

SE Media  
HD **Online media companies must plunder 'rivers of gold' offshore to stay strong**  
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EXCLUSIVE THE online companies that captured Fairfax Media's "rivers of gold" need to plunder advertising revenues in offshore markets if they are to remain popular media stocks, a broker has warned.

Fairfax's catastrophic loss of the classified advertising market to the internet was famously documented last year in Pamela Williams's book *Killing Fairfax*.

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As the "rivers of gold" dried up, Williams pieced together the beginnings of a new wave of hungry internet start-ups backed by businessmen Lachlan Murdoch and James Packer: REA, Carsales, and Seek.

The sites, known as the "three amigos", all benefited from a migration of advertising dollars online that began at the turn of the century, and CIMB analyst Daniel Blair has urged them to repeat the trick overseas to maintain their earnings trajectory.

"We believe there are large offshore growth opportunities, either from existing investments or potential acquisitions," CIMB analyst Daniel Blair said.

The share prices and earnings multiples of Carsales, Seek and REA are trading at their highest, but there is evidence the online advertising migration is starting to mature.

Automotive website Carsales, jobs website Seek and real estate business REA have shifted their focus to yield in their core domestic markets to counter the plateau effect. They have also expanded overseas, with Seek leading the way, and Carsales and REA becoming more active in the past 12 months.

Mr Blair believes Carsales should shift its focus firmly overseas as advertising expenditure in the automotive industry stagnates, and the competition regulator blocks local investment.

The exit of large car manufacturers from Australia is also reducing marketing activity.

Last month, Carsales chief executive Greg Roebuck fired a shot across the bow of the competition watchdog, saying a ruling blocking a domestic **acquisition** forced the **company** to work harder at identifying overseas assets.

"The ACCC (Australian Competition & Consumer Commission) doesn't want Carsales to grow in Australia so we will continue to look offshore," Mr Roebuck told The Australian.

Mr Roebuck was prevented from buying classifieds business Trading Post from Telstra. The ACCC opposed the **sale** on the ground it would reduce competition in the car classifieds market. Carsales said the **acquisition** would give the struggling business a lifeline, while insiders at Telstra have described the classified arm as a hard sell.

"This all points to a focus on offshore," Mr Blair said. "In particular, Brazil looks a very large opportunity. New opportunities also exist in India and auto looks set to follow the path that Seek has taken in employment." REA's share price has more than doubled in the past year, and the **company** is now capitalised at \$6.1 **billion**.

The **company**, which is 62 per cent owned by News Corp Australia, publisher of The Australian, is planning to use a strong balance sheet to enlarge a footprint that already includes Italy and **Hong Kong**.

"This is a stock with earning momentum, so a catalyst is required before this is not in favour," Mr Blair said.

Under chief executive Andrew Bassat, Seek has made a concerted push into Asia recently, and took another step in its international expansion by investing \$US5 **million** (\$5.3m) for a 25 per cent **stake** in Bangladesh's leading online employment marketplace, bdjobs.com.

In March, the **company** paid \$580m to acquire online Asian employment business JobStreet.

"This is one where you can get quite excited about the strategy, recent success and execution," Mr Blair said.

Seek has the most competitive challenges in its vertical from players such as LinkedIn, but Mr Blair believes the **company** is well positioned for growth.

"Seek is a well-managed operator with solid prospects from its domestic employment business with strong growth from its international investments," he said. CIMB's top pick is Carsales, while Seek is a hold, and REA has a reduce rating.

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