Reporting Season

CommSec

WESFARMERS LIMITED (WES)

15 AUGUST 2018

RESULTS	Full Year 2018	Full Year 2017	CHANGE
Revenue (continuing operations) ($m)	66,883.0	64,913.0	+3.0%
Coles Revenue ($m)	39,388.0	39,217.0	+0.4%
EBIT ($m)	4,288.0	4,402.0	-2.6%
EBIT Consensus ($m)	4,232.0		
Net Profit after Tax (NPAT) including discontinued operations ($m)	1,197.0	2,873.0	-58.3%
Bloomberg Consensus ($m)	2,781.0		
Final Dividend ($)	1.20	1.20	n/a

Wesfarmers Ltd (WES) profits slide on write-downs and one-off costs

- **Wesfarmers (WES)** posted a 58.3% slide in net profit to $1,197m for the year to 30 June 2018 and was weighed down by $1.4bn in write-downs and charges as it navigates a period of transition and change. Its **underlying profit** (which strips out one-off costs) was a touch ahead of eight analyst forecasts surveyed by Bloomberg and improved most across its Department Stores business, while Officeworks and Bunnings Australia & NZ profits also rose.

- WES had a number of one-off costs and write-downs partly linked to its simplification process which weighed on the bottom line. The group announced plans to spin-off its **Coles Supermarkets** chain by Nov 18 in addition to selling its **coal interests**. While the Coles demerger is still subject to shareholder approval, it intends to retain a 15% stake in the chain and would create a separate top 30 company on the ASX and comes 11 years after its purchase. In early August 18, WES agreed to sell its 40% stake in a **NSW coal mine** (Bengalla) which it said should boost profits by $670-$680m in FY19. In May, WES agreed to sell its **245 Bunnings pilot stores in the UK and Ireland** for an undisclosed amount following a review to avoid further capital investment. The sale resulted in a $1,657m loss. WES announced its agreement to sell its **Kmart Tyre and Auto Service Unit** to Continental AG for A$350m earlier this week and expects a $270-$275m pre-tax gain on the sale.

- **Home Improvement (Bunnings Australia & New NZ)** posted a 12.7% lift in underlying earnings to $1.5bn over the year. Store-on-store growth in sales (not including new store openings) rose by 8.9%. WES said it is “well-positioned for continued growth”.

- **Coles’** underlying profits fell 6.8% to $1.5bn which was largely impacted by a slide in earnings from its Convenience business due to softer fuel sales. A year earlier, earnings were also boosted by a one-off gain on a property sale and higher Financial Services earnings. Its Food & Liquor operations enjoyed a modest lift in revenue and sales growth while being held back partly by modest price deflation.

- **Department Stores’** performance stood out over the year, with profits surging 21.5%. This was driven by double-digit growth in transactions at Kmart. The gains were attributed to strong sales growth, improved inventory management and productivity improvements in stores & supply chain. It recorded a $306m impairment charge linked to Target. **Officeworks**’ earnings rose 8.3% thanks to sales growth in stores and online. Six new stores were opened while a new two-hour click and collect service was introduced.

- WES will be paying eligible investors a fully franked $1.20 per share **final dividend** on 27 September, totalling $1,361m and will trade ex-dividend on 20 August. It currently has a dividend yield of around 4.4% and recently said it does not expect its distribution policy to change post Coles demerger. **Looking ahead**, no specific guidance was provided for 2019.