Wesfarmers Limited

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NEWS

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Wesfarmers reports strong third quarter result

The directors of Wesfarmers Limited today announced a strong result for the nine months ended 31 March 2002, with operating profit increasing 61 per cent over the previous period to $281.3 million. Operating profit (before goodwill amortisation) was $340.3 million, an increase of 88 per cent on the $180.8 million earned in the corresponding period last year. The operating revenue of $5.4 billion was 79 per cent higher than last year's $3.0 billion.

These results include the earnings and revenue of Howard Smith's hardware and industrial safety business from August 2001. All key business units recorded increased earnings and revenues over the comparative period last year.

Group results for the nine months include profit after tax of $9.5 million from the sale of non-current assets compared with $8.3 million in the corresponding period last year.

The group's earnings per share (before goodwill amortisation) of 96.8 cents for the nine months were up 44 per cent on the 67.4 cents earned in the corresponding period last year. Cashflow per share of 142.4 cents was also higher than last year's 109.8 cents.

Hardware

Operating revenue for the Bunnings hardware merchandising business increased to $2.3 billion in the period, 122 per cent higher than in the comparative nine months. Earnings (before goodwill amortisation) of $222.0 million were 99 per cent higher than in the corresponding period last year.

Strong sales were achieved in all regions and the business recorded a buoyant Easter retail trading period in March. Sales to the home building industry were also strong during the last quarter.

The integration of the Bunnings and BBC/Hardwarehouse businesses has progressed substantially and the Australian operation is now running on a single core information system. Attention is being given to the integration of the New Zealand operations and to ensuring that full synergy benefits are delivered.

The Hardwarehouse branding changes are expected to be completed by October 2002 and a programme to complete the BBC branding and merchandising changes is underway. The store rationalisation programme is expected to result in three Hardwarehouse and 24 traditional BBC store closures by 30 June. Because of the focus on integration, only seven new warehouse stores will be opened this financial year, but in future years openings should return to 10 to 12 per annum.

The outlook for the balance of the financial year remains positive for both retail and trade sales.

Energy

Operating revenue of the energy segment increased marginally to $712.1 million in the nine months. Earnings (before goodwill amortisation) of $173.0 million were 24 per cent higher than the $139.4 million recorded in the comparative nine months last year, due to strong growth in coal earnings.

Coal

Earnings from the Premier mine in Western Australia were slightly ahead of budget and of those in the corresponding period last year. A satisfactory resolution of the contract volume dispute with Premier's main customer has been achieved.

Sales volumes from the Curragh mine in Queensland were above budget and 21 per cent above those of last year. Earnings increased significantly from the comparative period last year due to increased selling prices and higher export volumes. Preliminary works at the Curragh East deposit are progressing well, with infrastructure work completed and the initial box cut underway. Some minor delays were experienced with the upgrade to the Curragh coal preparation plant, which is now due to be commissioned in August 2002.

Sales volumes from the Bengalla coal mine in New South Wales, in which Wesfarmers has a 40 per cent interest, were below budget and last year's as a result of continuing weak demand and strong competition in major export markets accompanied by reduced domestic sales. Sales revenue and earnings were also below budget but above last year's due to improved prices.

The outlook for coking coal for the full year is positive with a strong shipment schedule and prospects of a favourable outcome on annual price negotiations in Japan. Export steaming coal sales volumes and prices remain under pressure.

Gas

Domestic LP gas sales volumes and revenue were ahead of budget but below last year's due to autogas demand being weaker than expected. Budget and prior year comparisons are both impacted by timing and reporting issues associated with the commencement of the Unigas autogas joint venture in August 2001.

Export sales volumes were above budget and last year's but weaker international LP gas prices resulted in revenue and earnings being below budget and those of last year.

Enhancements to the operation of the LP gas plant in Kwinana continued in the quarter following the recent plant expansion to 330,000 tonnes per annum. Sales volumes continued to improve in the 55 per cent owned Bangladesh LP Gas business with in excess of 50 dealers now appointed nationwide.

During the quarter StateWest Power continued to pursue regional power generation opportunities and Kleenheat increased its shareholding in the entity to 76 per cent.

Full year earnings from the gas operations are dependent upon both international price trends and local demand in the early winter months, but are expected to remain below budget and last year's.

Industrial and safety

The industrial and safety product distribution businesses – Blackwoods, Protector, Alsafe, NZ Safety – reported operating revenue of $760.0 million and earnings (before goodwill amortisation) of $61.0 million for the eight months, from August 2001.

Although satisfactory, revenue and earnings were slightly below expectations due to tough trading conditions in a few specialist business sectors and marginally lower than expected sales of industrial products in New South Wales.

The recently acquired Atkins Carlyle and Protector Safety Supply operations have been integrated into the existing businesses, resulting in synergy benefits in line with expectations.

It is envisaged that subdued trading conditions will remain for the balance of the financial year but the earnings outlook for the industrial and safety business remains positive.

Rural services and insurance

Operating revenue from the rural services and insurance business for the nine month period was $1.13 billion, 54 per cent above the comparative figure of $0.73 billion last year. Earnings (before goodwill amortisation) of $49.3 million were 33 per cent above last year's $37.0 million. The increase in earnings reflects generally positive trading conditions across major areas of activity and the contribution from the IAMA business acquired in February 2001.

Merchandise and fertiliser sales rose by 68 per cent, with synergy benefits from the IAMA acquisition influencing this result. Apart from wool, which has been impacted by lower production levels, all other activity areas achieved higher revenue and gross profit results, with the livestock and real estate operations performing strongly.

The outlook for most rural commodities remains positive, although world cotton prices are at low levels. Provided there is a generally widespread autumn break, another large wheat crop is forecast. These factors, along with continuing strong demand for livestock, will contribute to a year-end result for Wesfarmers Landmark in line with expectations and above last year's.

Premium revenue for Wesfarmers Federation Insurance grew by 18.8 per cent for the nine months as a result of new business growth and retention of existing business at above-budget levels. Although crop insurance claims were higher than anticipated, the business has performed to expectations. Assuming normal conditions for the balance of the year, the insurance activity is expected to record a result slightly better than budget.

Fertilisers and chemicals

Operating revenue of $293 million from the group's fertilisers and chemicals business for the nine months was nine per cent higher than in the corresponding period last year. Earnings of $34.3 million were 48 per cent above last year's $23.2 million.

Fertiliser sales into the local Western Australian market were five per cent above last year. Sales to Eastern States fertiliser companies during the quarter resulted in total fertiliser despatches for the nine months being 10 per cent above last year. The rationalisation of superphosphate production facilities continued during the quarter. The Esperance plant ceased production and it was announced that the Bunbury plant would be shut in March 2003. Both locations will continue to operate as regional distribution centres. The earnings outlook for the full financial year is dependent upon the break of the season in Western Australia.

Overall sales volumes of the company's chemicals products were 19 per cent higher than in the corresponding nine months last year. Ammonia volumes were 15 per cent higher whilst ammonium nitrate sales increased by 32 per cent. Sales revenue from all chemical activities were above budget.

Construction of the solid sodium cyanide plant by the 75 per cent owned Australian Gold Reagents progressed during the period. The plant is on schedule to commence operations in the first quarter of next financial year.

Despite good demand, production problems at the Queensland ammonium nitrate joint venture resulted in earnings for the period being below budget.

Overall earnings from the fertilisers and chemicals division for the full financial year are expected to be above both budget and those of last year.

Other operations

Operating revenue of the forest products business, Sotico Pty Ltd, in the nine months was slightly below budget but earnings were above budget. The rationalisation of its activities and stock levels is progressing well. Earnings for the full year are expected to be above budget but below last year's.

Although revenues for the period from the 50 per cent owned Australian Railroad Group were above budget, earnings were below budget due to retrenchment payments made or provided for in respect of employee number reductions and costs associated with the recent bid for National Rail Corporation and Freightcorp. The full year outlook remains positive.

Outlook

The directors remain confident about the prospects and outlook for the group.

At the time of the second quarter profit announcement the directors stated that they expected the company's 2001/2002 after tax profit to exceed the $379 million forecast made at the time of the Howard Smith acquisition. This remains the case.

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