

30 August 2021

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Wesfarmers Limited

Retailing

UNDERPERFORM

WES A\$63.96 **TARGET PRICE A\$53.38**

Wesfarmers Ltd. provides fresh food, groceries, general merchandise, liquor, fuel, and financial services. It engages in the operation of supermarkets; department stores; home improvement and office supplies; coal production and export; chemicals, energy, and fertilizers; industrial and safety products.

Company Data

Number of shares	1,133.8 M
Market Capitalisation	\$ 72,520.4 M
Free float (%)	99.0
12-month high/low	\$66.06/\$43.73
Average Daily Turnover (\$m)	94.8
% S&P/ASX200	3.45%
DDM Ranking	327
% All Ordinaries	2.95%
GICS Industry Group	Retailing

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	33,941.0	33,508.7	34,840.9	37,512.2
EBITDA (\$M)	5,049.0	5,204.4	5,426.3	5,954.6
Reported NPAT (\$M)	2,380.0	2,354.8	2,507.6	2,651.4
Adjusted NPAT (\$M)	2,421.0	2,361.6	2,491.4	2,651.4
Reported EPS (c)	210.4	205.0	217.7	233.8
Adjusted EPS (c - FD)	214.1	208.2	220.1	233.8
Adjusted EPS growth (%)	24.9	-2.6	5.8	6.4
Adjusted P/E (x)	29.9	32.0	30.2	28.5
Dividend (c/sh)	178.0	190.0	195.7	215.2
Gross yield (%)	1.9	4.2	4.4	4.8
Net yield (%)	2.8	3.0	3.1	3.4
ROIC (%)	13.8	13.6	14.1	13.7

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

Share price performance.



Source: FactSet, Barclay Pearce Capital

FY21 Year End Financial Results

On 27th August, Wesfarmers Ltd (WES) announced their results for the full year ended 30 June 2021 with the following highlights:

- Statutory net profit after tax (NPAT) of \$2,380million for the full-year ended 30 June 2021;
- NPAT from continuing operations, excluding significant items, increased 16.2 per cent to \$2,421 million;
- Operating cash flows of \$3,383 million were 25.6 per cent lower than prior year, with strong earnings growth offset by the normalisation in working capital position across the retail business following the favourable but temporary balances recorded at the end of the 2020 financial year;
- WES maintained significant balance sheet flexibility during the year to support continued investment across the Group while addressing ongoing uncertainty. The Group recorded a net cash position of \$109 million at the end of the year;
- The Directors have determined to pay fully-franked final ordinary dividend of 90 cents per share reflecting the strong NPAT result and Wesfarmers' dividend policy of distributing franking credits to shareholders;
- The final dividend brings total fully-franked ordinary dividends for the full year to 178 cents per share;

Outlook

- COVID-19 continued to impact the Group's operations and financial results;
- The Group maintained many of the important measures implemented in the prior year to protect the health and safety of customers, team members and suppliers, and continued to support efforts to limit the spread of COVID-19;
- Officeworks' sales for the 2022 financial year to date declined 1.5 per cent, driven by the impact of elevated sales in the prior corresponding period due to customers establishing spaces to work and learn at home;
- Catch's gross transaction value for 2022 financial year to date to decline 8.5 per cent as the business cycled the significant shift to online channels in the prior corresponding period;
- The performance of the Group's industrial businesses will continue to be subject to international commodity prices, foreign exchange rates, competitive factors and seasonal outcomes.
- Wesfarmers will continue to support the health response and vaccination efforts, including among the tram members and in local communities; and
- A new Managing Director has been appointed to lead the development of a data and digital ecosystem, from November 2021; and
- To support this initiative, operating expenditure of approximately \$100 million is expected to be incurred over the next 12 months.

Earnings changes

For FY21, WES reported NPAT of \$2,380M, which compares to market expectations of \$2,336.7. Hence, we do not expect any significant earning revisions for the future periods.

Valuation

We are updating our target price from \$46.53 to \$53.38 and maintaining our UNDERPERFORM recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

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employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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Valuation Methodology

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Barclay Pearce Capital Recommendation Proportions

Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)