



Dornbusch Partners

Stock of the Week

Background

Wesfarmers Ltd (WES)

Date: 15 December 2011

Wesfarmers is a diversified company with retail, Coal, Insurance and Chemical and Fertiliser divisions. Their retail division consists of Coles, Kmart, Target, Bunnings, Officeworks and First Choice. The Acquisition of the Coles Group in 2008 effectively doubled the size of the business. Coles was a poorly run business. From a low base, WES have double the earnings since 2008 and increased earnings by 21% last FY. Bunnings and Officeworks are also growing with their earnings up by 10.2% and 8.1% respectively last FY.. Kmart and Target performed less spectacularly with earnings up 4% for Kmart and earnings lower for Target. This confirms what we have been saying recently that niche retail will outperform "all things to all people". Recent expansion of the Curragh and Bengalla mines have seen earnings increase 120% due to higher coal prices albeit record rainfall affected production and increased costs.

Consensus Estimates

	2011	2012	2013
EPS (cents)	166.3	224.2	234.3
DPS (cents)	150.0	189.0	203.0
P/E	18.5x	13.7x	13.1x
Yield	4.9%ff	6.1%ff	6.6%ff

Outlook

WES recently informed the market of \$190m non cash write down to its Coregas business as a result of renegotiated contracts with Blusecope (BSL). WES made \$1.9bn after tax last financial year. We believe that WES will continue to grow the business through their retail, coal and insurance businesses to compensate for this write down. Earnings growth for WES is forecast for around 20% pa over the next couple of years.

Why Dornbusch Partners likes the business?

We believe that the world will be going through a period of limited growth for the next 3-5 years. We are looking for companies with sustainable and increasing earnings. We prefer WESN over WES as they are partially price protected. Contact your advisor to discuss the difference between the 2, but briefly, the WESN will convert to WES in less than 4 years most likely at a premium of up to 25% subject to certain market conditions. They pay the same dividend and have the same voting rights as WES.



Snapshot

Market Cap	\$31bn
Share Price (as at 14.11.11)	\$30.70
12 mth high	\$35.26
12 mth low	\$26.04
Debt/equity	25%
Return on Equity	8%

This report is general in nature and should not be taken as personal professional advice. Readers should seek their own independent assessment from a qualified advisor and not rely on the general nature of information in this stock report. Dornbusch Partners Directors and staff may hold shares in the above company.

Dornbusch Partners Pty Ltd (ABN 68 107 237 196) is a holder of an Australian Financial Services Licence (AFSL No. 277493). (effective 1 October 2004). John Dornbusch, Andrew Wielandt, John Gouldson, Dan Marks, Michael Doherty, Bob Kratzmann, Jason Ward and Mark Cecil (effective 5 September 2011) are all authorised representatives of Dornbusch Partners Pty Ltd.

Dornbusch Partners Pty Ltd

ABN 68 107 237 196
AFSL 277493

PO Box 3360 Toowoomba Qld 4350

Phone: 07 4639 2588 Fax: 07 4639 3905 Email: admin@dp.net.au