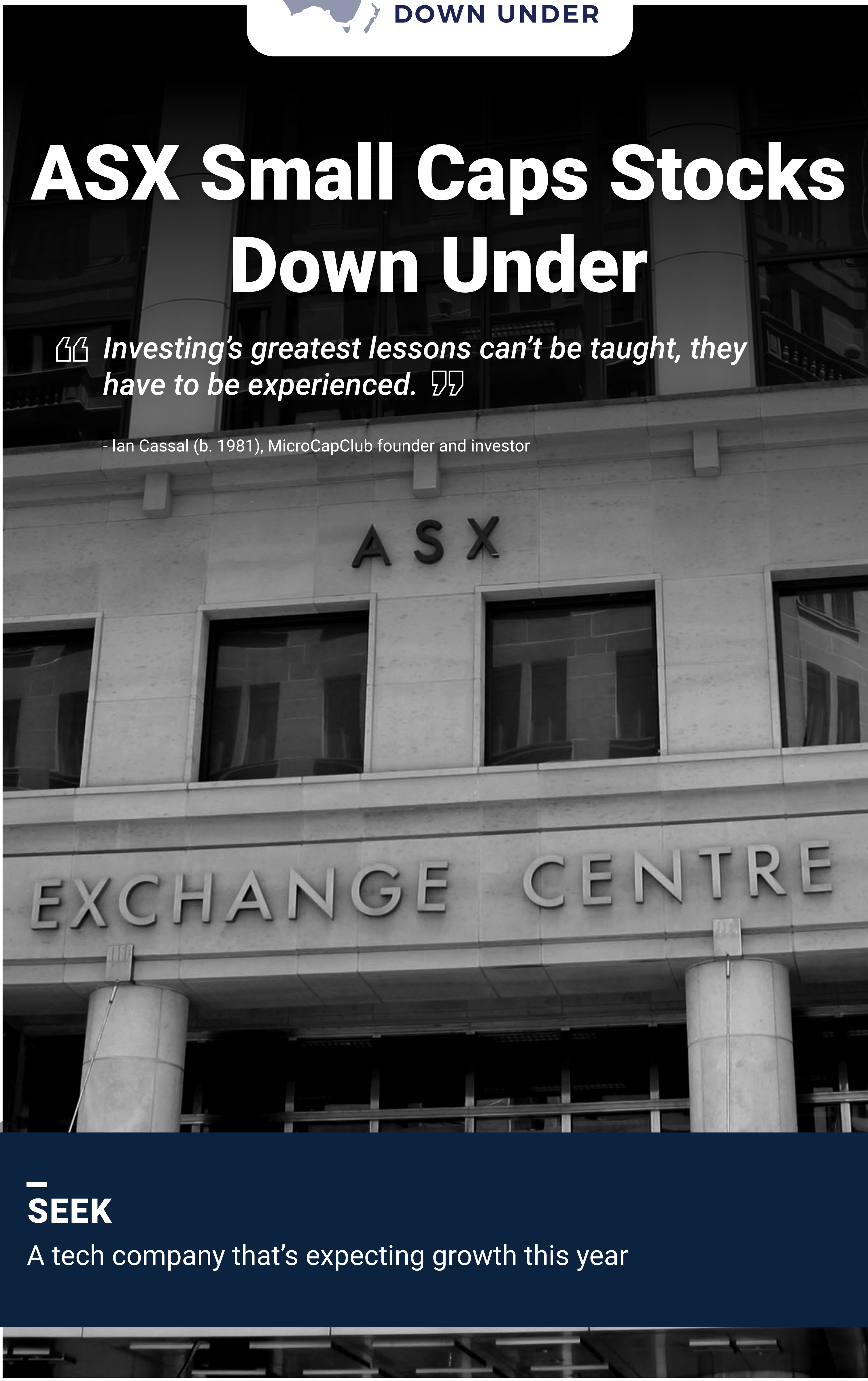
STOCKS DOWN UNDER

9 JAN 2023

ASX Small Caps Stocks Down Under

"Investing's greatest lessons can't be taught, they have to be experienced."

- Ian Cassal (b. 1981), MicroCapClub founder and investor



SEEK

A tech company that's expecting growth this year

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Stocks Down Under rating: ★★★★

ASX: SEK
Market cap: A$7.4BN

52-week range: A$18.78 / A$32.61
Share price: A$20.90

Not many tech companies are expected to produce earnings growth in FY23, but online employment marketplace Seek (ASX:SEK) is one of them. We admit that this company is not formally categorised as a tech company by the ASX, it is 'Media and Entertainment' instead. But we think it is difficult to argue that this company is not a tech company. And perhaps it is in the right place at the right time.

Share price chart

Source: Tradingview

A global footprint

Seek is a provider of online employment classifieds in over 18 countries globally. It runs multiple websites, including the Seek website (covering Australia and New Zealand) JobStreet, Catho and Occmundial. The company makes money from prospective employers that pay to have their advertisements on the site. Seek also has a stake in the Seek Growth Fund that has interests in two companies - Chinese job seeker website Zhaopin and recruiting software company JobAdder. After several years of sitting under Seek's corporate umbrella, the Growth Fund now operates independently, albeit still owned by the parent company.

Seek was founded in 1997 by Matt Rockman, Paul Bassat and Andrew Basset. Only Andrew remains on the company's board today, although he has stood aside as CEO and handed the reigns to ex-CBA boss Ian Narev. Seek was listed on the ASX in April 2005 with a market capitalisation of $587m, a figure that has grown to $7.5bn nearly 18 years on.

Benefiting from the re-opening of the economy

FY21 and FY22 have been solid years for Seek as the economy re-opened from pandemic hibernation. During FY22, the company made $1.1bn in revenue (up 47%) and $509.1m in EBITDA (up 53%). The company's NPAT from continuing operations amounted to $245.5m and was up 81% from FY21, although statutory NPAT from total operations was $168.8m, down 78% from the year before.

The latter set of numbers takes account of discontinued operations, including Zhaopin and the Seek Growth Fund, both of which won't be reflected in future results. This is because Zhaopin has been largely sold down by Seek, while the Seek Growth Fund will operate as a standalone business. Seek paid a dividend of 44c per share for FY22, reflecting a payout of 85% of cash NPAT less capex, implying a yield of 2.1%.

Seek has issued FY23 guidance of $1.25-$1.3bn in revenue (up ~16%), $560-$590m in EBITDA (up 13%) and $250-$270m NPAT (up 6%). This guidance assumed that largely positive economic conditions continue and that costs were in line with expectations.

For FY23, consensus estimates call for $1.2bn in revenue (up 11%), $562.3m in EBITDA (up 10%) and EPS of $0.72c (up 4%). For FY24, the market expects $1.3bn in revenue (up 4%), $605m in EBITDA (up 7%) and $0.79 in EPS (up 10%). Seek is trading at FY23 multiples of 15.7x EV/EBITDA, 29.3x P/E, 1.6x EV/EBITDA-to-EBITDA growth and 1.4x PEG. Although these multiples suggest the company's pricing is on the expensive side, maybe investors are getting what they pay for. The median share price target among the 15 analysts covering the stock is $26.54, nearly a 25% premium to Friday's closing price of $20.90.

There are risks, but some of them could also be an opportunity

We think the biggest risk with Seek is macroeconomic conditions. A deterioration in macroeconomic conditions would inevitably lead to a fall in jobs on the platform, and the company's revenues and earnings as a consequence. Seek's shares fell by nearly two thirds between October 2007 and March 2009, between the ASX's pre-GFC peak and its GFC low. During the Corona Crash, in February and March 2020, Seek suffered a 40% share price plunge.

But even if a recession hits us in the next 12 months, we don't think Seek's share price will be as significantly impacted as during the GFC and Corona Crashes, because of the current tight labour market relative to those eras. We actually think a deterioration in the labour market may present opportunities for Seek to buy assets at lower prices. The company exploited the GFC to start buying into JobStreet, a move that gave the company its first major step into the broader Asia-Pacific region. Notwithstanding those two potentially mitigating factors, we still think investors should be aware of this risk.

We see three further risks to Seek. Firstly, a cyber-attack, which would likely impact the company worse than Medibank considering its global reach and higher user base. Secondly, high industry competition. Unlike some comparable ASX companies that have the market virtually to themselves, such as REA (ASX:REA), Seek faces competition from other platforms, such as LinkedIn, CareerOne and Indeed. And thirdly, the tight labour market could be something that impacts Seek itself, making it difficult to attract and retain staff.

Set to outperform

We're giving Seek four stars. Although there is uncertainty as to how economic conditions will fare in 2023, we think Seek will not be significantly impacted given the tightness of the labour market. We also take heart from the company's long-term operating history as well as the company's guidance for growth and recent reiteration of the guidance.

We will admit that this isn't a company you would buy if you wanted a completely recession-proof investment. But if past downturns are any guide, the company should be able to pick itself up off the ground from any impact.

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