characteristics such as high barriers to entry, pricing power, product, regulatory and scale 2. Above average defensive characteristics 3. Open to normal competition 4. A business with a weak competitive position 5. Completely contestable business with low/no barriers to entry

Sandstone Insights' recommendations are of a general nature only and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

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