



INCOME

RECOMMENDATION



**Woolworths
Group**

WOW:ASX
November 2024

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INCOME RECOMMENDATION

Woolworths Limited WOW:ASX

Woolworths Group is Australia's largest supermarket chain and a leading retail group in Australia and New Zealand.

The company operates 995 Woolworths supermarkets in Australia, 191 Countdown supermarkets in New Zealand, and 176 BIG W discount department stores.

Woolworths also has growing e-commerce, loyalty program, financial services, and data analytics businesses.

The company's core food and grocery retail operations account for over 70% of group revenue. Woolworths has been expanding its digital capabilities, with e-commerce sales now representing over 11% of Australian food sales. The company's Everyday Rewards loyalty program has over 13 million members and provides valuable customer data.

Woolworths is also growing its B2B food distribution business through its majority stake in PFD Food Services.

The company has been investing heavily in supply chain automation and last-mile delivery to improve efficiency and meet growing online demand.

Woolworths' scale and extensive store network provide it with significant competitive advantages in the Australian grocery market. The company is focused on providing value and convenience to customers while expanding its digital and data capabilities.



INVESTMENT CONSIDERATIONS

Leadership

Amanda Bardwell took over as CEO in September 2024 after 23 years with the company, most recently leading the digital and e-commerce division. Her deep experience across Woolworths' operations and focus on digital transformation position the company well for future growth.

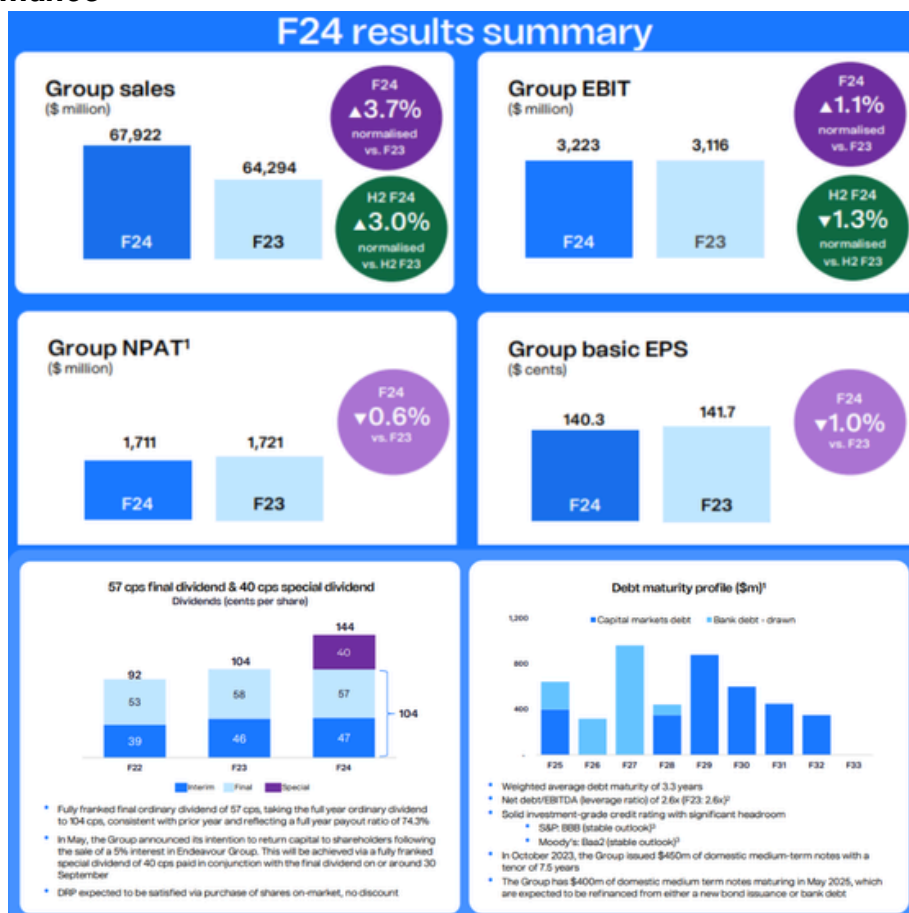
The management team has an average tenure of 5.3 years, providing stability and continuity. Bardwell has outlined clear priorities focused on improving in-store execution, rebuilding customer trust, and accelerating growth in e-commerce and data analytics.

The board is led by Chairman Scott Perkins, who has extensive experience in corporate advisory and investment banking.

The leadership team's priorities include improving value perception among customers, optimizing the store network, and leveraging data and digital assets to drive growth. Woolworths has a strong track record of developing talent internally, with Bardwell's appointment continuing this tradition.

The company's decentralized operating model empowers local management while maintaining group-wide efficiency. Overall, Woolworths has an experienced and stable leadership team well-positioned to navigate the evolving retail landscape

Financial Performance

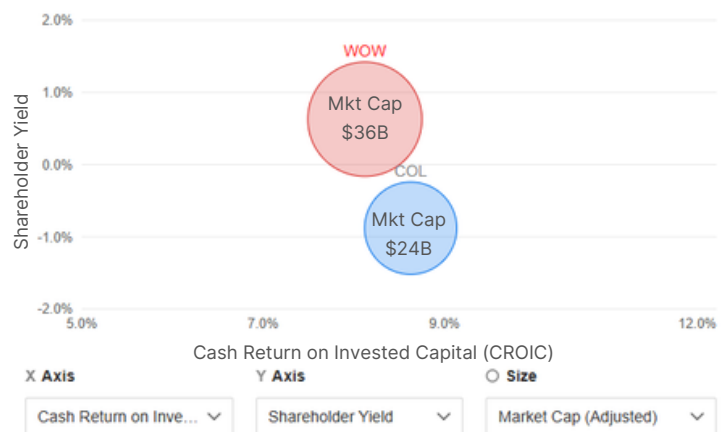


INVESTMENT CONSIDERATIONS

Valuation

Woolworths trades at a forward P/E of 23.7x, in line with its 5-year average of 24x. We believe this valuation is justified given the company's dominant market position, strong cash flows, and growth potential in e-commerce and data analytics. Our discounted cash flow model yields a 12-month price target of \$40.00, implying 12.7% upside from the current share price of \$35.50. The company offers an attractive forward dividend yield of 4.3%, with a payout ratio of 74% of earnings. Woolworths has a strong track record of dividend growth, having increased its dividend for 8 consecutive years. The company's strong balance sheet, with net debt/EBITDA of 2.6x, provides flexibility for future growth investments and capital returns. Woolworths trades at a premium to international peers, which we believe is warranted given its market-leading position and growth prospects. The company's return on invested capital of 15.7% demonstrates its ability to generate attractive returns on growth investments. While near-term earnings growth may be modest due to cost pressures and investments, we expect accelerating growth in FY26 and beyond as digital initiatives scale and productivity improvements are realized.

- Net income is expected to grow this year
- RSI suggests the stock is in oversold territory
- Prominent player in the Consumer Staples Distribution & Retail industry
- Has maintained dividend payments for 32 consecutive years



Sociological Factors

As Australia's largest private employer with over 200,000 employees, Woolworths has significant societal influence. The company has committed to sustainability, reducing emissions and food waste, and shaping industry practices around ethical sourcing and supporting local suppliers. Woolworths' Everyday Rewards program influences millions of Australians' shopping habits. The company plays a vital role in Australia's food security and disaster response. Its pricing power and supplier relationships have faced increased scrutiny. Woolworths invests in community support initiatives and is moving towards automation, which may impact retail employment. The company's data collection practices raise privacy considerations. As a major agricultural buyer, Woolworths' sourcing decisions significantly affect farmers and regional communities. Overall, the company's scale and reach result in wide-ranging societal implications.

RISKS

Key risks for Woolworths include:

1. Intense competition from Coles, Aldi, and potential new entrants like Amazon. Increased price competition could pressure margins.
2. Regulatory scrutiny of supermarket industry practices and pricing. Potential adverse regulatory outcomes could impact profitability.
3. Execution risk around digital transformation initiatives and supply chain automation projects.
4. Margin pressure from rising costs, particularly labor and energy, in an inflationary environment.
5. Potential for food safety incidents or product recalls that could damage brand reputation.
6. Cybersecurity and data privacy risks given the company's large customer database.
7. Foreign exchange risk related to imported products and New Zealand operations.
8. Changing consumer preferences towards alternative grocery formats or online-only retailers.
9. Weather-related supply chain disruptions impacting fresh food availability and pricing.
10. Potential impairments to goodwill or fixed assets, particularly in the underperforming Big W business.

WHY HOLD THE COMPANY?

Investors should own Woolworths shares for the following reasons:

1. Dominant market position in Australian grocery retail provides defensive earnings and strong cash flows.
2. Attractive and growing dividend yield of 4.3% with potential for further growth.
3. Significant growth potential in e-commerce, which now accounts for 11% of sales and is growing rapidly.
4. Upside from data analytics and loyalty program monetization through the Everyday Rewards program.
5. Potential for further productivity gains and margin expansion through supply chain automation and digital initiatives.
6. Track record of returning capital to shareholders through dividends and buybacks.
7. Experienced management team with a clear strategy focused on digital transformation and customer-centricity.
8. Potential for earnings growth acceleration in FY26 and beyond as investments in digital and supply chain initiatives bear fruit.
9. Defensive characteristics provide resilience during economic downturns.
10. Exposure to Australia's growing population and long-term food consumption trends.

Woolworths offers investors exposure to Australia's resilient grocery sector with upside from its digital initiatives. The company's scale, strong balance sheet, and consistent cash flows provide downside protection, while investments in e-commerce and data analytics offer avenues for future growth. We recommend investors buy WOW shares at current levels.

Disclaimer



Our Commitment

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