Wesfarmers Limited
A.C.N. 008 984 049
NEWS

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Wesfarmers tops $200 million

The directors of Wesfarmers Limited today announced a record after-tax profit (before abnormal items and goodwill amortisation) of $201.8 million for the financial year ended 30 June 2000, nine per cent higher than last year's comparative result of $184.8 million. On a post-goodwill amortisation basis, the year 2000 after tax profit before abnormal items was $194.5 million compared with $177.5 million in 1999, a 10 per cent increase.

In the 2000 year, the group earned a return on shareholders funds (before abnormal items and goodwill amortisation) of 16.6 per cent, ranking it amongst the leading Australian listed companies.

Increased earnings were recorded by the hardware, forest products, energy, rural and insurance businesses, with reduced contributions from the fertilisers/chemicals segment and transport.

The group also recorded an abnormal gain of $12.5 million arising from the restatement of tax timing differences due to changes in corporate tax rates effective from 1 July 2000 and 1 July 2001. Last year a net abnormal profit of $1.9 million was recorded. The bottom line profit for 2000 was thus $207.0 million compared with $179.4 million in 1999.

The 1999/2000 result included profit after tax of $19.8 million from the sale of an investment and other non-current assets. This compares with a profit of $27.6 million earned last year from non-current asset disposals.

The group's earnings per share of 75.7 cents (before abnormal items and goodwill amortisation) was five per cent higher than last year's 71.9 cents. Cash flow per share of $1.20 (before abnormal items) was above the $1.16 recorded last year.

Total operating revenue of $3.5 billion was 12 per cent above last year's $3.1 billion, or 17 per cent after adjusting last year's figure for abnormal revenue of $79 million from the sale of warehouses to the Bunnings Warehouse Property Trust and $65 million from the sale of shares in SGIO Insurance Limited. More relevantly, sales revenue of $3.4 billion increased by 19 per cent over last year.

Final dividend

In line with the company's current policy of maintaining a dividend payout ratio of 100 per cent of after-tax profit, the Wesfarmers directors have declared a fully-franked final dividend of 48 cents per share (last year 42 cents per share), payable on 26 October 2000. This lifts the full-year distribution to 73 cents per share compared to last year's 67 cents per share.

The directors have also reinstated the company's dividend investment plan as a result of higher group gearing. New shares issued under the plan will be at a discount of 2.5 per cent to market which was the same rate that applied prior to the plan's suspension in August 1999.

Finance

Cash outflows of $234 million on investments (up from $85 million last year) included the acquisition of the Queensland Curragh coal mine, announced in May 2000. Of the total $198 million Curragh acquisition price, $158 million was paid on settlement in June 2000. The remaining $40 million is payable upon final approval of the Curragh East mining lease which is expected to occur prior to the end of this calendar year. The investment cash flows were offset by reduced expenditure on property, plant and equipment (down from $352 million last year to $189 million this year) as major development projects that commenced in prior financial years were progressively completed.

The share buy-back scheme announced in August 1999 resulted in the repurchase of about 8.8 million Wesfarmers shares during the year at a cost of $108 million (at an average $12.24 per share), representing about 3.3 per cent of the company's ordinary shares. This programme was terminated by the company in May 2000 at the time of the Curragh coal mine acquisition.

The net effect of these cash flows was an increase in the group's ratio of net debt to equity from 36.3 per cent last year to 67.3 per cent at 30 June 2000.

Net interest cover on a cash basis of 18.9 times was lower than last year's 23.0 times, but remains well above the group's minimum target of four times.

Further details of contributions made by each of the operating businesses to group results are set out below.

Hardware and forest products

Operating revenue of this group business segment increased by 28 per cent to $1.5 billion in 1999/2000. Earnings before interest and tax of $140.0 million were 41 per cent higher than the $99.1 million earned last year.

The Bunnings hardware retailing business recorded another outstanding year with sales 34 per cent higher than in 1998/99 and earnings which were 41 per cent above last year. During the year, nine new warehouse stores were opened, expanding the national chain to 39. Warehouse stores now account for 77 per cent of total Bunnings hardware sales compared to last year's 68 per cent, with individual stores in their second, third or fourth year of operation maintaining their strong year-on-year sales growth.

The Bunnings national warehouse rollout programme is expected to see a further 10 stores opened in 2000/2001, with a higher number likely to be opened in the following year.

The Sotico forest products business recorded significantly improved results in 1999/2000 with higher timber sales to all markets. House building activity in Western Australia increased during the year improving overall demand for structural timbers in the lead up to the introduction of GST. International hardwood timber sales were 25 per cent higher than in the previous year and interstate sales increased by 22 per cent, with strongest growth experienced in Victoria and South Australia.

Gas and coal

The operating revenue of $589 million from the group's gas and coal operations was 25 per cent higher than last year's figure of $472 million. Higher gas and coal sales were recorded by existing businesses and revenue from the Bengalla, New South Wales coal operations reflected the ramp up in production. Earnings before interest and tax of $107.5 million were 10 per cent higher than the $97.9 million earned last year.

Domestic gas sales volumes were in line with last year, with strong results in bulk and cylinder sales offset by shortfalls in some major autogas markets. Earnings were adversely affected by record high international LP gas prices which depressed both demand and margins. Appliance sales increased by two per cent following the launch of the Gas House franchise.

Export sales of 159,000 tonnes of LP gas were lower than last year's 187,000 tonnes mainly due to a scheduled four week shutdown together with higher domestic demand on available production volumes. The lower sales volume was offset by record international prices and a favourable Australian dollar exchange rate which resulted in improved earnings.

Sales of 3.8 million tonnes of coal in 1999/2000 from the Collie Premier mine were 31 per cent higher than last year, with most of the increased volume supplied under contract to Western Power's new Collie power station. Earnings, however, were in line with last year due to lower selling prices and adverse winter conditions.

The Bengalla open-cut coal mine in the Hunter Valley in New South Wales was officially opened in July 1999. Sales of three million tonnes were achieved, with a positive, above-budget contribution to group earnings. Wesfarmers holds a 40 per cent interest in the Bengalla mine.

The purchase of the 4.5 million tonne per annum Curragh coal mine in Queensland's Bowen Basin was finalised on 26 June 2000.

Fertilisers and chemicals

Operating revenue of $403 million from the group's fertilisers and chemicals operations was four per cent below last year's figure of $420 million. Earnings before interest and tax of $45.1 million was significantly below last year's result of $61.4 million.

Total fertiliser despatches of 1.1 million tonnes were nine per cent above last year's figure but a change in the product mix this year resulted in higher deliveries of lower margin products. Demand for single superphosphate fertilisers remained low but sales of CSBP's premium range of cropping fertilisers remained firm on the strength of a record 1999 Western Australian grain harvest of over 12 million tonnes. Fierce competition and globally depressed prices for commodity fertilisers, however, led to severe margin pressure and a significantly lower profit contribution from this business.

Sales of chemical products in 1999/2000 were, in total, three per cent below last year. The production and sales of ammonium nitrate were lower than last year due to a boiler failure in the nitric acid plant coupled with lower demand and competitive market conditions. Delays in the completion of the new Kwinana ammonia plant resulted in the substitution of imported product with lower margins. Demand for sodium cyanide remained flat throughout the year, reflecting the continuation of depressed gold prices which were at 20-year lows. The net result was a profit contribution from the chemical business which was in line with last year.

Rural and insurance

Operating revenue of Wesfarmers Dalgety, including Wesfarmers Federation Insurance, increased by 12 per cent to $848 million with most of the growth in merchandise sales. Earnings before interest and tax increased by 72 per cent from $23.3 million last year to $40.1 million this year.

Merchandise sales established new records in 1999/2000, despite lower than expected results in Western Australia; the result of a dry autumn which delayed the start of seeding. There has been a significant improvement in wool and cattle prices reflected in increased throughput and revenue in those segments of the Dalgety business. The real estate and rural finance businesses also recorded improved results in 1999/2000.

Wesfarmers Federation Insurance achieved a major profit turnaround as a result of good premium income growth and a more normal claims year although crop claims were higher than budgeted.

Transport

Operating revenue of the group's transport business was in line with last year although mixed results were recorded in the market segments in which it operates. The business recorded sound growth in logistics services and express freight, with a reduction in revenue in freight services. Bulk haulage operations in Western Australia have continued to be affected by reduced activity in the mining and resource sectors.

The overall profit contribution from the transport operations was lower than budgeted.

Outlook

The directors expect continued growth in revenue and earnings in the 2000/2001 financial year.

The Bunnings hardware warehouse chain is expected to continue to generate strong sales and profit growth with a further 10 warehouse stores to be opened in the next year.

House building activity is expected to decline in the post GST period affecting the Sotico forest products business, but the level of interest in value added jarrah products from international markets is encouraging and higher export sales will partly offset the expected downturn in the local market.

The company's gas activities are anticipating another year of growth following the restructure of the Kleenheat business and progress in market development initiatives such as the "Gas House" retail franchise concept and diesel substitution. The results for this division will also be affected by the level of international LPG prices.

The acquisition of the Queensland Curragh mining operation will lift earnings from the group's coal business in 2000/2001. The Bengalla, New South Wales mine is also expected to make an increased contribution in its second full year of operations. The Premier mine at Collie in Western Australia will continue to make a solid contribution to group results.

The outlook for the CSBP fertilisers and chemicals business is positive with the development of business strategies which will address the evolving market conditions. The new Kwinana ammonia plant and the Queensland nitrates plant are now both producing satisfactorily and are expected to make increased contributions to earnings in 2000/2001.

Wesfarmers Dalgety is expected to benefit from an environment of improved agricultural commodity prices and lower operating costs and is budgeting for a further increase in profit in 2001.

The Wesfarmers Transport business is budgeting for increased revenue and profit this year although this sector will continue to experience challenging market conditions.

Notwithstanding a significant rise in interest costs as a result of increased borrowings, the company is budgeting for a satisfactory increase in group profitability in the 2000/2001 year.

The directors are confident that the significant investments in new projects made by the company in recent years together with an ongoing focus on financial performance will continue to deliver satisfactory investment returns to the company's shareholders.

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