

4 February 2022

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REA Group Limited

Business Services

HOLD

REA A\$144.03 TARGET PRICE A\$154.70

REA Group Ltd. engages in the provision of property and property-related services on websites and mobile apps across Australia and Asia. It operates through the Property and Online Advertising; and Financial Services segments. The Property and Online Advertising segment derives revenue from Australia, Asia and North America operations. The Financial Services segment consists of commissions earned from mortgage broking and home financing solutions offered to consumers.

Company Data

Number of shares	132.1M
Market Capitalisation	\$ 19,028.8M
Free float (%)	37.9
12-month high/low	\$176.81/\$133.3
Average Daily Turnover (\$m)	29.700582
% S&P/ASX200	0.900
DDM Ranking	222
% All Ordinaries	0.776
GICS Industry Group	Business Services

Source: FactSet, Barclay Pearce Capital

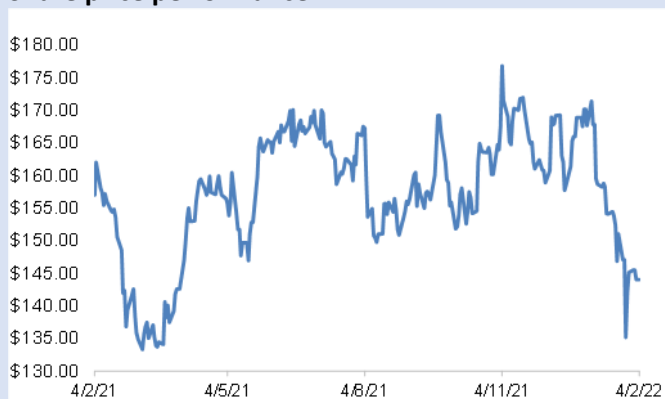
Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	927.8	1,151.6	1,295.4	1,456.5
EBITDA (\$M)	564.7	688.4	801.7	922.6
Reported NPAT (\$M)	313.0	406.6	496.9	591.5
Adjusted NPAT (\$M)	318.0	405.5	490.8	572.7
Reported EPS (¢)	244.6	311.3	378.0	447.0
Adjusted EPS (¢ - FD)	247.4	307.1	368.6	436.6
Adjusted EPS growth (%)	21.2	24.1	20.0	18.5
Adjusted P/E (x)	58.2	46.9	39.1	33.0
Dividend (¢/sh)	131.0	165.4	200.5	240.9
Gross yield (%)	1.3	1.6	2.0	2.4
Net yield (%)	0.9	1.1	1.4	1.7
ROIC (%)	22.0	26.4	31.4	36.7

Source: Barclay Pearce Capital

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

Share price performance.



Source: FactSet, Barclay Pearce Capital

H1 FY22 Financial Information

On 4th February 2022, REA Group Ltd (REA) announced its H1 FY22 Financial Information with the following highlights:

Financial Highlights:

- Revenue of \$590m, up 37%;
- EBITDA (including associates) of \$368m, up 27%;
- Net profit of \$226m, up 31%;
- Interim dividend of 75.0 cents per share, up 27%; and
- EPS of 171 cents, up 31%
- The Group result includes the consolidation of REA India from 1 January 2021 and Mortgage Choice from 1 July 2021;
- Excluding the impact of these acquisitions, core revenue increased by 25%, EBITDA including associates increased by 27% and NPAT was up 33%;
- Revenue growth was underpinned by increases in all major lines of business, including a 31% increase in Australian Residential;
- This reflected a strong market recovery despite the impact of Melbourne and Sydney lockdowns in the first quarter;
- Core operating costs, excluding acquisitions increased by 17% during the half;
- This reflects reduced operating costs in the prior period as the Group navigated through COVID uncertainty, continued investment to deliver strategic initiatives, and higher salaries in a tight labour market; and
- The strong growth in add-ons such as Audience Maximiser has also driven an increase in variable costs related to these products.

REA Group CEO, Owen Wilson commented: "REA Group delivered an exceptional first half result as the business continued to successfully navigate the impacts of the global pandemic.

"As anticipated, the removal of COVID restrictions saw a wave of new listings on realestate.com.au, with sellers making up for the time lost in lockdown and taking advantage of the significant buyer demand. Combined with record take up of our premium listing products in Residential and Commercial, we delivered very pleasing revenue growth."

Earnings changes

REA has reported EBITDA for H1 FY22 of \$368m which is 27% above last year's. Hence, we expect REA's FY22 EBITDA to be \$690 - \$720m from forecasting FY21 EBITDA with a 27% increase. This is in line with current market expectations. Hence, we do not expect any significant earnings revisions for FY22 and future periods.

Valuation

We are revising our 12-month target price to \$154.70 from \$184.57 and updating our recommendation from BUY to HOLD. The price target is underpinned by our valuation.

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Disclaimer

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 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.

Conflicts of Interest

Barclay Pearce Capital does not have any material interests in the financial product discussed in this Research Report nor will it receive any benefits in relation to the publication of this Research Report. Barclay Pearce Capital manages all Conflicts of Interest in accordance with its Conflicts of Interest Policy. Please contact us if you require any further information.

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

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.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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Valuation Methodology

Barclay Pearce Capital's methodology for assigning stock and credit ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of peer comparisons, market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

Barclay Pearce Capital Recommendation Proportions

Buy	38.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	23.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	38.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)