

Woolworths Group ^{WOW}

Company Snapshot is designed to provide information on a stock's core operations, summarise its key financial information, and present its earnings and dividend track record. It does not contain an investment recommendation, valuation or price target.

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Company Snapshot

Profile: Woolworths Group (WOW) is an Australian-based company that operates businesses such as Woolworths Supermarkets and Big W nationwide, and the Countdown Supermarkets in New Zealand. Other operations include Hotels and Liquor (Endeavour Drinks) – through brands such as Dan Murphy's and BWS – as well as other wholesale businesses.

History: Woolworths Stupendous Bargain Basement opened in Sydney's Imperial Arcade on 5 December 1924. In 1929, WOW opened its first store in New Zealand. In 1976, the first Big W store opened in NSW. WOW listed on the ASX in 1993. In April 2019, WOW completed the sale of its Petrol business for c.\$1.7bn.

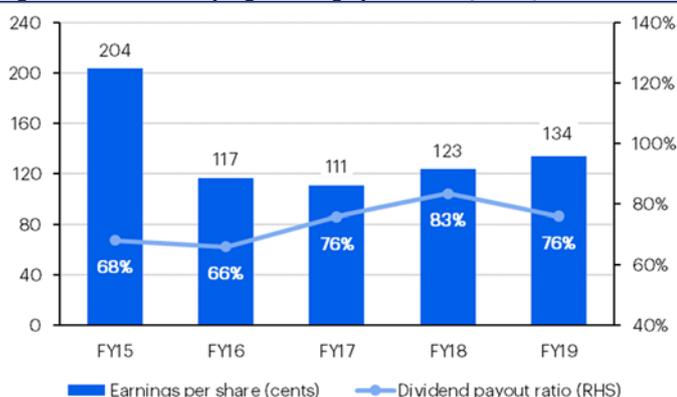
Earnings composition: Australian Food generated \$1.9bn, or 68%, of FY19 EBIT (Earnings Before Interest and Tax). New Zealand Food and Endeavour Drinks generated EBIT of A\$277m (10%) and \$474m (17%) respectively. Hotels reported EBIT of \$261m (10%). BIG W reported a loss before interest and tax of \$85m (-3%). The Other segment, which includes overheads and discontinued operations, reported a \$60m (-2%) loss.

Most recent result – FY19: EBIT from continuing operations was \$2.7bn, up 7% on the prior corresponding period. This was primarily driven by Australian Food EBIT, which grew 5.7% to \$1.9bn, with improved sales momentum in 2H19 benefitting from successful campaigns including Disney Words and Earn & Learn. NPAT from continuing operations was up 7.2% on the pcp to \$1.8bn. EPS from continuing operations was 134 cents, up 8.8% on the pcp. A \$0.57 dividend was declared, bringing total dividends for FY19 to \$1.02 – largely in line with the \$1.03 cents (including a \$0.10 special) declared in FY18. WOW also distributed approximately c.\$1.7bn via an off-market buy-back following the sale of its Petrol business.

Company outlook: WOW intends to merge its Endeavour Drinks and ALH Hotels businesses to form a combined business called Endeavour Group (see figure 8), subject to approvals. It then intends to separate Endeavour Group from Woolworths through a demerger or "value-accretive alternative."

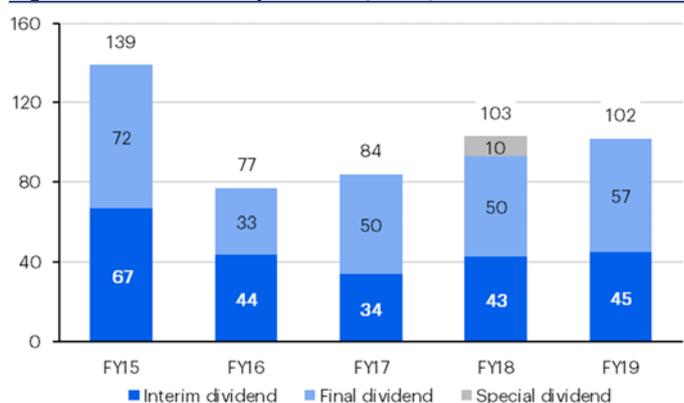
Important dates: Ex-dividend date is 3 September 2019. Payment date is 30 September 2019. 1Q20 results scheduled for 30 October 2019. AGM is scheduled for 16 December 2019. 1H20 results scheduled for 26 February 2020.

Fig.1: WOW – underlying earnings per share (cents)



Source: Company reports

Fig.2: WOW – dividend per share (cents)

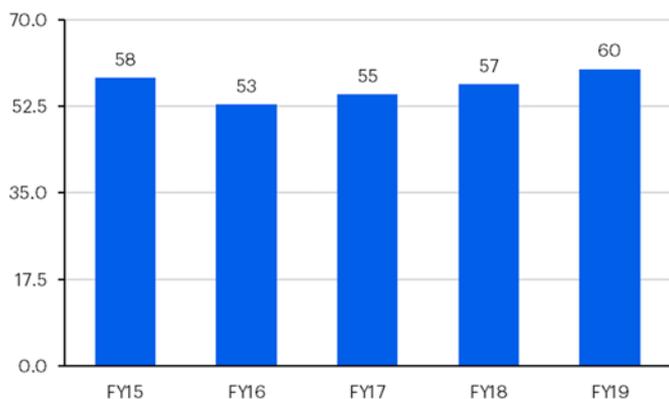


Source: Company reports

Company snapshot

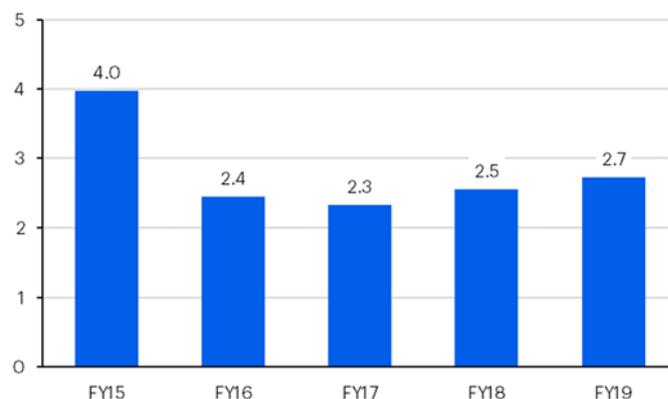
Group revenue and EBITDA performance

Fig.3: WOW – total revenue (A\$bn)



Source: Company reports

Fig.4: WOW – underlying EBIT (\$bn)



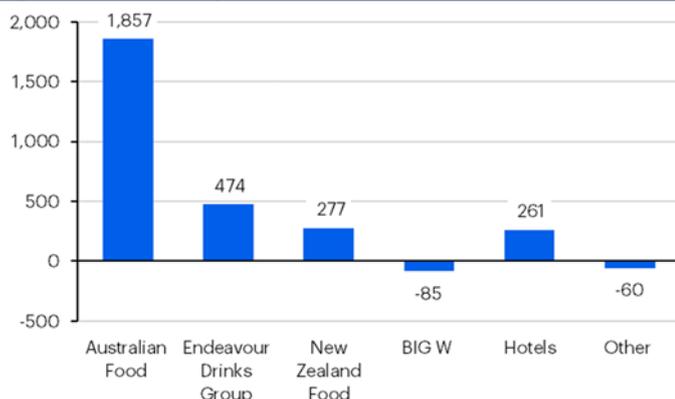
Source: Company reports

Divisional description and revenue model

- Australian Food (68% FY19 EBIT):** Operates 1,024 Woolworths supermarkets across Australia. EBIT increased 5.7% on the pcp. FY19 had 53 retail weeks, so normalising (on a like-for-like basis) for the extra week, EBIT grew 3.8% on the pcp. Sales increased 5.3% on the pcp to \$39.6bn, or 3.3% on a normalised basis.
- NZ Food (10%):** Operates Countdown supermarket stores in NZ. Countdown also operates wholesale distribution centres, processing plants and a central support office. EBIT grew 5.6% on the pcp (1.0% – normalised and constant currency). Sales increased 6% on the pcp to A\$6.3bn (2.4% – normalised and CC).
- Endeavour Drinks (17%):** Endeavour Drinks is a drinks retailer with brands including Dan Murphy's, BWS, Cellarmasters and Langtons. EBIT declined 8.2% on the pcp, or 9.7% on a normalised basis.
- BIG W (-3%):** Big W is a department store that sells general merchandise at discount prices. It operates across 183 locations in Australia. The EBIT was -\$85m in FY19, an improvement on the \$110m loss reported in FY18.
- Hotels (10%):** WOW operates licensed bars, dining, gaming, accommodation and venue hire under the Australian Leisure and Hospitality (ALH) Group across 328 Australian locations. Its brands include Grazier's Steakhouse and Nightcap Hotels. FY19 EBIT was \$261m, which was largely in line with FY18 EBIT (\$259m). On a normalised basis there was a 0.5% decline.

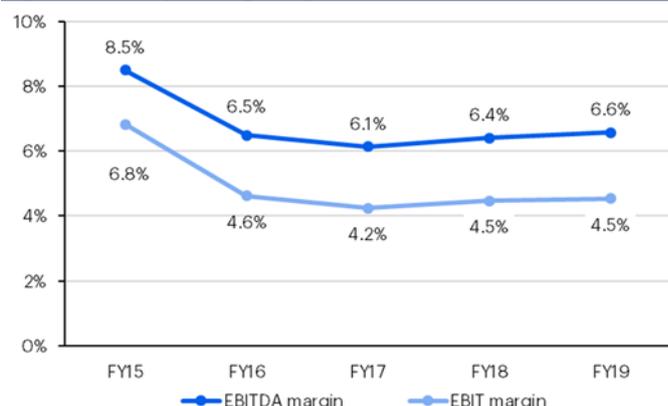
For WOW, the most relevant measure of earnings is EBIT, defined as Earnings Before Interest and Tax

Fig.5: WOW – EBIT by division (FY19 – A\$M)



Source: Company reports

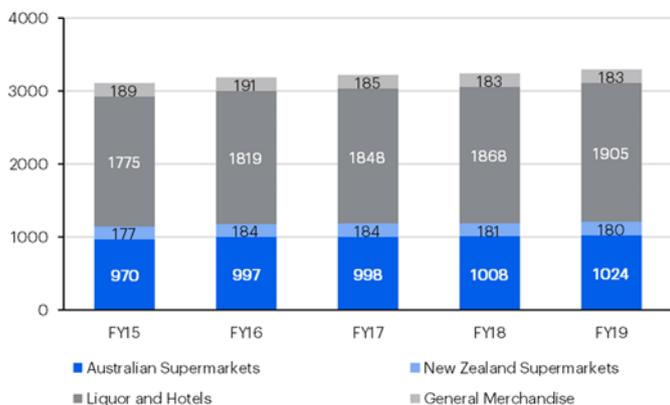
Fig.6: WOW – operating margins



Source: Company reports

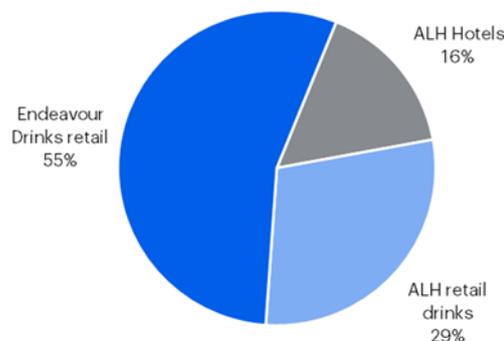
Operational metrics

Fig.7: WOW – total store network



Source: Company reports

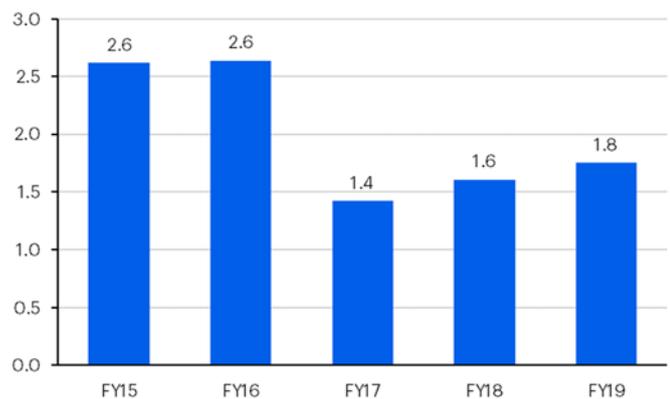
Fig.8: WOW – Endeavor Group revenue by segment



Source: Company reports. *In WOW's FY19 results, Endeavour Drinks retail and ALH retail drinks are reported as "Endeavour Drinks", ALH Hotels is reported as "Hotels".

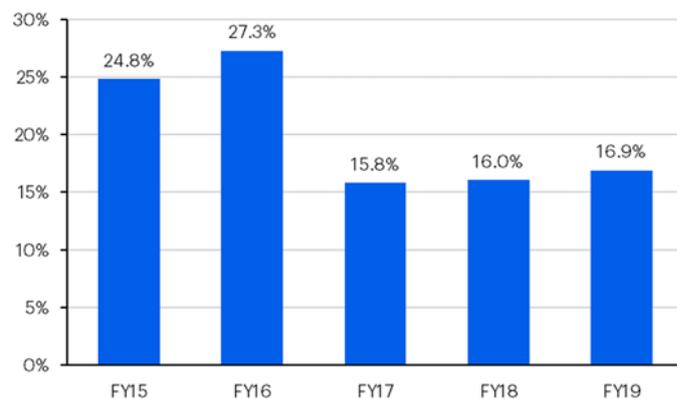
Net profit and return on equity

Fig.9: WOW – net profit (A\$bn)



Source: Company reports.

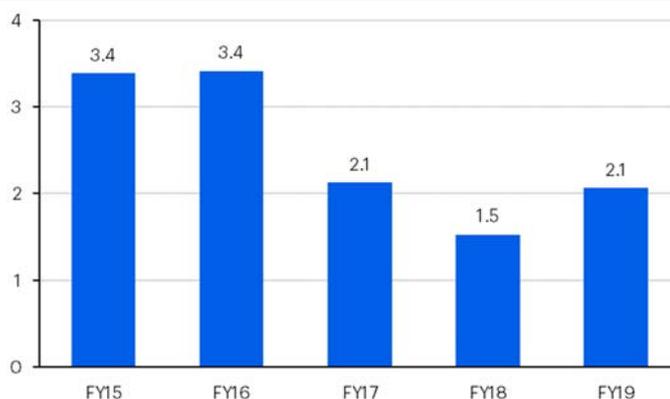
Fig.10: WOW – return on average shareholders' equity (%)



Source: Company reports

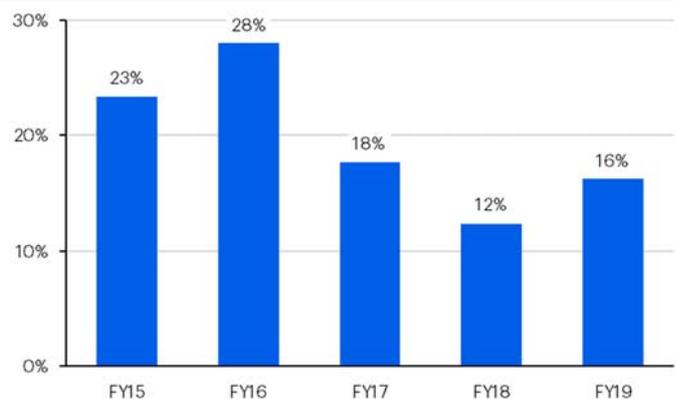
Balance sheet

Fig.11: WOW – net debt position (A\$bn)



Source: Company reports

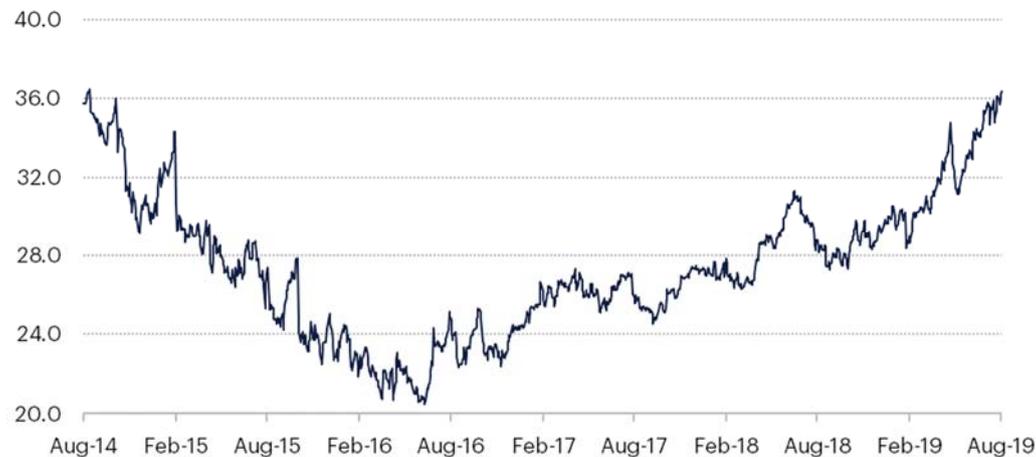
Fig.12: WOW – gearing ratio (net debt / net debt + equity)



Source: Company reports

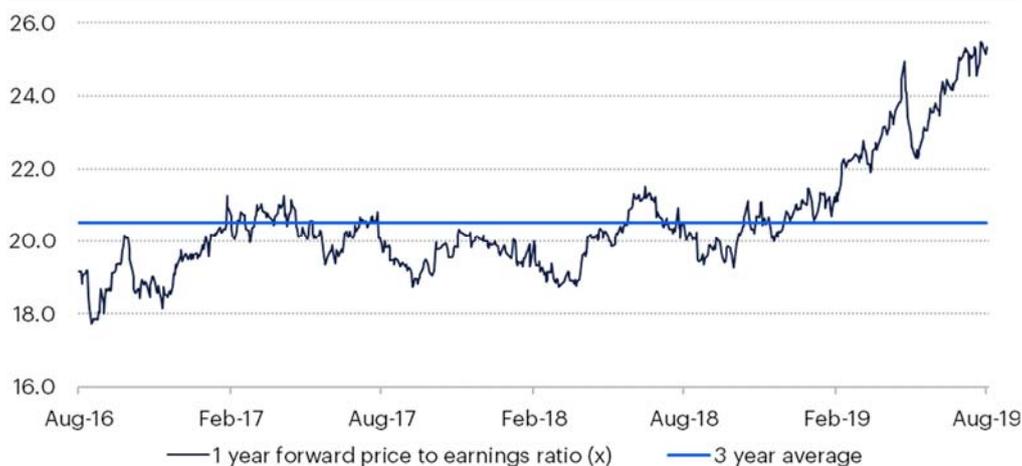
Share price and valuation

Fig.13: WOW – share price (A\$)



Source: Bloomberg

Fig.14: WOW – one-year forward price to earnings ratio (consensus estimates)



Source: Bloomberg

Fig.15: WOW – one-year forward dividend yield (consensus estimates)



Source: Bloomberg

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