



SECTOR MARKETING

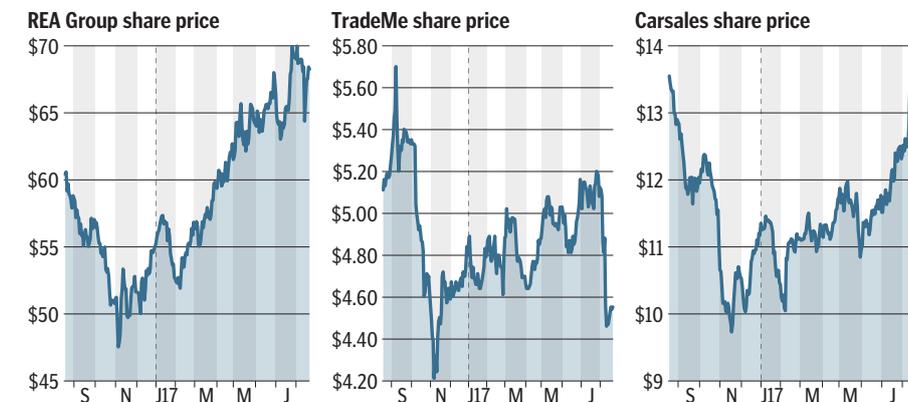
Classified information

Online businesses have diverted print's "rivers of gold"

As a small boy back in the 1970s I earned \$11 a week delivering papers, morning and afternoon, for a newsagency in Melbourne's West Brunswick, and to this day I cannot forget how much I rued rainy Saturdays. You see, back then the Saturday paper was enormous and heavy – thanks to the classifieds.

And back then there was no internet – indeed, we didn't even have the phone on until 1976 and our television was black and white. In the 1970s if you wanted to sell your TV, car or house, you listed it in the Saturday paper. You paid by the line and most people were economical with their words, remembering that a three-bedroom house-and-land package could be picked up for \$11,000 or a \$1000 deposit and repayments of \$22 a week.

How times have changed. Today the rivers of gold that were newspaper classi-



fieds have all but dried up for the owners of printed newspapers and now accrue to online monopolists or duopolists.

REA Group dominates real estate classifieds in Australia. Carsales likewise dominates new and used auto trading locally and

in New Zealand; TradeMe dominates all of the above as well as second-hand goods.

Roger Montgomery is founder and CIO at The Montgomery Fund. For his book Value.Able, see rogermontgomery.com.

1 REA Group

Of the more than \$7 billion spent on marketing residential real estate in Australia, we believe an undeserving 83% goes to real estate agents. Less than 10% goes to REA Group and we believe the company brings more than 10% of the value to a transaction.

When REA announced its 2016-17 full-year profit of \$228.3 million, which was up about 12%, the shares fell 6%.

We believe that a maturing or flat property market would bring more vendors listing; lower auction clearance rates and therefore longer times "on market", which in turn means more listings at any one time; and more aggressive competition among vendors, who will pay up to highlight their property and therefore provide a higher average revenue per ad for REA.

Combined, a mature property market delivers more growth for REA.

ASX code REA

Price \$68.25
52wk ▲ \$71.59
52wk ▼ \$45.50
Mkt cap \$9bn
Dividend 91¢
Dividend yield 1.3%
PE ratio 43.64

BUY

2 TradeMe

TradeMe recently fell 7% in a single day on the back of a broker report that downgraded its prospects amid an expectation that Amazon will enter the New Zealand market after it is established in Australia.

The note suggests that, to compete with Amazon Prime, TradeMe will need to come up with an "all-you-can-eat" freight offer that will need to be partly subsidised. It also suggests that a loss of share will feed into the virtuous circle for Amazon and adversely impact TradeMe's classifieds and advertising revenues.

We don't disagree that Amazon is likely to increase its market share in New Zealand. But we note that even if TradeMe never sold a single new product again from tomorrow, its earnings before interest and tax would fall by just 13%, which now appears to be more than factored into the share price.

ASX code TME

Price \$4.55
52wk ▲ \$5.70
52wk ▼ \$4.16
Mkt cap \$1.8bn
Dividend 16.5¢ (2017)
Dividend yield 3.6%
PE ratio 22.68

HOLD

3 Carsales

In a relatively mature car market, Carsales impresses with its ability to continue to grow while maintaining impressive rates of return on equity. For 2017 revenue grew by 8% and EBITDA by 4%. The core business, excluding Stratton Finance, increased revenue by 13% and EBITDA by 7%.

While profit margins were slightly weaker, this was due to the faster growth of lower-margin businesses such as Tyresales and RedBook Inspect. Importantly, the Stratton business returned to growth in the second half and experienced a strong fourth quarter, perhaps leading the company to provide guidance of "solid" growth in 2018.

Current prices are somewhat demanding for Carsales shares. Longer-term investors need to consider the impact of autonomous electric vehicles on a car classifieds business.

ASX code CAR

Price \$13.24
52wk ▲ \$13.94
52wk ▼ \$9.57
Mkt cap \$3.2bn
Dividend 40.2¢
Dividend yield 3%
PE ratio 29.16

HOLD

Prices as at close of business, 18-Aug-17.