News Release

2016 Half-year Results

23 February 2016

Financial highlights

Half-year ended 31 December 2015	Variance to pcp
Reported	
Operating revenue of $33.5 billion	*4.7%*
Earnings before interest and tax of $2,110 million	*1.6%*
Net profit after tax of $1,393 million	*1.2%*
Earnings per share of $1.24	*2.6%*
Return on equity (R12) of 10.0 per cent (from continuing operations[1] and excluding NTIs[2])	*30 bps*
Return on equity (R12) of 10.0 per cent	*(40) bps*
Interim dividend (fully-franked) per share of $0.91	*2.2%*

Wesfarmers Limited has reported a net profit after tax (NPAT) of $1,393 million for the half-year ended 31 December 2015, an increase of 1.2 per cent on the prior corresponding period. Earnings per share rose 2.6 per cent, and return on equity (R12) from continuing operations[1] and excluding NTIs[2] increased 30 basis points to 10.0 per cent.

Managing Director Richard Goyder said strong performances across the Group's retail portfolio supported continued earnings growth in a period in which low commodity prices provided a significant headwind for the Group's Resources business.

"The Group's retail portfolio delivered a strong increase in earnings before interest and tax (earnings or EBIT) of $176 million or 9.2 per cent during the half supported by good Christmas seasonal trading in all businesses," Mr Goyder said. "Investment in customer value, store network improvement and better merchandise offers and service drove increased earnings across the retail portfolio. Overall, return on capital for the retail portfolio improved strongly as a continuing focus on capital efficiency further leveraged the earnings growth recorded.

"Due largely to a substantial decline in revenue in the Resources business, and despite a continued strong focus on cost reduction, earnings across the Industrials division were $158 million lower. The Resources business was impacted by lower export coal prices and $70 million of currency hedge book losses. Depressed conditions across the resources sector also adversely affected earnings in the Industrial and Safety business. The Chemicals, Energy and Fertilisers business performed well in this environment, achieving a solid increase in earnings through strong plant performances, reduced gas input prices and an initial contribution from the Group's interest in Quadrant Energy.

"Cash realisation and free cash flow generation remained strong for the half with working capital well managed. Consistent with the growth in earnings per share, the interim dividend has been increased two cents per share to 91 cents per share."

[1] Discontinued operations for the 12 month period to 31 December 2014 included the Insurance division's contribution of $121 million and $82 million of pre-tax and post-tax earnings respectively.

[2] NTIs for the 12 month period to 31 December 2014 include $196 million of post-tax earnings (which include a $939 million gain on disposal of the Insurance division, a $677 million non-cash impairment of Target's goodwill and a $66 million Coles Liquor restructuring provision).

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Group results summary

Half-year ended 31 December ($m)	2015	2014	Variance %
Key financials			
Revenue	33,462	31,970	4.7
EBITDA	2,749	2,657	3.5
EBIT	2,110	2,076	1.6
NPAT	1,393	1,376	1.2
Return on equity (R12, %) (from continuing operations[a] and excluding NTIs[b])	10.0	9.7	30 bps
Return on equity (R12, %)	10.0	10.4	(40) bps
Cash flow			
Operating cash flow	2,404	2,281	5.4
Net capital expenditure	675	899	(24.9)
Free cash flow	1,665	1,269	31.2
Cash realisation ratio (%)	118.3	116.6	170 bps
Share data (cents per share)			
Earnings per share	124.2	121.0	2.6
Operating cash flow per share (wanos, incl. res shares)	213.9	200.1	6.9
Interim ordinary dividend	91	89	2.2
Capital management distribution (paid)	-	100	(100.0)
Balance sheet and gearing			
Net debt	6,108	5,139	18.9
Interest cover (cash basis) (R12, times)	19.3	18.1	6.6
Fixed charges cover (R12, times)	3.0	3.1	(3.2)

[a] Discontinued operations for the 12 month period to 31 December 2014 included the Insurance division's contribution of $121 million and $82 million of pre-tax and post-tax earnings respectively.

[b] NTIs for the 12 month period to 31 December 2014 include $196 million of post-tax earnings (which include a $939 million gain on disposal of the Insurance division, a $677 million non-cash impairment of Target's goodwill and a $66 million Coles Liquor restructuring provision).

Divisional earnings summary

Half-year ended 31 December ($m)	2015	2014	Variance %
EBIT			
Coles	945	895	5.6
Home Improvement & Office Supplies	760	668	13.8
Department Stores	393	359	9.5
Industrials	22	180	(87.8)
Divisional EBIT	**2,120**	**2,102**	**0.9**
Other	(10)	(26)	61.5
Group EBIT	**2,110**	**2,076**	**1.6**

Performance overview - divisional

Coles

Earnings before interest and tax (earnings or EBIT) at Coles increased 5.6 per cent to $945 million for the half on revenue growth of 3.1 per cent. Food and liquor recorded sales growth of 6.0 per cent.

“The good momentum in Coles’ food and liquor business continued during the half,” Mr Goyder said. “Food and liquor revenue grew $937 million, driven by investing benefits from operational simplification and supply chain efficiencies into better value for customers and improvements in service, particularly over the Christmas period. Coles continued to make improvements in its fresh offer, resulting in increased transaction volumes and basket size.

“The transformation of Coles Liquor was further progressed with encouraging signs, and over the period included work on price investment, range simplification and store network optimisation. Despite lower fuel volumes and average fuel price, the convenience business produced a solid result, supported by strong growth in store sales.”

Home Improvement and Office Supplies

Bunnings’ earnings increased 13.4 per cent to $701 million on revenue growth of 10.9 per cent.

“Bunnings produced another very strong result in the half,” Mr Goyder said. “Bunnings’ results reflect the broad strength of its offer and solid execution of its strategic agenda. Sales uplifts were achieved in both consumer and commercial areas following the delivery of more value to customers, merchandising improvements and extended brand reach through growth in the store network and further digital enhancements.”

As previously disclosed, the Group entered into an agreement to acquire Homebase, the second largest home improvement and garden retailer in the United Kingdom and Ireland. Subject to completion, the Group expects the acquisition to provide a long-term value creation opportunity for Bunnings that will complement the strong growth trajectory of its Australian and New Zealand business.

Officeworks’ earnings of $59 million were 18.0 per cent higher for the period, with revenue growth of 9.1 per cent.

“Officeworks continued its good record of strong growth in earnings and return on capital,” Mr Goyder said. “Officeworks’ results included growth across every channel, driven by improvements in store layouts, the introduction of new merchandise categories and further investments in both its business-to-business offer and digital platform.”

Department Stores

“The Group has also announced a restructure of its department store businesses into a newly created Department Stores division,” Mr Goyder said. “This restructure will enable Kmart and Target to maximise and share opportunities where appropriate while maintaining and growing these iconic Australian brands.”

Kmart’s earnings grew 10.4 per cent to $319 million on revenue growth of 12.6 per cent.

“Kmart’s strong result, which included a significant increase in return on capital, was delivered through a continued focus on range improvement, cost control and inventory management,” Mr Goyder said. “Further investment in customer value, store network refurbishment activity and new stores also supported sales and earnings growth.”

Target’s earnings of $74 million were 5.7 per cent higher, with revenue up 1.9 per cent.

“Customer transactions and unit volumes grew during the half as Target invested further in lowering prices for customers as part of its ‘first price, right price’ strategy,” Mr Goyder said. “Target made sound progress across its strategic agenda, particularly in the areas of SKU reduction, higher levels of direct sourcing and supply chain overhaul. New format store trial performance was encouraging.”

Industrials

"The operating environment for the Group's Industrials division was challenging for the half due to further falls in commodity prices and lower mining investment and industrial business activity," Mr Goyder said.

Earnings for the Chemicals, Energy and Fertilisers business (WesCEF) of $104 million were up 9.5 per cent.

"Earnings growth in WesCEF was driven by improved contributions from ammonia and ammonium nitrate, a strong turnaround in Kleenheat due to lower gas feedstock costs and a contribution from the Group's interest in Quadrant Energy," Mr Goyder said. "Overall, the chemicals and fertilisers businesses performed solidly, supported by plants operating at capacity and increased customer demand. Results from this good performance were partially offset by a significantly lower result in Australian Vinyls due to $30 million of one-off costs associated with the decision to cease PVC manufacturing."

The Industrial and Safety business recorded earnings of $36 million, $14 million lower than the prior corresponding period.

"In the Industrial and Safety business, high levels of sales and margin pressure were experienced in the half as a result of depressed resources conditions, which included customers focusing very strongly on cost control, and also higher costs of goods sold due to a lower Australian dollar," Mr Goyder said. "In an effort to step change business productivity and sales performance, a significant business restructure was commenced late in the half. While longer term benefits are expected, up-front restructuring costs of approximately $35 million are expected from this activity, $5 million of which was incurred in the half."

The Resources business recorded a loss of $118 million, $153 million lower than the prior corresponding period, with coal production 4.2 per cent lower.

"Despite efforts to reduce mining costs, earnings in the Resources business were adversely affected by further declines in export coal prices and an unfavourable sales mix as customers sought lower quality metallurgical coal," Mr Goyder said. "In addition, after a number of years of positive contribution, the division recorded a $70 million currency hedge book loss for the period, which largely offset the benefit of a lower Australian dollar."

Other businesses and cash flows

Other businesses and corporate overheads reported a net expense of $10 million for the period, compared to an expense of $26 million in the prior corresponding period. Within this result, corporate overheads of $67 million were broadly in line with last year.

Operating cash flows of $2,404 million were $123 million higher, with a good cash realisation ratio of 118.3 per cent recorded.

Marginally lower retail store network investment and higher proceeds from the sale of retail property resulted in gross capital expenditure of $1,059 million being 12.3 per cent lower than the same time last year and net capital expenditure of $675 million being 24.9 per cent lower.

Free cash flows of $1,665 million were 31.2 per cent above the prior corresponding period. Strong cash flow generation, along with earnings growth, supported the declaration of an increase in the interim dividend to 91 cents per share fully-franked.

Outlook

Across the Group, with the exception of mining and resources-related areas, the Group continues to remain generally optimistic in its outlook. The Group's retail businesses have good sales momentum and are well positioned in an environment where consumers are expected to remain value-conscious and manage household budgets carefully.

In strongly competitive markets, the performance of the Group's retail businesses is expected to be supported by an ongoing focus on delivering further value, better service and improved ranges for customers. Strategies will also focus on merchandise innovation, supply chain productivity, digital engagement and store network improvement. For Bunnings, while changes in the competitive environment may result in short-term volatility of trading margins, the longer term outlook remains positive.

Through the newly created Department Stores division, the Group will seek to leverage, where practicable, more streamlined coordination across functions to realise benefits now available given the considerable work completed in recent years to improve the Kmart and Target businesses.

The short-term outlook for the Group's Industrials division remains challenging. Low export coal prices, locked-in currency hedge book losses and production impacts due to wet weather in January and February 2016 provide for a very difficult short-term outlook for the Resources business. In this environment, the Resources business will maintain a very strong focus on cost and capital control, and the Group continues to look at all options to maximise shareholder value from this business.

The outlook for the WesCEF business is generally positive but remains subject to plant performance and seasonal conditions. Volume and margin declines are expected to stabilise for the Industrial and Safety business, although earnings in the second half will be adversely affected by further costs of transformation work.

At a Group level, the balance sheet and cash flow generation are expected to remain strong, supported by continued capital discipline. Wesfarmers remains well positioned to take advantage of growth opportunities should they arise, including through reinvestment in growth pipelines which continue to arise in each of the Group's businesses. The Group will also continue to seek to optimise the portfolio where satisfactory returns to shareholders can be delivered.

For further information:

More detailed information regarding Wesfarmers' 2016 half-year results can be found in Wesfarmers' 2016 Half-year Report.

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