

WOOLWORTHS GROUP LTD

FACT SHEET

NOVEMBER 2024

I A M
INCOME ASSET
MANAGEMENT

Issuer Outline

Woolworths Group Limited offers retail operations. The Company operates general merchandise consumer stores and supermarkets, as well as engages in procurement of food, liquor, and products. Woolworths Group also provides hotels which includes pubs, food, accommodation, and gaming operations. Woolworths Group serves customers in Australia and New Zealand.

Sector:	Consumer, Non-cyclical
Sub-Sector:	Food
Country:	AU
Ownership:	Public

Key Performance and balance sheet metrics

FY (30 June)	FY24	FY23
Group Sales	67,922	64,294
<u>Group EBIT</u>		
Aust. Food (\$m)	3,110	2,865
NZ Food (\$m)	100	228
Big W (\$m)	14	145
Aust. B2B (\$m)	122	63
Group EBITDA before significant items (\$m)	6,001	5,694
CFO (\$m)	4,359	4,754
Normalised cash realisation ratio (CRR)	97%	113%
Group net capex (\$m)	2,214	2,134
Net debt (\$m)	3,280	2,680
Lease liabilities (\$m)	12,144	11,980
Net debt (inc. lease liabilities)/EBITDA (x)	2.6	2.6
Weighted ave debt maturity (years)	3.3	3.3

Issuer Credit Rating & Outlook

Agency	Rating	Outlook
S&P	BBB	STABLE
Moody's	Baa2	STABLE
Fitch	-	-

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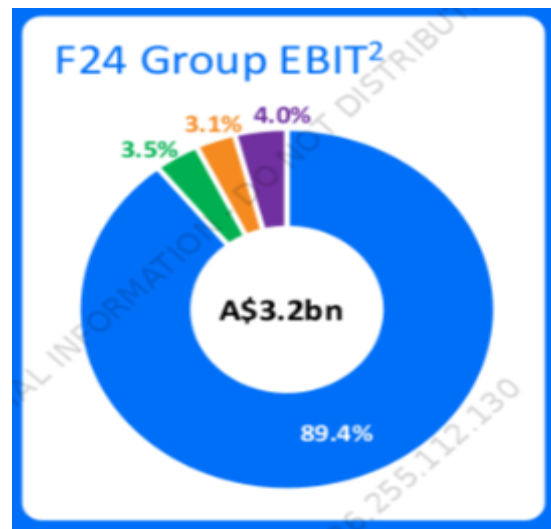
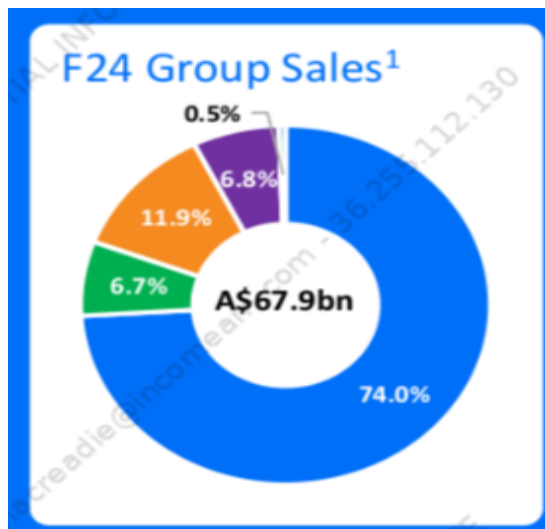
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Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call	Maturity Date	Issue Rating (S&P/Moody's/Fitch)
AU3CB0303543	AUD650m	Sr Unsecured	5.762%	Semi-annual	18 January 2031	18 April 2031	- / Baa2 / -
AU3CB0283414	AUD350m	Sr Unsecured	2.750%	Semi-annual	15 November 2031	15 November 2031	BBB / - / -
AU3CB0283406	AUD350m	Sr Unsecured	1.850%	Semi-annual	15 November 2027	15 November 2027	BBB / - / -
AU3CB0272227	AUD600m	Sr Unsecured	2.800%	Semi-annual	20 May 2030	20 May 2030	BBB / - / -
AU3CB0272219	AUD400m	Sr Unsecured	1.850%	Semi-annual	20 May 2025	20 May 2025	BBB / - / -



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FACT SHEET

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IAM Credit View

We have a neutral view on Woolworths supported by its leading market position in the Australian food segment, which accounts for 85-90% of group EBIT before significant items. It is the largest supermarket retailer in Australia with a market position stronger than Coles with 1693 stores and serves 25 million customers per week on average. The company has highly predictable cashflows despite the continued prevalence of at-home consumption as well as the impact of high interest rates and inflation. Woolworths faces some weaknesses from its BIG W and New Zealand food segments, recognising a AUD1.5 billion non-cash goodwill impairment in FY24.

We expect Woolworth's large and stable cash flow generation to support credit metrics relative to their rating thresholds of BBB/Baa2 respectively. Credit metrics are likely to weaken due to the acquisition of Petstock and consolidation of its borrowings and leases; however, we expect them to remain under 4x on a debt/EBITDA basis. The ongoing grocery inquiry by ACCC has the potential to cause negative headlines, but we expect fines to be minimal in the context of the company's cashflows.

Woolworths' (Baa2/BBB) bonds tend to trade in line with Coles which is one-notch higher rated at Baa1/BBB+.

Company Background

Woolworths Group Limited operates various retail formats, primarily focusing on supermarkets (Woolworths in Australia and New Zealand) as well as general merchandise (BIG W). Headquartered in Sydney, as of 31 December 2023, it operated 1,470 stores throughout Australia and New Zealand. On the 28th of June 2021, Woolworths completed the demerger of Endeavour Group, formerly the group's liquor retail and hotel operations. Woolworths retains a 9.1% interest in Endeavour Group.

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Strengths of WOOLWORTHS

- Leading market position as Australia's largest supermarket retailer. Woolworths' market position is underpinned by its leading market share in the Australian grocery sector, which is approximately 37%. From this, Woolworths' Australian Food segment generated around 87% of group earnings in FY23 (EBIT before significant items excluding "other"). As a comparison, the market share of its nearest competitor, Coles Group Limited is approximately 28%. With 1,001 Australian supermarkets (plus an additional 103 Metro Food Stores) at the end of 1H24, Woolworths' store network is approximately 18% larger than Coles. We regard its scale as a competitive advantage that would be very hard for a new entrant to replicate. Australian planning restrictions and the limited availability of suitable sites in urban areas provide further protection.
- Strong credit metrics are expected to provide significant headroom against rating triggers. Woolworths has a track record of maintaining prudent credit metrics that provide headroom against the thresholds set for its rating.
- Woolworths' earnings are weighted towards consumer staples which are lower discretionary in nature and exhibit stable demand. We expect the trading environment to remain both challenging and volatile over the next 12-18 months, with several factors posing risk to earnings and cashflows over this period. Ongoing inflationary pressures will continue to affect Woolworths' cost base, particularly in New Zealand, with increasing wages, rent, fuel and supply chain costs, while we expect consumer behaviour to be dictated by cost of living pressures.

Weaknesses of WOOLWORTHS

- Continued competition in the Australian supermarket industry could threaten margins if promotional activity becomes irrational. The Australian supermarket industry is competitive and consumers have become more value focused. With Aldi and Costco continuing to expand, as well as the arrival of Amazon in Australia, we expect the level of competition to remain high over the foreseeable future. The extent to which this impacts margins will depend on the rational behaviour of all participants.
- Expectation of lower earnings from BIG W and New Zealand Food divisions. Woolworths faces challenges in both its BIG W and New Zealand food divisions, recognising an AUD1.5 billion non-cash goodwill impairment for the latter in the first half of FY24 in recognition of lower expected future earnings.

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Disclosure

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