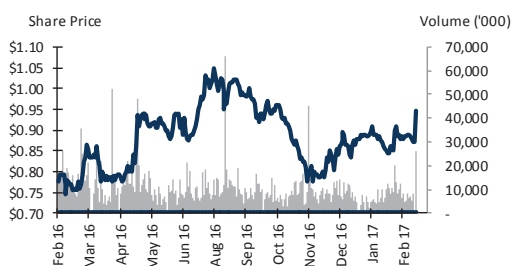




Fairfax Limited (FXJ) - Buy

Likely Restructuring and Divestments Can Extract Significant Value

Recommendation	BUY
Previous	BUY
Risk	High
Price Target	\$1.40
Previous	\$1.44
Share Price (A\$)	0.94
ASX Code	FXJ
52 week low - high (A\$)	\$0.72-\$1.06
Capital structure	
Shares on Issue (M)	2,309.4
Market Cap (A\$M)	2,171
Net Debt/(Cash) (A\$M)	125
EV (A\$M)	2,296
Fully diluted mkt cap (A\$M)	2,171
12mth Av Daily Volume ('000)	10,447
Board	
Nick Falloon	Chairman
Patrick Allaway	Non-Executive Director
Jack Cowin	Non-Executive Director
Greg Hywood	CEO
Sandra McPhee	Non-Executive Director
James Millar	Non-Executive Director
Linda Nicholls	Non-Executive Director
Mickie Rosen	Non-Executive Director
Todd Sampson	Non-Executive Director
Major Shareholders	
Ausbil	7.7%
Schroders	5.1%
Perennial Value	5.1%
Legg Mason	5.1%
SAS Trustee	4.9%
Dimensional	4.9%
Henderson	4.9%
Share Price Graph	



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 The analyst owns no shares in FXJ.

Talking Point mostly discusses stocks for which Foster Stockbroking does not provide formal research coverage. It combines both the dealing desk's market view and basic research analysis. The aim is to offer clients additional investment ideas that lie outside the firm's universe of formally covered stocks. Occasionally, some stocks under formal research coverage will also be discussed in Talking Point.

Event:

- **1H17A results were in-line with expectations. FXJ is trading at the lower-end of our valuation, limited downside.**

Analysis:

- **We value total Domain operations at \$2.4 billion**, including premium plus listings (\$800m), property market leads opportunity (\$350m) & legacy operations (\$1.3bn). See figure 1. Whilst property listings have been weak for the last 12 months, we are anticipating an improvement in the near-to-medium term. With price increases (+20%, 1st Jan), increasing premium listings penetration & possibly improving national footprint, all bodes well for upgrades to Domain's earnings down-the-track.
- **Digital ventures & untapped verticals. Likely hidden gems include:** motoring, SVOD, food, health, travel, baby, jobs, RSVP, Huffington Post Australia (JV), Allure Media & Skoolb. An immediate focus is new cars (Drive/112 JV) & Stan. We value FXJ's portion of Stan at \$195m. Stan is likely to be cash flow break-even in FY18E (+700k active subscribers).
- **One day print advertising will stabilize:** We await the day there is a moderation in the decline of print advertising (to c.1-2%), but it is not likely in the next 6 (or 12 mths). Today a decline of 10-15%. FXJ again reiterated that they will look to cut costs in publishing (MM/ACM). So far FXJ management are ahead of the curve on managing the publishing cost base. FXJ is open to the sale of its regional media operations (\$260m: our valuation) & it is possible that Metro Media could realize cost savings by merging with a FTA provider (possibly NEC).
- **We view the planned merger with NZME, positively** since it appears they are likely moving towards utilizing audience numbers to monetize online business opportunities, among other things. FXJ management indicated they would own a controlling c.45% stake, plus cash. The Commerce Commission ruling is likely in mid March. We value FXJ's NZ operations at \$290m. Synergies of any merger, may be as high as NZ\$70m.

Earnings, Valuation & Recommendation:

- **FXJ's share price is trading at the bottom-end of our valuation & we see limited downside at these levels.** With the recent planned demerger of Domain, FXJ's share price has broken outside its core trading range of \$0.80-\$0.95. At these levels, FXJ is a likely acquisition candidate.
- **On a sum of the parts basis, we value FXJ at \$1.40 per share.** The current share price of \$0.95 appears well under-pinned & fails to reflect any additional wins in its transition to a new world organization.
- **We recommend FXJ as BUY.** The option value of one, two or three successes in certain verticals/investments is likely to provide material upside to the current share price, in time. Property vertical is the 'jewel in the Crown' today.
- **Net debt today is \$125m.** We would not be surprised to see MRN stake be sold (\$99m) as well as ACM. We believe a number of initiatives are occurring in the background, and as with any large established organization, it cannot be rushed.