

SE Business
HD Strong real estate market helps REA Group defy expectations

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Property

Shares in REA Group have reached a record high after the real estate classified company exceeded analyst expectations in the six months to December, driven by growth in more expensive advertising for residential property.

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Morgans analyst Ivor Ries told BusinessDay the result was "clearly above what the market was expecting" and despite challenges in its overseas business, notably Hong Kong, "the market is just so excited about what they're doing with revenue in Australia".

REA, owner of market-leading portals realestate.com.au and realcommercial.com.au, is switching from a reliance on subscription fees from real estate agents to selling premium advertising slots to them.

Revenue from these "depth" products grew by 67 per cent, a result Mr Ries said was "well in advance of what the market was looking for".

The company did not provide guidance on who would replace its well regarded chief executive officer Greg Ellis.

Analyst Roger Colman said he held little hope for shareholders seeking generous dividends or big acquisitions in the short term.

"REA has got an illogical balance sheet with current [low] interest rates," said Mr Colman of CCZ Statton Equities.

REA has made a couple of small purchases in the past few months - the \$15 million purchase of online rental application service 1Form.com, and Italian property site Attico - but its enormous growth over the years has been largely organic.

Shares in REA jumped 5 per cent on Tuesday to \$43.78, taking its year-to-date rise to just under 16 per cent and defying the worst day on the sharemarket in six months.

REA reported a 37 per cent rise in net profit to \$70.7 million for the six months to December 31. Annual revenue grew by 30 per cent to \$209.4 million, and earnings before interest, tax, depreciation and amortisation rose by 38 per cent to \$106.8 million - about in line with Commonwealth Bank forecasts.

Analyst Mark McDonnell of BBY said REA's results were impressive, and underpinned by the strong domestic real estate market and exposure through News Corp's publications.

REA's realestate.com.au brand is a competitor to domain.com.au, owned by BusinessDay's owner, Fairfax Media.

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