

16 February 2021

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Domain Holdings Australia Limited

Communication Services

UNDERPERFORM

DHG A\$5.05

TARGET PRICE A\$4.52

Domain Holdings Australia Limited (DHG) is a real estate media and technology services business focused on the Australian property market. The business offers residential and commercial property marketing services. Domain provides data and technology services to real estate agencies through property data and research subscriptions, property inspection management tools and digital end-to-end solutions.

Company Data

Number of shares	584.3 M
Market Capitalisation	\$3,090.8 M
Free float (%)	40.8
12-month high/low	\$5.38/\$1.71
Average Daily Turnover (\$m)	7.819
% S&P/ASX200	0.16%
DDM Ranking	268
% All Ordinaries	0.14%
GICS Industry Group	Media & Entertainment

Source: FactSet, Barclay Pearce Capital

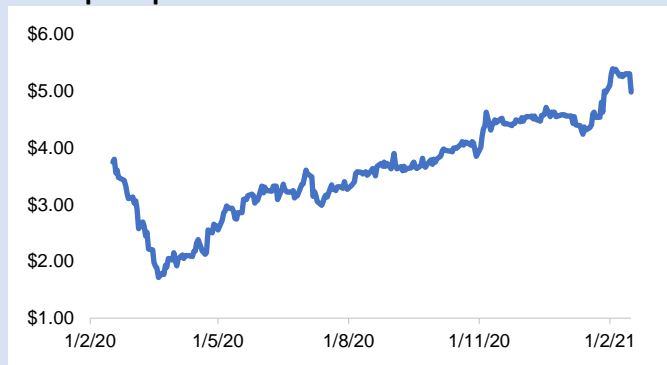
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	261.6	280.3	326.6	361.7
EBITDA (\$M)	84.4	103.2	134.2	157.7
Reported NPAT (\$M)	-227.7	32.8	54.5	71.8
Adjusted NPAT (\$M)	21.6	32.9	56.1	72.8
Reported EPS (c)	-39.0	5.5	9.1	12.0
Adjusted EPS (c - FD)	3.7	5.8	9.5	12.4
Adjusted EPS growth (%)	-42.5	57.5	63.4	30.0
Adjusted P/E (x)	143.0	90.8	55.5	42.7
Dividend (c/sh)	2.0	3.4	6.5	8.4
Gross yield (%)	0.5	0.9	1.7	2.3
Net yield (%)	0.4	0.6	1.2	1.6
ROIC (%)	2.1	3.3	5.5	7.2

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

Share price performance.



Source: FactSet, Barclay Pearce Capital

FY21 Half Yearly Results Announcement

On 16th February, Domain Holdings Australia Limited (DHG) released their half year results for the year ended December 2020 with the following highlights:

DHG reported statutory revenue of \$138.4 million, a net profit after tax of \$19.6 million including a significant profit of \$0.2 million.

\$M	FY21 H1	FY20 H1	% ch	Like-for-like % ch
Revenue	137.0	142.3	(3.8%)	(5.5%)
Expenses	(82.5)	(96.5)	14.5%	9.9%
EBITDA	54.5	45.8	18.9%	3.6%
EBIT	34.7	24.7	40.1%	11.8%
Net profit attributable to members of the company	19.4	12.7	52.5%	
Earnings per share (cents)	3.32	2.18	51.9%	

At December 2020, net debt was \$111.5 million compared with \$105.8 million at June 2020. In light of the continued COVID-19 uncertainty, the Board has deferred consideration of a dividend until the full year results.

DHG CEO and MD, Jason Pellegrino, said: "I am excited to report the first year-on-year growth in market listings since I joined Domain two-and-a-half years ago. Today's results demonstrate our ability to capitalise on the current opportunities, whilst purposefully investing for long term growth, squarely focused on the elements we can control. We are executing on the opportunity that lies in front of us. This is reflected in increased depth penetration, acceleration in our controllable yield, and 20% like-for-like Core Digital EBITDA growth in the first half result. At the same time, we are building for the future in a focused and disciplined way, as evidenced by the velocity of our Marketplace innovation pipeline, and the early contribution of these initiatives."

FY21 Outlook

- Trading in January 2021 reflects an encouraging start to the calendar year;
- We continue to see the atypical seasonal patterns which were a feature of FY21 H1, particularly evident in the early listings strength in Melbourne;
- We will maintain our disciplined investment approach while improving the quality of our cost base, to accelerate our Marketplace strategy;
- For FY21, total costs are expected to increase in the mid-to-high single digit range from the FY20 base of \$177.2 million; and
- FY21 H2 will reflect the absence of contributions from the Federal Government's Jobkeeper scheme and Domain's Project Zipline employee program, both of which benefited FY20 H2 and FY21 H1.

Earnings changes

For H1 FY21, DHG reported net profit of \$19.4M, which is significantly higher than market consensus of \$13.6M. However due to COVID-19 uncertainty, the board deferred consideration of a dividend until full year results, which does not bode well for future earnings. Hence, we don't expect any significant positive earnings revisions.

Valuation

We are initiating on DHG with a price target of \$4.52 and an UNDERPERFORM recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Valuation Methodology

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Barclay Pearce Capital Recommendation Proportions

Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)