

**Analyst**

Jonathan Snape 613 9235 1601

**Authorisation**

Chris Savage 612 8224 2835

# Coles Group Ltd (COL)

Good things are happening

**Recommendation**  
**Buy** (Initiation)  
**Price**  
**\$19.19**  
**Target (12 months)**  
**\$21.55** (Initiation)

**Sector**  
**Retailing**

**Expected Return**

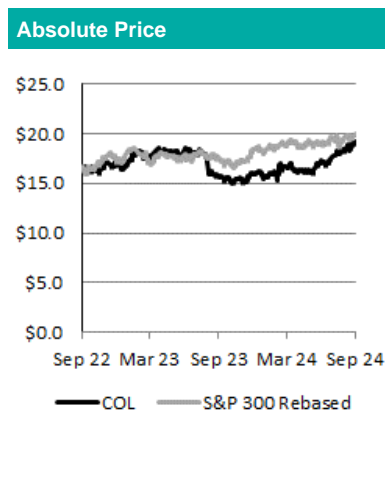
Capital growth	<b>12.3%</b>
Dividend yield	<b>3.5%</b>
Total expected return	<b>15.8%</b>

**Company Data & Ratios**

Enterprise value	<b>\$35,097m</b>
Market cap	<b>\$25,703m</b>
Issued capital	<b>1,339m</b>
Free float	<b>100%</b>
Avg. daily val. (52wk)	<b>\$53m</b>
12 month price range	<b>\$14.82-19.40</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	18.39	16.99	15.91
Absolute (%)	4.35	12.95	20.62
Rel market (%)	1.58	7.00	8.23



## Company background

Coles (COL) was established in Collingwood, VIC in 1914, though COL as we see it today was the result of a demerger from Wesfarmers in 2018. COL through its network of 856 grocery stores and 992 liquor outlets is a leading Australian retailer of fresh food, groceries, household goods and liquor, with a 50% interest in Flybuys rewards and a property development arm. Since FY20 COL has generated CAGR earnings growth of 3.7% p.a. while paying out 81% of cumulative profits in dividends, achieving 4.2% p.a. growth in dividends over that period. Looking forward, we anticipate delivery on business improvement initiatives (Simplify & Save) and delivery of targeted returns on recent capital initiatives to drive continued growth in earnings and dividends through to FY27e. We initiate coverage with a Buy rating and \$21.55ps target price.

## Multiple growth levers to FY27e

On a normalised basis (for a 52wk period in FY24 & CFC/ADC implementation costs) we forecast +9.1% p.a. compound growth in earnings to FY27e, with this flowing through to growth in dividends with the capex peak being past. This view is predicated on four core growth pillars being: (1) Business improvement through the Simplify & Save program targeting \$1Bn in gains by FY27e (with \$238m delivered in FY24); (2) Normalisation in loss rates. Loss increased 20% YOY in FY23 and while a continued headwind though FY24, was demonstrating a reversal in 2H24 (+44bp margin tailwind YOY in 2H24); (3) Delivering targeted returns on a ~\$1.45Bn capital investment program in ADC's and CFC's reducing costs and releasing store capacity; and (4) Expansion of the store network at a pace consistent with population growth.

## Investment view: Initiate coverage with a Buy rating

We initiate coverage with a Buy rating. While we see FY25e as a year of consolidation on a reported basis, we see COL as providing an attractive earnings growth profile through to FY27e on an underlying basis, with high levels of cash generation supporting growth in dividends. In addition, at 9.1x FY25e EBITDA, COL continues to reflect relative value compared to WOW (~5% discount).

**Earnings Forecast**

Year end June	2024	2025e	2026e	2027e
Sales (A\$m)	43,571	44,471	46,610	48,332
EBITDA (A\$m)	3,659	3,844	4,196	4,433
NPAT (reported) (A\$m)	1,118	1,089	1,288	1,412
NPAT (adjusted) (A\$m)	1,134	1,180	1,288	1,412
EPS (adjusted) (cps)	84.7	88.1	96.2	105.4
EPS growth (%)	4.7	3.9	9.2	9.6
PER (x)	22.7	21.8	20.0	18.2
FCF Yield (%)	-2.2	-0.7	0.2	0.2
EV/EBITDA (x)	9.6	9.1	8.4	7.9
Dividend (¢ps)	68.0	68.0	78.0	86.0
Franking (%)	100.0	100.0	100.0	100.0
Yield (%)	3.5	3.5	4.1	4.5
ROE (%)	31.2	28.7	31.9	32.9

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Contents

<b>Background and Investment view .....</b>	<b>3</b>
<b>Backdrop and themes.....</b>	<b>8</b>
<b>Financial drivers .....</b>	<b>10</b>
<b>Board and Senior Management .....</b>	<b>14</b>

# Background and Investment view

## BUSINESS OVERVIEW

Coles (COL) was established in Collingwood, VIC in 1914, though COL as we see it today was the result of a demerger from Wesfarmers in 2018. COL through its network of 856 grocery stores and 992 liquor outlets is a leading Australian retailer of fresh food, groceries, household goods and liquor, with a 50% interest in the Flybuys rewards business and an interest in property development. Since FY20 COL has generated CAGR earning growth of 3.7% p.a. while paying out 81% of cumulative profits in dividends, achieving 4.2% p.a. growth in dividends over that period. A brief outline of the COL business is detailed below:

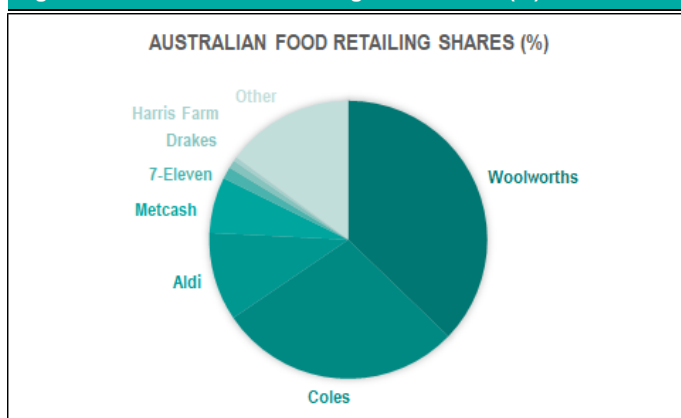
Figure 1 - Coles business at a glance

	Supermarkets	Liquor	Other		
			FlyBuys (50% stake)	VIVA PSA	Property
FY24 Revenue (52wk)	38,326	3,628	836		
FY24 EBITDA (52wk)	5YR CAGR: +4% pa 3,387	5YR CAGR: +2% pa 251	(18)	8	16
Store numbers	856	992			
Banner brands	Coles	First choice liquor market (Big Box) Liquorland (convenience) Vintage Cellars (premium drinks)	>9m active users	Product supply to ~710 former Coles express sites.	Revenue generated by developing sites 10yr pipeline
Competitive Landscape	#2 player Woolworths, Metcash, Aldi, Costco	#2 player Endeavour, Metcash, Aldi, Independents	Woolworths Rewards, IGA Rewards		
Growth Drivers	Food Inflation Population growth Store development (FY25e +3 net new)	Alcohol Inflation Population growth Store development (FY25e +3 net new)	Membership numbers	Expected to conclude Apr'26	New store development and refurbishment
Simplify & Save   Normalise loss levels   Returns on ADC/CFC					

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

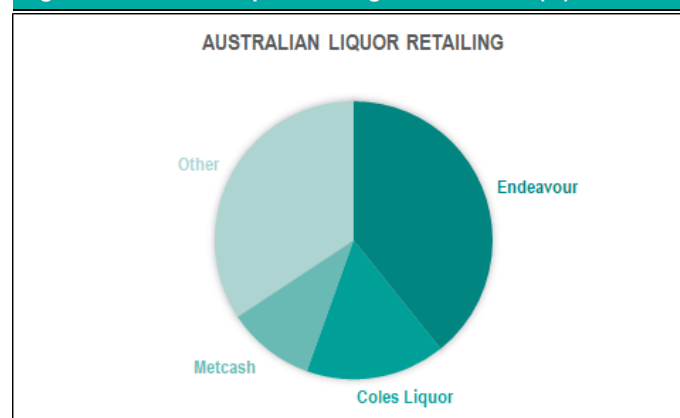
The industries in which COL operates in can be classified as competitive, with the top four food retailer banners controlling 80-85% of the market and the top three liquor banners controlling 65-70% of the markets. The sector can be classified as mature with revenue growth for the most part a function of inflation and population growth.

Figure 2 - Australian food retailing market share (%)



SOURCE: SENATE INQUIRY PAPERS

Figure 3 - Australian liquor retailing market shares (%)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

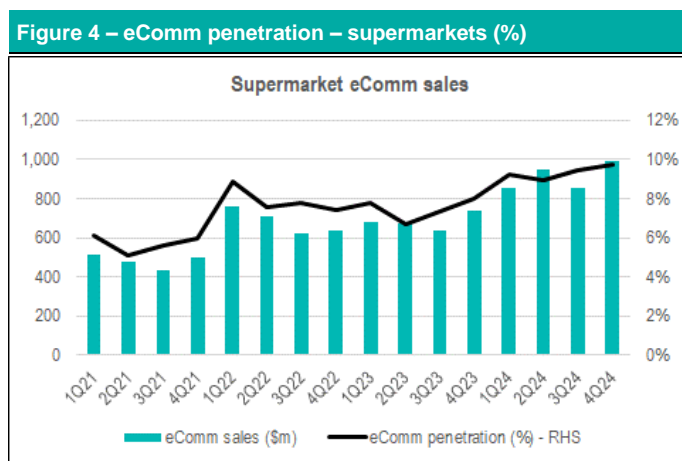
## INVESTMENT VIEW

We initiate on COL with a Buy rating and \$21.55ps target price, with this view driven by:

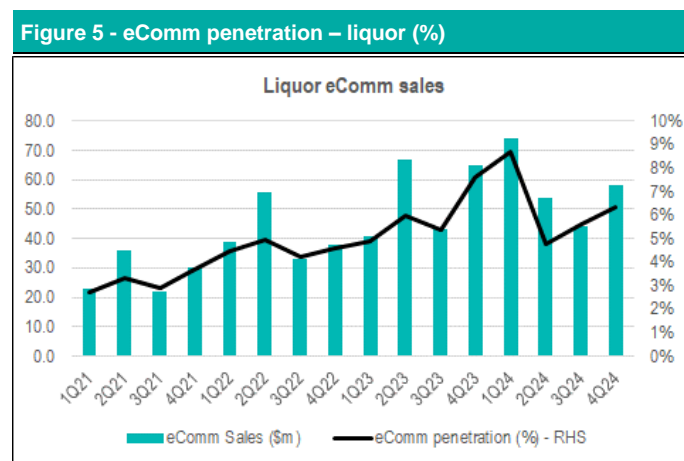
**Margin improvement through “Simplify & Save” and targeted loss reduction:** COL is: (1) targeting ~\$1Bn in operational improvements over FY24-27e under its Simplify & Save

continuous improvement program, with \$238m delivered in FY24 (after delivering \$90m in 1H24); and (2) COL has taken a number of actions (i.e. smart scan and smart gates) to reverse abnormally high loss levels in 2H23/1H24. Loss expense was up +20% YOY in FY23 and a 72bp margin headwind in 2H23 and 50bp margin headwind in 1H24. In 2H24 reduced loss ratios were a +44bp benefit, but still remained a YOY headwind on an FY24e basis. Delivery against targeted business improvement initiatives and lower levels of loss would deliver material cost saving benefits in FY25e, to help mitigate the impact of inflationary cost pressures or allow investment in price to drive volume.

**Investment in eCommerce capability:** eCommerce sales have grown from 5.8% of revenues in 1Q21 to 9.5% in 4Q24, with penetration reaching 9.7% in supermarkets. COL has recently commissioned two customer fulfillment centres (CFC's) to service the Melbourne and Sydney markets. Implementation (\$70m in duplication and commissioning) and opex (\$40m) costs are expected to be a \$110m earnings headwind in FY25e, with \$70m of commissioning costs fading in FY26e. With a high level of baseline sales and improved utilisation through continued growth in online turnover we would expect operating losses to reduce in FY26-27e.



SOURCE: COMPANY DATA



SOURCE: COMPANY DATA

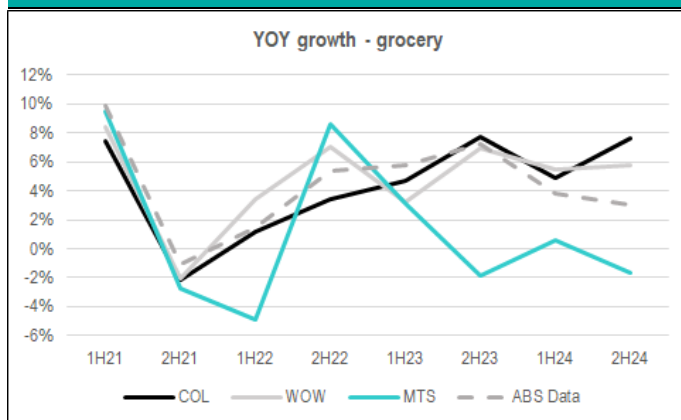
In FY24 COL generated ~\$3.9Bn of eCommerce revenues, having achieved Compound growth of +21% pa since FY20. We estimate ~\$900-950m of this will transition to the CFC in FY25e and based on continued growth would likely reach breakeven by FY27e (Based on Ocado retail we would estimate a 70% utilisation breakeven).

**Investment in Automated DC's (Witron):** COL has invested \$1,040m in automated DC's which went live in FY24. At the time of the investment COL stated a targeted return of WACC + risk premium, which given COL utilise a discount rate on intangibles of 8.8% would imply a likely low-double digit returns expectation. FY25e implementation costs are expected to total \$60m. Reduced implementation costs and achieving targeted returns (through lower costs) are expected to be drivers of FY25-27e performance.

**Non-traditional earnings streams add value:** COL is generating new revenue streams in digital marketing (Coles360, which has experienced 20% p.a. growth over FY22-24) and has property and loyalty card assets where we see limited value being ascribed today. In aggregate we see: (1) COL 50% interest in Flybuys, which has ~9.5m active users, worth ~\$240m on other comparable EV/user metrics and generating losses at the group level; and (2) COL interest in property, which at balance date looked to have a balance sheet value of ~\$620m (land value of \$617m + \$3m assets held for sale).

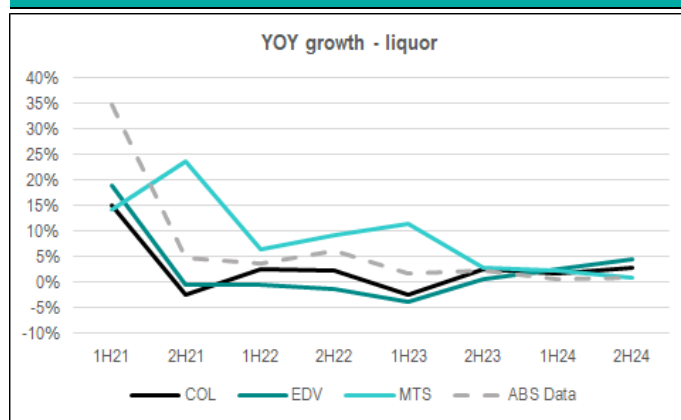
**Share of wallet gains in FY24:** Revenue growth over FY24 has exceeded industry growth rates in grocery and liquor. On face value COL looks to have gained ~60bp of share in grocery and ~30bp in liquor (relative to ABS totals). At a high level, COL has seen 18 months of above sector growth at the top line.

Figure 6 – Sector YOY growth (by half) - grocery



SOURCE: ABS DATA AND COMPANY REPORTS

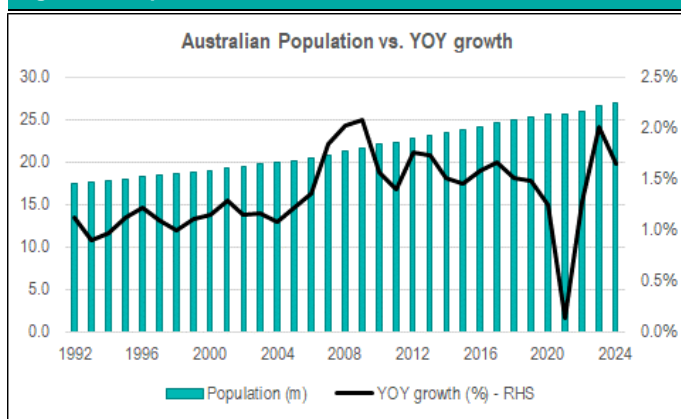
Figure 7 - Sector YOY growth (by half) – liquor



SOURCE: ABS DATA AND COMPANY REPORTS

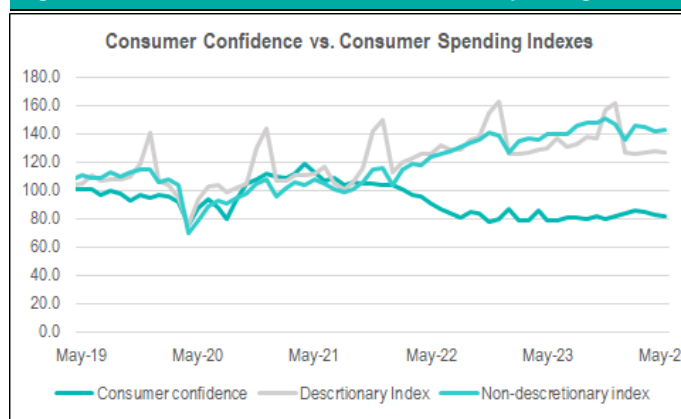
**Favourable near-term outlook on secular demand driver by population growth and a rotation to in-home consumption:** Population growth of +1-2% pa is a favourable demand driver for food consumption in general. We would see this supplemented by an ongoing near-term transition (in FY25e) from out-of-home channels to in-home, before seeing a likely recovery uplift in liquor demand in FY26-27e as the benefits of tax cuts and lower interest rates move through to demand for discretionary items.

Figure 8 – Population



SOURCE: ABS DATA

Figure 9 – Consumer confidence vs. consumer spending



SOURCE: WESTPAC MELBOURNE INSTITUTE AND ABS DATA

**High payout ratio with history of dividend growth:** As noted earlier COL has paid on average 81% of earnings out as dividends since FY20 achieving compound growth of 4% p.a. in DPS. Our FY25e yield forecast of 3.6% reflects modest growth vs. FY24 given the moderation in YOY earnings growth. However, we would expect more material growth in FY26-27e earnings and dividends given stronger levels of earnings growth and the capex peak having passed.

**TARGET PRICE**

In determining our \$21.55ps target price we have considered a sum of the parts and ROIC model. Major features of these approaches are detailed below.

**Sum of the parts (\$20.70ps):** We have incorporated multiple of 9.0x EBITDA for Supermarkets and 8.5x EBITDA for the liquor business, a modest premium to the global peer averages (of 8.6x EBITDA ex-WAL & COST) but a slight discount to WOW, which trades at 9.6x FY25e consensus EBITDA and EDV, which trades at 8.8x FY25e consensus EBITDA. In our valuation work, we have adjusted FY25e EBITDA to exclude \$130m in effectively non-recurring implementation costs linked to the ADC/CFC commissioning.

Figure 10 - COL sum of the parts valuation approach

	EBITDA (\$m)		Multiple (x)		Valuation (\$m)		
	FY25e	FY26e	FY25e	FY26e	FY25e	FY26e	
Supermarkets	3,810	4,006	9.0	9.0	34,287	36,055	FY25e EBITDA adj. for ADC/CFC implementation costs.
Liquor	255	288	8.5	8.5	2,169	2,449	EDV at 8.8x FY25e and 8.4x FY26e EBITDA
Property Portfolio					620	620	Land BV + Assets held for sale
VIVA Distribution (B2B)					7	0	FY26e tail not captured in FY25e cashflow
Flybuys (50% stake)					238	238	EV/Active member approach
Corporate overheads					(895)	(939)	Group average
<b>Other</b>	<b>(91)</b>	<b>(98)</b>			<b>(30)</b>	<b>(82)</b>	
<b>Enterprise Value</b>	<b>3,974</b>	<b>4,196</b>	<b>9.2</b>	<b>9.2</b>	<b>36,426</b>	<b>38,423</b>	
Net Debt					(1,038)	(886)	
Cash in transit					(378)	(396)	Treated as working capital for net debt purposes
Lease liabilities					(8,444)	(8,513)	
Surplus Franchising credits					703	773	
<b>Implied equity value</b>					<b>27,269</b>	<b>29,401</b>	
Shares on issue (m)					1,339	1,339	
<b>Target price</b>					<b>20.36</b>	<b>21.95</b>	
<b>Time weighted target price</b>						<b>20.70</b>	

SOURCE: BELL POTTER SECURITIES

The table below looks at the grocery retailer peer group we have compared COL to. In general we find COL trades at a modest premium to the sector but discount to WOW.

Figure 11 - Global grocery valuation multiples

Retail	Share Price	Shares Out (m)	Market Cap	Net debt (+ lease)	EV	ND/FY25e EBITDA	Revenue			EV/Revenue (x)			EBITDA			EV/EBITDA (x)			
							2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	
Endeavour Group Ltd	EDV AU	5.04	1,790.98	9,027	5,770	14,797	3.4	12,304	12,468	12,909	1.2	1.2	1.1	1,660	1,687	1,766	8.9	8.8	8.4
Metcash	MTS AU	3.57	1,097.7	3,919	1,326	5,244	1.7	16,789	18,062	18,883	0.3	0.3	0.3	677	764	811	7.7	6.9	6.5
Woolworths	WOW AU	35.24	1,221.59	43,049	15,586	58,635	2.5	67,340	69,325	72,042	0.9	0.8	0.8	5,914	6,124	6,447	9.9	9.6	9.1
Sprouts Farmers Markets inc	SFM US	104.86	100.1	10,500	1,441	11,941	2.2	7,508	8,212	9,015	1.6	1.5	1.3	598	649	708	20.0	18.4	16.9
Kroger Co	KR US	54.62	721.79	39,424	19,148	58,572	2.5	149,585	149,081	151,902	0.4	0.4	0.4	7,885	7,802	7,958	7.4	7.5	7.4
Albertsons Companies Inc	ACI US	18.52	579.1	10,726	13,852	24,577	3.4	79,368	80,267	81,436	0.3	0.3	0.3	4,309	4,100	4,107	5.7	6.0	6.0
Natural Grocers	NGVC US	29.29	22.79	668	351	1,018	4.2	1,236	1,332	1,421	0.8	0.8	0.7	74	83	n.a.	13.8	12.3	n.a.
Grocery Outlet Holdings	GO US	16.47	98.0	1,614	1,459	3,073	5.0	4,353	4,741	5,153	0.7	0.6	0.6	256	289	316	12.0	10.6	9.7
Walmart	WMT US	79.03	8,038.25	635,263	58,843	694,106	1.4	644,830	678,138	706,636	1.1	1.0	1.0	38,375	42,287	46,004	18.1	16.4	15.1
Costco	COST US	892.52	443.3	395,685	(2,202)	393,483	(0.2)	254,904	273,760	291,452	1.5	1.4	1.4	11,435	12,695	13,622	34.4	31.0	28.9
Ahold delhaize	AD NA	30.88	936.84	28,930	14,647	43,577	2.0	89,404	92,088	94,357	0.5	0.5	0.5	7,130	7,338	7,570	6.1	5.9	5.8
Dollar Tree	DLTR US	75.67	215.0	16,268	10,227	26,496	3.9	30,623	30,764	31,914	0.9	0.9	0.8	2,662	2,637	2,841	10.0	10.0	9.3
Carrefour SA	CA FP	15.56	677.97	10,546	15,850	26,396	3.1	85,866	88,968	91,507	0.3	0.3	0.3	4,746	5,153	5,554	5.6	5.1	4.8
Casino GUIICHARD Perrachon	CO FP	3.10	400.9	1,241	2,883	4,124	3.9	8,781	8,945	9,135	0.5	0.5	0.5	714	731	781	5.8	5.6	5.3
AXFOOD AB	AXFO SS	281.60	216.84	61,063	9,885	70,948	1.3	83,956	88,087	91,149	0.8	0.8	0.8	6,944	7,445	7,731	10.2	9.5	9.2
Sainsbury PLC	SBRY LN	297.20	2,360.1	7,014	4,545	11,559	2.0	32,675	33,416	34,124	0.4	0.3	0.3	2,182	2,235	2,316	5.3	5.2	5.0
Tesco PLC	TSCO LN	368.40	6,854.67	25,253	10,161	35,414	2.2	68,842	70,028	71,572	0.5	0.5	0.5	4,625	4,703	4,848	7.7	7.5	7.3
Jerónimo Martins	JMT PL	16.72	629.3	10,522	3,390	13,912	1.4	33,604	36,000	38,337	0.4	0.4	0.4	2,201	2,407	2,623	6.3	5.8	5.3
DFI Retail Group Hlds	DFI SP	1.88	1,352.12	2,542	3,340	5,882	3.6	8,962	9,141	9,430	0.7	0.6	0.6	863	922	1,009	6.8	6.4	5.8
Shend Siong Group Ltd	SSG SP	1.51	1,503.5	2,270	(251)	2,019	(1.3)	1,429	1,483	1,508	1.4	1.4	1.3	190	192	181	10.7	10.5	11.2
Dino Polska SA	DNP PW	312.30	98.04	30,618	833	31,451	0.3	29,829	35,261	40,934	1.1	0.9	0.8	2,383	2,877	3,361	13.2	10.9	9.4
<b>Average</b>							<b>2.3</b>				<b>0.8</b>	<b>0.7</b>	<b>0.7</b>				<b>10.7</b>	<b>10.0</b>	<b>9.3</b>
<b>Average ex-WMT &amp; COST</b>							<b>2.5</b>				<b>0.7</b>	<b>0.7</b>	<b>0.6</b>				<b>9.1</b>	<b>8.6</b>	<b>7.9</b>

SOURCE: BLOOMBERG

**ROIC based approach (\$22.36ps):** grocery retailers tend to have a low beta of ~0.50-0.60x and this reflects the near utility nature of the business returns. Our LGR is of 3.0% is not dissimilar to COL 5yr CAGR growth rate in earnings and predicated on 1.0-2.0% population growth and inflation of 2.0-2.5%. Based on capital turn and excess returns, our determined target EV/EBITDA is 9.5-10.0x FY25-26e. FY25e EBITDA & EBIT exclude \$130m in effectively non-recurring costs linked to the ADC/CFC implementation costs.

Figure 12 - COL ROIC based approach

	4.5%	Equity Beta	0.75	Current Share Price (\$ps)	19.19		
Borrowing Margin	2.0%	Terminal Growth Rate	3.0%	Equity (MV \$m)	25,703		
Mkt Risk Premium	6.0%	Cost of Debt	6.5%	Net Debt + Leases (BV \$m)	9,394		
Asset Beta	0.55	Cost Of Equity	9.0%	Shares On Issue	1,339		
		WACC	8.3%	Net debt/(net debt+equity)	26.8%		
	2021	2022	2023	2024	2025	2026	2027
EBITDA	3,225	3,259	3,382	3,659	3,974	4,196	4,433
Depreciation & Amortisation	(1,419)	(1,432)	(1,523)	(1,602)	(1,776)	(1,846)	(1,912)
<b>EBIT</b>	<b>1,806</b>	<b>1,827</b>	<b>1,859</b>	<b>2,057</b>	<b>2,198</b>	<b>2,350</b>	<b>2,521</b>
Invested Capital	3,168	3,630	3,877	4,594	4,833	4,924	5,021
ROIC (%)	57.0%	50.3%	47.9%	44.8%	45.5%	47.7%	50.2%
long-term growth rate (%)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Pre-tax WACC (%)	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%
Depreciation & Amortisation	1,419	1,432	1,523	1,602	1,776	1,846	1,912
<b>EBITDA</b>	<b>3,225</b>	<b>3,259</b>	<b>3,382</b>	<b>3,659</b>	<b>3,974</b>	<b>4,196</b>	<b>4,433</b>
Derived EV/EBITDA (x)	9.9	9.9	9.7	9.8	9.7	9.8	10.0
<b>Enterprise Value</b>	<b>32,069</b>	<b>32,202</b>	<b>32,663</b>	<b>35,971</b>	<b>38,478</b>	<b>41,273</b>	<b>44,426</b>
Net cash (debt)	(355)	(506)	(521)	(977)	(1,038)	(886)	(722)
Cash in transit (treated as working capital)	(576)	(559)	(347)	(353)	(378)	(396)	(410)
Lease liabilities	(8,756)	(8,681)	(7,849)	(8,417)	(8,444)	(8,513)	(8,581)
Franchising Credits	420	558	549	541	703	773	865
<b>Market value</b>	<b>22,802</b>	<b>23,014</b>	<b>24,495</b>	<b>26,765</b>	<b>29,321</b>	<b>32,251</b>	<b>35,577</b>
Adjusted shares on issue	1333.9	1336.1	1338.4	1338.4	1339.4	1339.4	1339.4
<b>Implied value (\$ps)</b>	<b>17.09</b>	<b>17.23</b>	<b>18.30</b>	<b>20.00</b>	<b>21.89</b>	<b>24.08</b>	<b>26.56</b>
<b>Time weighted target price</b>						<b>22.36</b>	

SOURCE: BELL POTTER SECURITIES. FY25E EBITDA EXCLUDE ADC/CFC COMMISSIONING COSTS.

## RISKS

Risks to an investment in COL include but are not limited to:

**Strategy and disruption risk:** Consumer behaviour and preferences continue to change and are influenced by factors such as economic conditions, digital and technological development and disruption, healthy living trends, sustainability preferences and an increasing choice in both online and in-store retail options. If COL fails to adjust or execute its strategies to respond to changes in consumer behaviour and preferences, this may have a material adverse impact on the Group's financial performance and profitability.

**Competition risk:** Any increase in competitive activity from new or existing competitors may have a detrimental effect on the Group's operations, particularly if COL fails to respond effectively to that competitive activity or its response is delayed. Increased competition may also adversely impact COL's long-term performance and profitability.

**Economic risk:** General macroeconomic conditions and factors including inflation, low levels of unemployment, monetary policy and variability in interest rates, changes in governments and their approach to fiscal policy including increasing taxes, levies and other imposts, variability in energy and input costs, cyclicalities in building and construction markets, and changes in consumer purchasing behaviour may adversely impact COL customers as well as COL earnings, cost of doing business and profitability. Further, geopolitical tensions and actions of nation states, including trade wars, territorial disputes, incursions, and war may adversely impact COL operations and supply chain, resulting in delivery delays or the unavailability of certain products or inputs, increased cost of doing business and subsequent impact on COL profitability.

**Operational risk:** COL operations require compliance with various regulatory requirements including work health and safety, food and product safety, environmental, workplace industrial relations and public and product liability. Further, the businesses of COL are highly regulated in many markets in which they sell their products. These regulations govern many parts of the operations, including the import, marketing, advertising, distribution and sales of its products. Examples of such regulation include industry codes of conduct and country of origin labelling laws. The introduction of new laws and regulations, or reform to existing laws and regulations, could materially impact COL operational and financial performance, including through increased expenditure on compliance and controls and any required adjustments to how COL conducts its business.

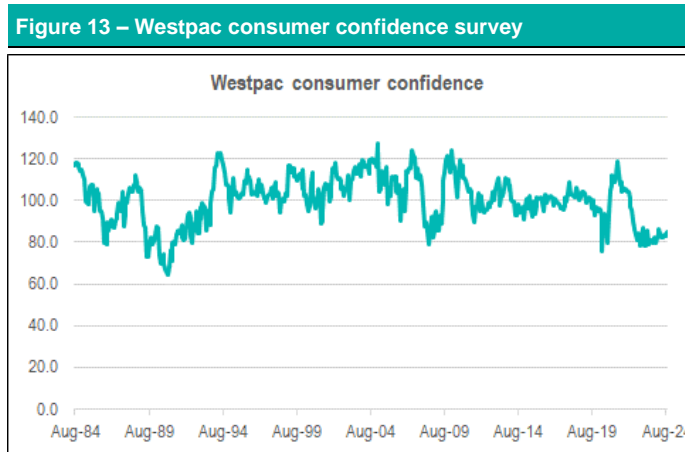
**Property and facilities risk:** COL leases facilities for the distribution and retailing of grocery, fresh produce, liquor and other fast-moving consumer goods. Damage to or destruction of these facilities could result in the loss or reduction of distribution capability and hence adversely impact COL financial results.

**Technology and cyber security risk:** COL relies on a number of complex information technology systems to support its warehousing and distribution, supply chain, retail, customer service, marketing and finance operations. A severe disruption to the information technology systems may significantly impact the operations and value of COL.

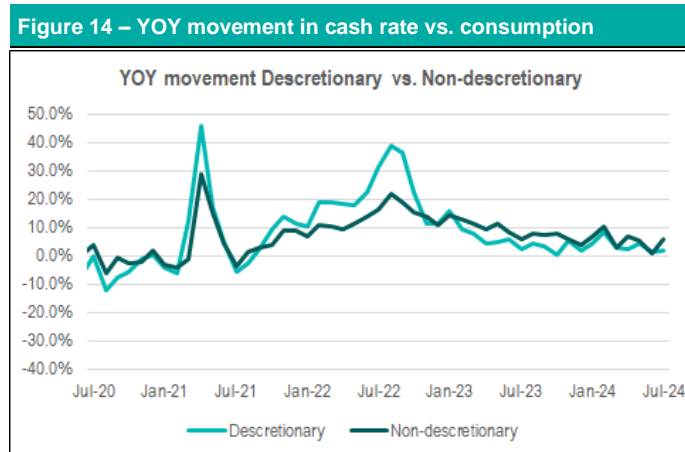
# Backdrop and themes

## 1. WEAKER CONSUMER BACKDROP

Consumer confidence has experienced a modest recovery in recent months but remains at historically low levels. We would expect the lagged benefit of tax cuts, real wage growth and interest rate cuts to become a potential tailwind for non-discretionary categories such as liquor in 4Q25-1H26e, though would see this to the detriment of liquor and benefit to grocery (i.e. higher levels of in-home consumption) in FY25e.



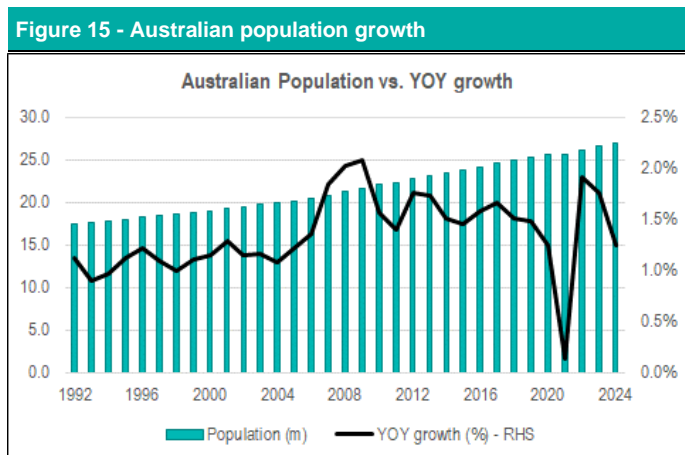
SOURCE: WESTPAC MELBOURNE INSTITUTE



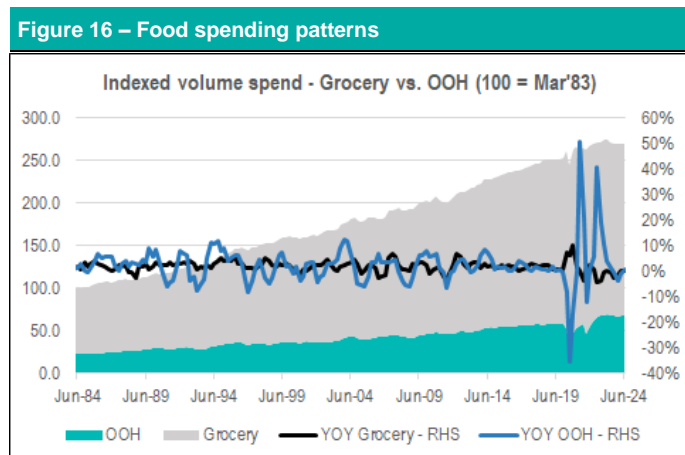
SOURCE: RBA AND ABS DATA

## 2. POPULATION AND SUPERMARKET VOLUME GROWTH

Population growth has recovered in recent years up near 1.8-1.9% p.a. over the past two years and forecast to remain at an average of 1.5% p.a. through to FY28e. Population growth is the primary structural growth driver of volume. Out-of-home consumption is in negative growth, with spending shifting towards in-home consumption a benefit to domestic retailers from a volume perspective. We anticipate new store development by COL to move with population growth.



SOURCE: ABS ABD RBA DATA



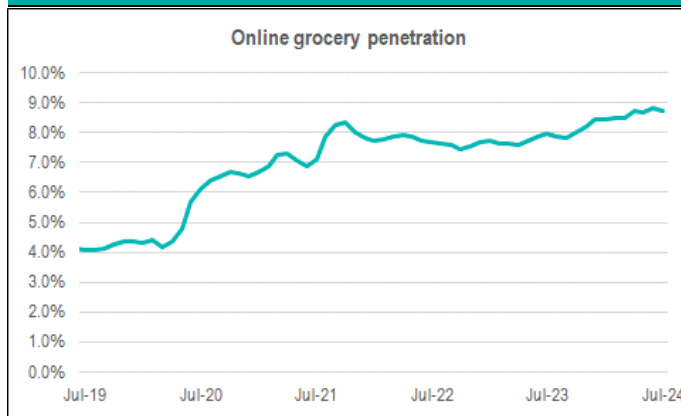
SOURCE: ABS AND RBA DATA

## 3. ONLINE VS. TRADITIONAL RETAIL

Since 2020, online grocery spending has more than doubled its share of wallet, approaching ~9% in Jul'24 (R3M basis) and continuing to experience double digit YOY growth rates compared to low single digit growth across the sector. Spending patterns in Australia compare favourably to other regions such as the USA (~10.5%) and UK (~13%). Which would imply a reasonable runway from growth. COL would look to be over indexing its share of online in grocery with work to do in liquor.

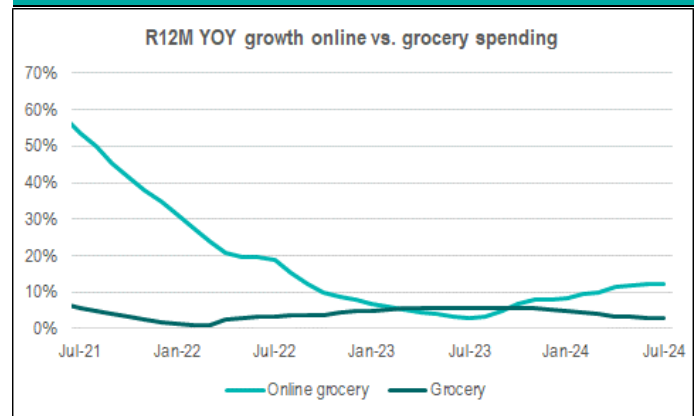


Figure 17 – Online share in grocery spend R3M basis



SOURCE: ABS DATA

Figure 18 – R12M YOY growth in online and total grocery spend

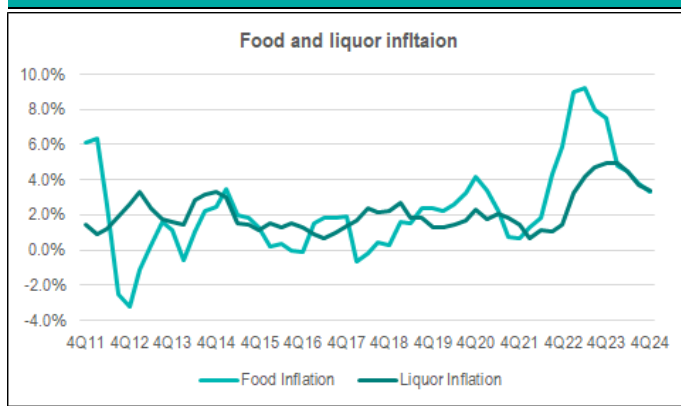


SOURCE: ABS DATA

**4. INFLATION TO MODERATE**

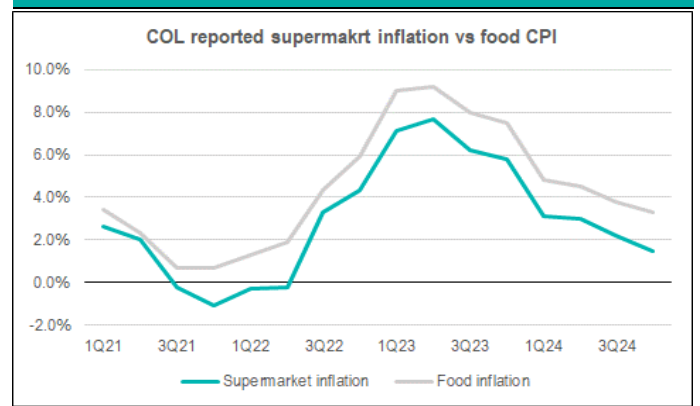
Historically there is a high directional correlation in food inflation and COL reported supermarket inflation (at 99%), albeit the latter has in general lagged headline inflation by ~150bp. Slowing requests for price increases from suppliers is likely to see food inflation slow from recent levels more historical rates, with PPI data continuing to demonstrate signs of slowing in the channel. Long-run food inflation is ~2.4% pa.

Figure 19 – Food and liquor inflation



SOURCE: ABS DATA

Figure 20 – ABS Food inflation vs. COL supermarket inflation



SOURCE: ABS DATA

**5. CODB INFLATION**

Retail workers wage growth has been outpacing headline wage inflation, with the latter expected at 3.5-4.0% in FY25e. Retail rentals have been in contraction in recent years and are anticipated to demonstrate modest YOY growth (<1% in FY25e).

Figure 21 – Wage inflation



SOURCE: ABS DATA

Figure 22 – Retail rental rates



SOURCE: JLL

# Financial drivers

## PROFIT AND LOSS

The table below is a high level overview of the key drivers of our COL forecasts. We note a \$64m contribution to NPAT in FY24 from an additional week of trading which is difficult to cycle in FY25e, hence tend to focus on CAGR growth rates relative to the 52wk comparison. At a high level we are forecasting compound growth in revenues of +4.2% p.a. (on 52wk FY24 basis) to FY27e, fuelling growth in EBITDA of +7.8% p.a. over the same time period. This is driven by operational leverage on higher sale, lower loss levels and delivery against recent growth initiatives in automation.

Figure 23 - COL summary P&L and drivers

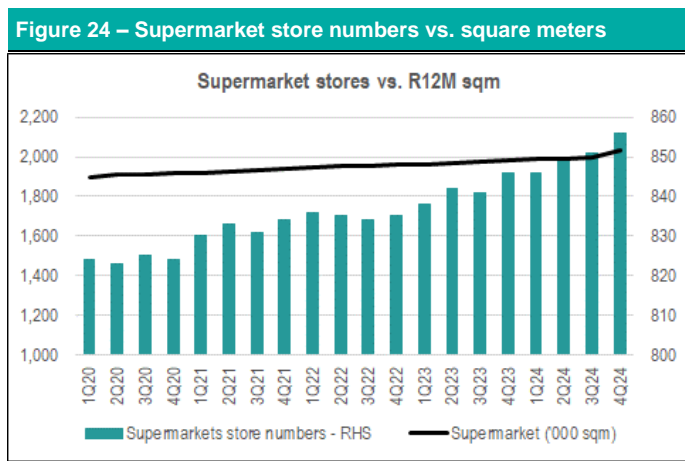
	2019 52wk	2020 52wk	2021 52wk	2022 52wk	1H23 27wk	2H23 25wk	2023 52wk	1H24 27wk	2H24 26wk	2024 53wk	2024 52wk	2025e 52wk	2026e 52wk	2027e 52wk
<b>Supermarkets Division:</b>														
Revenue	30,993	32,993	33,868	34,624	18,857	17,889	36,746	19,778	19,264	39,042	38,326	39,916	41,909	44,135
EBITDA (\$m)	2,867	2,867	3,001	3,022	1,676	1,481	3,157	1,730	1,757	3,487	3,387	3,680	4,006	4,227
Stores	821	824	834	835	842	846	846	850	856	856	856	859	864	869
Sales per sqm (\$)	16,704	17,547	17,847	18,209	18,651	19,201	19,201	19,618	19,816	19,816	19,453	20,036	20,817	21,671
...YOY growth (%)	1.5%	5.0%	1.7%	2.0%			5.4%			3.2%	1.3%	3.0%	3.9%	4.1%
Gross Margin (%)		25.6%	25.9%	26.3%			26.4%			26.9%		27.4%	27.4%	27.4%
<b>Liquor Division:</b>														
Revenue	3,063	3,308	3,525	3,613	1,952	1,658	3,610	1,988	1,704	3,692	3,628	3,699	3,953	4,197
EBITDA (\$m)	242	242	276	278	141	138	279	148	113	261	251	255	288	316
Stores	910	910	929	933	940	957	957	964	992	992	992	995	1,005	1,015
Sales per sqm (\$)	14,354	15,438	16,287	16,354	16,029	16,138	16,138	16,134	15,860	15,860	15,585	15,819	16,626	17,307
...YOY growth (%)		7.6%	5.5%	0.4%			-1.3%			-1.7%	-3.4%	1.5%	5.1%	4.1%
Gross Margin (%)		21.6%	21.8%	22.5%			23.4%			23.4%		23.4%	23.4%	23.4%
<b>Group level summary</b>														
Supermarkets	30,993	32,993	33,868	34,624	18,857	17,889	36,746	19,778	19,264	39,042	38,326	39,916	41,909	44,135
Liquor	3,063	3,308	3,525	3,613	1,952	1,658	3,610	1,988	1,704	3,692	3,628	3,699	3,953	4,197
Other	0	0	0	0	0	127	127	450	387	837	836	856	749	0
<b>Sales - Contuning operati</b>	<b>34,056</b>	<b>36,301</b>	<b>37,393</b>	<b>38,237</b>	<b>20,809</b>	<b>19,674</b>	<b>40,483</b>	<b>22,216</b>	<b>21,355</b>	<b>43,571</b>	<b>42,791</b>	<b>44,471</b>	<b>46,610</b>	<b>48,332</b>
Supermarkets				3,022	1,676	1,481	3,157	1,730	1,757	3,487	3,387	3,680	4,006	4,227
Liquor				278	141	138	279	148	113	261	251	255	288	316
Other				(41)	(8)	(46)	(54)	(24)	(65)	(89)	(87)	(91)	(98)	(110)
<b>EBITDA</b>				<b>3,259</b>	<b>1,809</b>	<b>1,573</b>	<b>3,382</b>	<b>1,854</b>	<b>1,805</b>	<b>3,659</b>	<b>3,551</b>	<b>3,844</b>	<b>4,196</b>	<b>4,433</b>
Depreciation & amortisation				(1,432)	(751)	(772)	(1,523)	(790)	(812)	(1,602)	(1,586)	(1,776)	(1,846)	(1,912)
<b>EBIT</b>				<b>1,827</b>	<b>1,058</b>	<b>801</b>	<b>1,859</b>	<b>1,064</b>	<b>993</b>	<b>2,057</b>	<b>1,965</b>	<b>2,068</b>	<b>2,350</b>	<b>2,521</b>
Net Interest Income				(360)	(187)	(207)	(394)	(213)	(229)	(442)	(440)	(505)	(502)	(496)
<b>Pre-tax profit</b>				<b>1,467</b>	<b>871</b>	<b>594</b>	<b>1,465</b>	<b>851</b>	<b>764</b>	<b>1,615</b>	<b>1,525</b>	<b>1,563</b>	<b>1,848</b>	<b>2,025</b>
Tax				(422)	(255)	(168)	(423)	(257)	(230)	(487)	(461)	(474)	(560)	(613)
...Tax rate (%)				28.8%	29.3%	28.3%	28.9%	30.2%	30.1%	30.2%	30.2%	30.3%	30.3%	30.3%
Minorities				0	0	0	0	0	0	0	0	0	0	0
<b>NPAT</b>				<b>1,045</b>	<b>616</b>	<b>426</b>	<b>1,042</b>	<b>594</b>	<b>534</b>	<b>1,128</b>	<b>1,064</b>	<b>1,089</b>	<b>1,288</b>	<b>1,412</b>
Non-recurring items				0	0	0	0	0	0	0	0	0	0	0
Discontinued operations after tax				3	27	29	56	(5)	(5)	(10)		0	0	0
<b>NPAT post abnormals</b>				<b>1,048</b>	<b>643</b>	<b>455</b>	<b>1,098</b>	<b>589</b>	<b>529</b>	<b>1,118</b>		<b>1,089</b>	<b>1,288</b>	<b>1,412</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES.

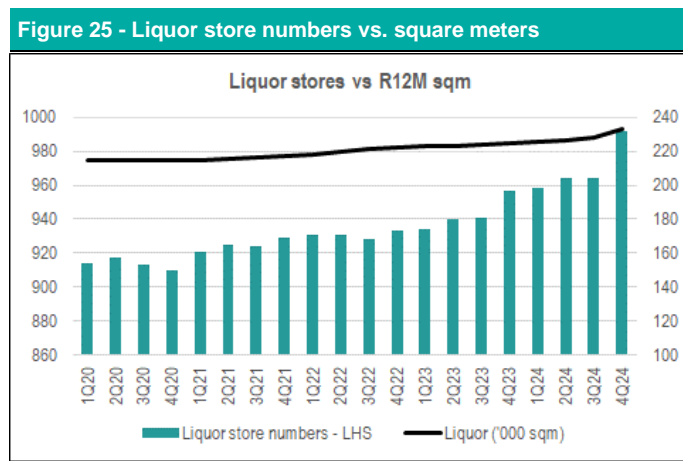
YOY GROWTH IN SALES PER SQM IN FY25E IS ON 52WK PCP

Our adjusted NPAT and EPS on the front and back pages looks to remove the impact of the additional week of trading in FY24 as well as CFC/ADC implementation costs (on a tax adjusted basis) to indicate the underlying level of growth in the business over FY24-27e.

**New store development and refurbishments:** FY25e guidance for the supermarkets division is for +3 net new additions and 50 store refurbishments, in the liquor business it is for +3 net new additions and 60 store refurbishments. This would reflect a step down from recent historical levels of ~16 net new adds in liquor and ~8 net new adds in supermarkets. Our forecasts beyond FY25e assumes a resumption in liquor store adds towards historical levels, with refurbishment continuing at current levels. New store developments and population growth are expected to mitigate the majority of the headwinds of competitions (i.e. consumers trading down into retailers such as ALDI) which are visible over the past three years on a per sqm growth rate basis.



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

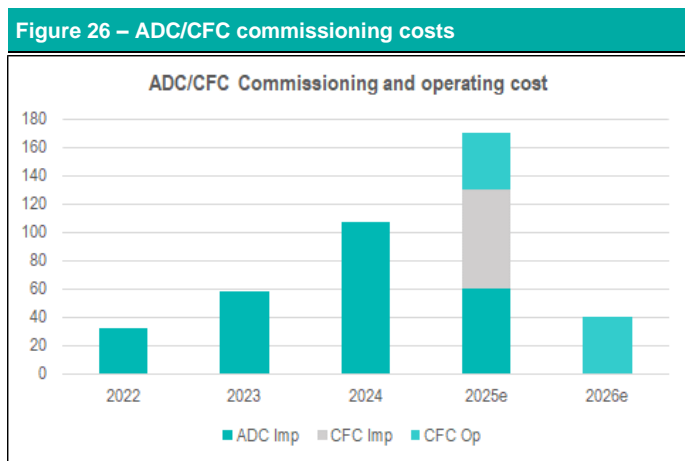


SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

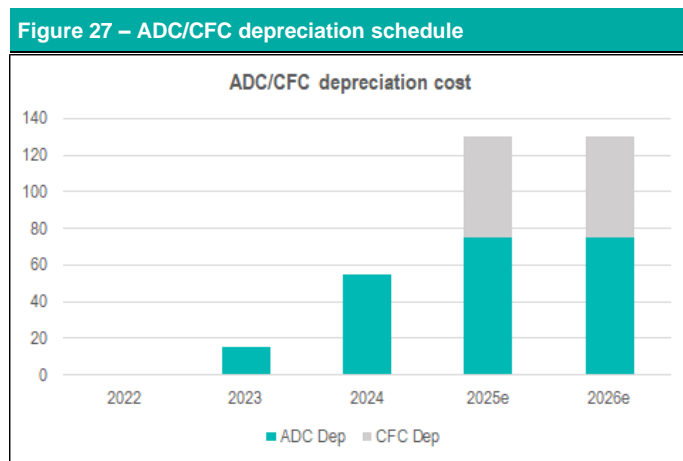
**Food and liquor inflation:** As noted previously there is a 99% correlation between COL reported changes in supermarket growth and food inflation. Food inflation over the past three years has been elevated at +3.6% p.a., well above the historical long run average of +2.4% p.a. We anticipate more modest growth in food prices moving forward, noting that annualising Jul'24 pricing indicators would result in +2.0% YOY and +2.6% YOY growth in liquor and tobacco. Our FY25e forecasts are broadly consistent with this outcome, before returning towards more historical levels of growth.

**Gross margin and CODB:** Supermarket gross margins improved +50bp YOY in FY24 driven in large by growth in the Coles 360 platform, Simplify & Safe savings (30% booked at GM and 70% at CDOB) and benefits from tobacco pricing (+20bp in GM). While headway on loss was made in 2H24 (+44bp YOY) it was still a FY24e headwind (-50bp in 1H24). Looking into FY25-27e we see the following drivers of margin improvement: (1) Cycling 2H24 gains on loss in 1H25 and delivering further improvements, noting 2H23 saw a -72bp impact from loss; (2) Continued progress on Simplify & Save initiatives delivering ~\$250m p.a. in benefits to help mitigate inflationary cost pressures; and (3) delivery of targeted returns on ADC's and CFC's (further detail below).

**ADC/CFC Commissioning costs:** Non-recurring commissioning costs for the ADC/CFC's peaks in FY25e as does the YOY uplift in depreciation associated with the investments. The full year benefit of the ADC investment is anticipated in FY26e, while we estimate the front loading of the CFC with existing sales will absorb a large portion of opex by FY27e.



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

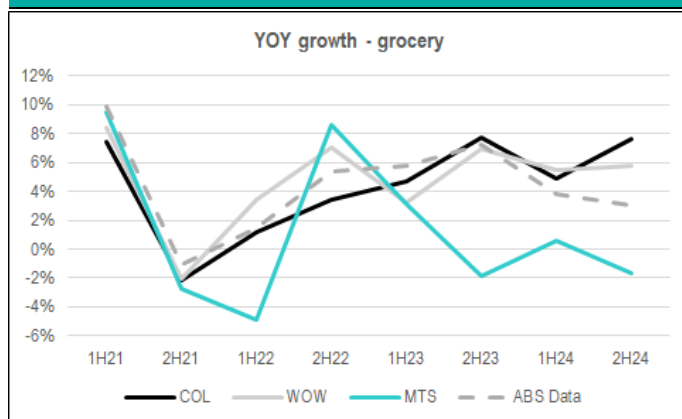


SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**RELATIVE PERFORMANCE**

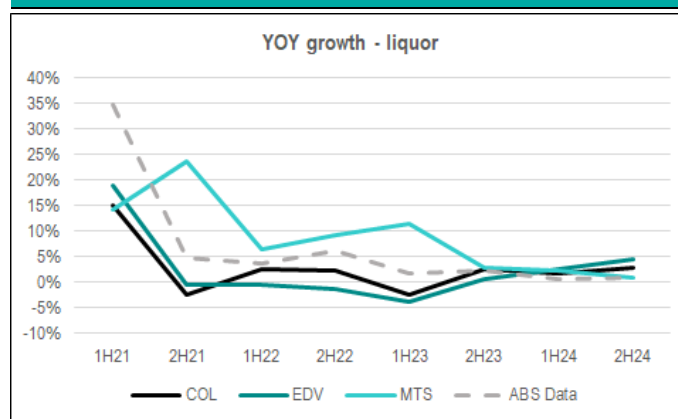
In aggregate COL has been a relative outperformer in terms of YOY revenue growth in both the grocery and liquor retail landscape, where COL share of ABS reported spending has lifted 68bp in food retailing and 30bp in liquor retailing.

**Figure 28 – Sector YOY growth (by half) - grocery**



SOURCE: COMPANY DATA AND RBA DATA

**Figure 29 - Sector YOY growth (by half) - liquor**



SOURCE: COMPANY DATA AND RBA DATA

**CASHFLOW AND BALANCE SHEET**

COL runs a negative working capital position, a function of paying suppliers on average within 50-55 days but in general receiving cash from transactions in less than 5 days. In this light operating cash realisation (on a post lease basis) has historically exceeded underlying NPAT. High levels of operating cashflow have enabled a relatively high dividend payout ratio (targeting 80-90% payout ratio) as well as investment in the business to sustain top line growth (COL have invested on average \$1.1Bn pa over FY19-24 in its operating business) through new store development, store refurbishments and investment in automation (\$1.40-1.45Bn in the ADC and CFC program). With the ADC/CFC completing in FY25e we would anticipate modestly lower capex in FY26-27e.

**Figure 30 - COL summary operating cashflow and capex drivers**

Operating cash metrics	2019	2020	2021	2022	1H23	2H23	2023	1H24	2H24	2024	2025e	2026e	2027e
Lease adj. operating cashflow		1,706	1,946	1,789	1,135	765	1,900	1,094	865	1,959	1,976	2,237	2,404
Realisation against NPAT				171%	184%	180%	182%	184%	162%	174%	181%	174%	170%
Debtor days - Revenue	3.4	4.2	3.5	4.5	4.1	5.5	5.5	10.1	4.2	4.2	4.5	4.5	4.5
Inventory days - COGS	28.1	29.1	27.6	31.6	33.5	28.4	28.4	32.6	32.2	31.5	30.0	30.0	30.0
Creditor days - COGS	48.3	50.2	48.0	55.9	59.1	54.3	54.3	57.1	54.6	53.3	54.0	54.0	54.0
Capex drivers	2019	2020	2021	2022	1H23	2H23	2023	1H24	2H24	2024	2025e	2026e	2027e
Store Renewals	146	161	245	236	93	183	276	182	201	383	295	303	311
Growth Initiatives	191	151	267	297	166	194	360	161	86	247	216	189	192
Efficiency Initiatives	297	275	375	370	232	181	413	292	200	492	350	353	356
Maintenance	259	246	224	296	132	175	307	232	45	277	278	287	297
<b>Operating capex</b>	<b>893</b>	<b>833</b>	<b>1,111</b>	<b>1,199</b>	<b>623</b>	<b>733</b>	<b>1,356</b>	<b>867</b>	<b>532</b>	<b>1,399</b>	<b>1,139</b>	<b>1,132</b>	<b>1,155</b>
Property acquisition and development	146	78	161	126	35	141	176	116	159	275	101	96	96
Property divestments	(269)	(245)	(126)	(138)	(104)	(144)	(248)	(187)	(69)	(256)	(120)	(114)	(114)
<b>Net Property capex</b>	<b>(123)</b>	<b>(167)</b>	<b>35</b>	<b>(12)</b>	<b>(69)</b>	<b>(3)</b>	<b>(72)</b>	<b>(71)</b>	<b>90</b>	<b>19</b>	<b>(19)</b>	<b>(18)</b>	<b>(18)</b>
<b>Total Net Capex</b>	<b>770</b>	<b>666</b>	<b>1,146</b>	<b>1,187</b>	<b>554</b>	<b>730</b>	<b>1,284</b>	<b>796</b>	<b>622</b>	<b>1,418</b>	<b>1,121</b>	<b>1,114</b>	<b>1,137</b>
<b>Store renewals:</b>													
Supermarkets	51	70	65	50	15	31	46	11	39	50	50	50	50
Liquor	52	30	42	208	128	87	215	71	26	97	60	60	60
Total Renewals	103	100	107	258	143	118	261	82	65	147	110	110	110
<b>Gross Store openings:</b>													
Supermarkets	22	8	20	11	10	7	17	5	7	12	8	10	10
Liquor	27	20	31	16	16	19	35	10	35	45	13	10	10
<b>Total gross openings</b>	<b>49</b>	<b>28</b>	<b>51</b>	<b>27</b>	<b>26</b>	<b>26</b>	<b>52</b>	<b>15</b>	<b>42</b>	<b>57</b>	<b>21</b>	<b>20</b>	<b>20</b>
<b>Net Store openings</b>													
Supermarkets	12	3	10	1	7	4	11	4	6	10	3	5	5
Liquor	11	0	19	4	7	17	24	7	28	35	3	10	10
<b>Total net openings</b>	<b>23</b>	<b>3</b>	<b>29</b>	<b>5</b>	<b>14</b>	<b>21</b>	<b>35</b>	<b>11</b>	<b>34</b>	<b>45</b>	<b>6</b>	<b>15</b>	<b>15</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Over FY19-24 we observe that COL has developed on average 16 new supermarkets and 25 new liquor stores annually and refurbished on average 55 supermarkets and 100 liquor

stores annually. New store development is expected to slow in FY25e based on site availability and the freeing up of instore capacity following the CFC investment, but then resume at a level broadly consistent with population growth (i.e. targeting 1.0-2.0% p.a. expansion in floor space).

Total indebtedness to EBITDA was 2.66x at FY24, however, with the capex peak passing we would expect modest deleveraging to commence in future periods. The debt profile is such that COL has no major refinancing due until FY26e at which point \$1.425Bn in banking facilities is due and COL had \$2.3Bn in unutilised facilities at balance date. It should be noted that FY24 reported cash includes cash-in-transit (CIT) of \$353m which relates to EFT transactions and were reclassified as cash from receivables in FY19. Given COL excludes this in its leverage ratio calculations we have done the same. In the same vein we have treated CIT as working capital in our valuation of the business rather than an offset in the net debt calculation.

**Figure 31 - COL indebtedness**

Debt structure	2020	2021	2022	1H23	2H23	2023	1H24	2H24	2024	2025e	2026e	2027e
Gross debt	1,354	1,142	1,095	1,060	1,118	1,118	1,718	1,652	1,652	1,688	1,579	1,424
Lease liabilities	9,083	8,756	8,681	7,759	7,849	7,849	7,725	8,417	8,417	8,444	8,513	8,581
Cash	992	787	589	698	597	597	1,092	675	675	650	693	701
Net debt (ex-leases)	362	355	506	362	521	521	626	977	977	1,038	886	722
Cash in transit (CIT)	540	576	559	631	347	347	591	353	353	378	396	410
Net Indebtedness (inc. leases & ex-CIT)	9,985	9,687	9,746	8,752	8,717	8,717	8,942	9,747	9,747	9,860	9,794	9,714
Net Indebtedness / EBITDA			2.99	2.58	2.58	2.58	2.61	2.66	2.66	2.57	2.33	2.19
Net Interest			360	187	207	394	213	229	442	505	502	496
ROU depreciation			784			819			830	902	919	941
Net fixed charges			1,144			1,213			1,272	1,407	1,421	1,437
EBITDA to fixed charge			2.85			2.79			2.88	2.73	2.95	3.09

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Net interest is anticipated to lift in FY25e reflecting the full year impact of recent note issues and the impact of new leases, with a modest reduction in FY26-27e with lower cash rates (based on 18mth forward curves).

# Board and Senior Management

## **James Graham AM - Chairman**

BE (Chem) (Hons), MBA, FIEAust EngExec, FTSE, FAICD, SF FIN

James Graham has extensive business, investment, corporate and governance experience, including as a Non-executive Director of Wesfarmers Limited for 20 years, prior to his retirement in July 2018. James is Chairman of Gresham Partners Limited, having founded the Gresham Partners Group in 1985.

From 2001 to 2009, James was a Director of Rabobank Australia Limited, initially as Deputy Chairman and then Chairman, and was responsible for the Bank's operations in Australia and New Zealand. He was also Chairman of the Darling Harbour Authority between 1989 and 1995, and was previously Managing Director of Rothschild Australia Limited. In 2008, James was made a member of the Order of Australia.

## **Terry Bowen - Non-executive Director**

BAcc, FCPA, MAICD

Terry Bowen is the Chairman of the Operations Group at BGH Capital.

Terry previously served as Finance Director of Coles (2007 to 2009), Finance Director of Wesfarmers Limited (2009 to 2017) and Managing Partner and Head of the Operations Group at BGH Capital (2018 to 2019). Terry was also formerly the Chief Financial Officer of Jetstar Airways, Finance Director of Wesfarmers Landmark, and before this held senior finance roles with Tubemakers of Australia Limited.

## **Jacqueline Chow - Non-executive Director**

MBA, BSc (Hons), FAICD

Jacqueline Chow is a Non-executive Director of nib Holdings Limited and Charter Hall Group. She is also a Director of the Australia-Israel Chamber of Commerce of New South Wales.

She was previously a Non-executive Director of Boral Limited and from 2016 to 2019, Jacqueline was a Director of Fisher & Paykel Appliances. Jacqueline previously held senior management positions, including Chief Operating Officer, Global Consumer and Food Service, with Fonterra Cooperative Group, one of the world's largest dairy product producers and exporters. Prior to that, she was in senior management with Campbell Arnott's and Kellogg Company. She was also Programme Steering Group Director, Ministry for Primary Industries, New Zealand and Deputy Chairman of the Global Dairy Platform Inc. She was previously a Senior Advisor at McKinsey Consulting RTS.

## **Abi Cleland - Non-executive Director**

MBA, BCom/BA

Abi Cleland is currently a Non-executive Director of Computershare Limited and Orora Limited. She was previously a Nonexecutive Director of Sydney Airport Corporation Limited, Chairman of Planwise AU, a Director of Swimming Australia and on the Lazard PE Fund advisory committee. From 2012 to 2017, Abi established and ran an advisory and management business, Absolute Partners, focusing on strategy, mergers and acquisitions and disruption. Before that, she held senior management roles at KordaMentha's 333, where she was Managing Director, and at ANZ Banking Group Limited, Incitec Pivot Limited and Amcor Limited.

**Richard Freudenstein - Non-executive Director**

LLB (Hons), BEc

Richard Freudenstein is the Chairman and a Non-executive Director of Appen Limited as well as a Non-executive Director of REA Group Limited (where he was Chairman from 2007 to 2012). He is a board member of Cricket Australia and Deputy Chancellor of the University of Sydney.

Richard was previously Chief Executive Officer of Foxtel (2011 to 2016), Chief Executive Officer of The Australian and News Digital Media at News Ltd (2006 to 2010), and Chief Operating Officer at British Sky Broadcasting plc (2000 to 2006). His previous board positions include Ten Network Holdings Limited (2015 to 2016), Foxtel (2009 to 2011) and Astro Malaysia Holdings Berhad (2016 to 2019). Richard was also a member of the Advisory Board of artificial intelligence software company, Afiniti Ltd (2017 to 2022).

**Andrew Penn AO - Non-executive Director**

MBA, AMP, FCCA, HFAIPM

Andy Penn is currently the Chairman of the Australian Government's Cyber Security Expert Advisory Board. He is a member of the Advisory Board of REDSPICE, Quad Investors Network of the American Frontier Fund and the Council of Trustees of the National Gallery of Victoria. Andy also is a Life Governor of Very Special Kids, Ambassador for the Amy Gillett Foundation, and a member of the Advisory boards of The Big Issue Home for Homes and JDRF.

From 2015 – 2022, Andy was Chief Executive Officer and Managing Director of Telstra and was also previously Telstra's Chief Financial Officer and Group Executive International.

Prior to joining Telstra, Andy spent 23 years with AXA. From 2006 to 2011, he was the Group Chief Executive Officer and Chief Financial Officer AXA Asia Pacific Holdings. Andy has had an extensive career spanning more than four decades across three industries – telecommunications and technology, financial services and shipping.

In 2023, he was named an Officer of the Order of Australia (AO) in the Australia Day honours for distinguished service to business, charitable organisations, youth and the arts.

**Scott Price - Non-executive Director**

BA, MBA, MA

Scott Price commenced as Group Chief Executive of DFI Retail Group Holdings Limited on 1 August 2023, having retired in early 2022 as Executive Vice-President; President of UPS International. Scott was also previously UPS's Chief Strategy and Transformation Officer and was responsible for strategic planning, Global Business Services and the company's Advanced Technology Group.

From 2009 to 2017, Scott led Walmart's Asia store business before moving to the United States to lead global sourcing, international technology, real estate and strategy. He was also previously President and CEO of DHL Asia and then DHL Europe and began his career at The Coca-Cola Company in Asia. Scott is a former board member of the not-for-profit World Food Program USA.

**Wendy Stops - Non-executive Director**

BAppSc (Information Technology), GAICD

Wendy Stops is the Chair of Fitted for Work, Deputy Chancellor and Council member at the University of Melbourne, Chair of the Industry Advisory Board for the Melbourne Business School's Centre for Business Analytics, a member of the AICD's Governance of Innovation and Technology Panel and a member of AT Kearney's ANZ Advisory Board.

Previously, Wendy was the Chair of Blackmores Limited and a Non-executive Director of the Commonwealth Bank of Australia Limited and Altium Limited. Currently, Wendy is a member of Chief Executive Women, serving on their Leaders Program Committee, and a graduate of the AICD.

**Leah Weckert - Managing Director and CEO**

BEng (Hons), BSc, MBA, GAICD

Leah Weckert became the Managing Director and Chief Executive Officer of Coles on 1 May 2023.

Leah joined Coles in 2011 and has held several senior roles across the business. Most recently, Leah was Chief Executive, Commercial and Express, leading the Supermarkets and Coles Express business units. Before this, Leah was Chief Financial Officer and played a leadership role in the demerger of Coles from Wesfarmers in 2018. Leah has also held roles as Director Strategy, Director People & Culture, State General Manager Victoria Operations, and General Manager Merchandise, Strategy and Innovation.

Prior to joining Coles, Leah worked at McKinsey & Company, advising large private and public sector clients, and Foster's Group in Strategy and Business Development.

**Charlie (Sharbel Raymond) Elias - Chief Financial Officer**

Charlie is a global finance leader with extensive finance and executive experience over 30 years. Charlie has a demonstrated track record of success as a global CFO and Executive in large scale and complex organisations.

Charlie is responsible for finance, treasury, strategy, business development, investor relations, insurance and property.

Prior to joining Coles, Charlie was the CEO of BlueScope Building Products Asia and North America. Previous roles have included CFO of BlueScope Limited, CFO and Executive Director of Linfox Group and CFO, Director and General Manager Strategy & Business Development for TXU Australia.

Charlie began his career with Deloitte, holds a Bachelor of Arts in Accountancy (with distinction) and is a member of both the Institute of Chartered Accountants and the Australian Institute of Company Directors.



Table 1 - Financial summary

June year end	2020	2021	2022	2023	2024	2025e	2026e	2027e
<b>Profit &amp; Loss (A\$m)</b>								
Supermarkets	32,993	33,868	34,624	36,746	39,042	39,916	41,909	44,135
Liquor	3,308	3,525	3,613	3,610	3,692	3,699	3,953	4,197
Other	0	0	0	127	837	856	749	0
<b>Sales - Continuing ops</b>	<b>36,301</b>	<b>37,393</b>	<b>38,237</b>	<b>40,483</b>	<b>43,571</b>	<b>44,471</b>	<b>46,610</b>	<b>48,332</b>
Discontinued operations	1,107	1,192	0	0	0	0	0	0
<b>Sales revenue</b>	<b>37,408</b>	<b>38,585</b>	<b>38,237</b>	<b>40,483</b>	<b>43,571</b>	<b>44,471</b>	<b>46,610</b>	<b>48,332</b>
... Change	-3.6%	3.1%	-0.9%	5.9%	7.6%	2.1%	4.8%	3.7%
Supermarkets	2,867	3,001	3,022	3,157	3,487	3,680	4,006	4,227
Liquor	242	276	278	279	261	255	288	316
Other	(19)	(52)	(41)	(54)	(89)	(91)	(98)	(110)
<b>EBITDA - Continuing ops</b>	<b>3,090</b>	<b>3,225</b>	<b>3,259</b>	<b>3,382</b>	<b>3,659</b>	<b>3,844</b>	<b>4,196</b>	<b>4,433</b>
Discontinued operations	167	207	0	0	0	0	0	0
<b>EBITDA</b>	<b>3,257</b>	<b>3,432</b>	<b>3,259</b>	<b>3,382</b>	<b>3,659</b>	<b>3,844</b>	<b>4,196</b>	<b>4,433</b>
Deprec. & amort	(1,495)	(1,559)	(1,432)	(1,523)	(1,602)	(1,776)	(1,846)	(1,912)
EBIT	1,762	1,873	1,827	1,859	2,057	2,068	2,350	2,521
Interest expense	(443)	(427)	(360)	(394)	(442)	(505)	(502)	(496)
<b>Pre-tax profit</b>	<b>1,319</b>	<b>1,446</b>	<b>1,467</b>	<b>1,465</b>	<b>1,615</b>	<b>1,563</b>	<b>1,848</b>	<b>2,025</b>
Tax expense	(341)	(441)	(422)	(423)	(487)	(474)	(560)	(613)
... tax rate	25.9%	30.5%	28.8%	28.9%	30.2%	30.3%	30.3%	30.3%
Minorities	0	0	0	0	0	0	0	0
<b>Operating NPAT</b>	<b>978</b>	<b>1,005</b>	<b>1,045</b>	<b>1,042</b>	<b>1,128</b>	<b>1,089</b>	<b>1,288</b>	<b>1,412</b>
Abs. & extras	0	0	3	56	(10)	0	0	0
<b>Reported Profit</b>	<b>978</b>	<b>1,005</b>	<b>1,048</b>	<b>1,098</b>	<b>1,118</b>	<b>1,089</b>	<b>1,288</b>	<b>1,412</b>
CFC/ADC Implementation costs	0	0	32	58	107	130	0	0
Tax effect	0	0	(10)	(17)	(32)	(39)	0	0
Normalisation to 52wk	0	0	0	0	(69)	0	0	0
<b>Adjusted NPAT</b>	<b>978</b>	<b>1,005</b>	<b>1,067</b>	<b>1,083</b>	<b>1,134</b>	<b>1,180</b>	<b>1,288</b>	<b>1,412</b>
<b>Cashflow (A\$m)</b>								
EBITDA	3,257	3,432	3,259	3,382	3,659	3,844	4,196	4,433
Tax Paid	(504)	(358)	(485)	(370)	(382)	(553)	(517)	(586)
Net Interest Expense	(429)	(433)	(403)	(427)	(414)	(474)	(503)	(499)
Change in Wkg Capital	82	48	232	89	(121)	160	80	97
Principle lease payments	(846)	(891)	(901)	(907)	(834)	(1,002)	(1,019)	(1,041)
Other	146	148	87	133	51	0	0	0
<b>Operating Cash Flow</b>	<b>1,706</b>	<b>1,946</b>	<b>1,789</b>	<b>1,900</b>	<b>1,959</b>	<b>1,976</b>	<b>2,237</b>	<b>2,404</b>
Capex	(833)	(1,279)	(1,272)	(1,514)	(1,671)	(1,241)	(1,229)	(1,252)
Div Paid (gross of DRP)	(873)	(807)	(798)	(844)	(853)	(910)	(964)	(1,098)
<b>Free Cash Flow</b>	<b>0</b>	<b>(140)</b>	<b>(281)</b>	<b>(458)</b>	<b>(565)</b>	<b>(176)</b>	<b>44</b>	<b>54</b>
Acquisitions	(36)	(8)	(6)	(14)	(97)	0	0	0
Disposals	211	181	136	528	255	115	109	109
Share Issues	(17)	(26)	0	(71)	(40)	0	0	0
Other	0	0	0	0	(9)	0	0	0
<b>(Inc.) /dec. in net debt</b>	<b>158</b>	<b>7</b>	<b>(151)</b>	<b>(15)</b>	<b>(456)</b>	<b>(61)</b>	<b>153</b>	<b>163</b>
<b>Performance Ratios</b>								
EBITDA/sales (%)	8.7%	8.9%	8.5%	8.4%	8.4%	8.6%	9.0%	9.2%
EBITA/sales (%)	4.7%	4.9%	4.8%	4.6%	4.7%	4.7%	5.0%	5.2%
ROE (%)	37.4%	35.7%	33.5%	31.0%	31.2%	28.7%	31.9%	32.9%
ROIC (%)	59.2%	59.1%	50.3%	47.9%	44.8%	42.8%	47.7%	50.2%
Asset Turn (years)	2.18	2.20	2.28	2.22	2.28	2.16	2.27	2.32
Capex/Deprn (x)	0.56	0.82	0.89	0.99	1.04	0.70	0.67	0.65
EBIT Interest cover (x)	0.05	0.05	0.06	0.05	0.05	0.04	0.04	0.04
Indebtedness/EBITDA (x)	3.07	2.82	2.99	2.58	2.66	2.57	2.33	2.19
Net debt/equity (%)	13.8%	12.6%	16.2%	15.5%	27.0%	27.4%	21.9%	16.8%
Net debt/(Net debt + Equity) (%)	12.2%	11.2%	13.9%	13.4%	21.3%	21.5%	18.0%	14.4%

Recommendation	Buy
Share price (\$ps)	19.19
Target price (\$ps)	21.55
Shares on issue (m)	1,339
<b>Market cap (\$m)</b>	<b>25,703</b>
Net Debt	977
Lease liabilities	8,417
<b>Enterprise value (\$m)</b>	<b>35,097</b>

June year end	2020	2021	2022	2023	2024	2025e	2026e	2027e
<b>Valuation Ratios</b>								
Adjusted EPS (\$ps)		75.3	79.9	80.9	84.7	88.1	96.2	105.4
Change (%)			6.0%	1.3%	4.7%	3.9%	9.2%	9.6%
PE (x)		25.5	24.0	23.7	22.7	21.8	20.0	18.2
EV/EBITDA (x)		10.2	10.8	10.4	9.6	9.1	8.4	7.9
EV/EBIT (x)		9.9	10.4	10.0	9.3	8.9	8.2	7.8
NTA (\$ps)		83.6	94.3	98.7	105.6	106.8	114.9	126.1
PINTA (x)		23.0	20.3	19.4	18.2	18.0	16.7	15.2
Book Value (\$ps)		210.9	233.8	250.7	270.2	283.3	301.5	320.9
Price/Book (x)		9.1	8.2	7.7	7.1	6.8	6.4	6.0
DPS (\$)		61.0	63.0	66.0	68.0	68.0	78.0	86.0
Payout (%)		81.0%	78.9%	81.6%	80.3%	77.2%	81.1%	81.6%
Yield (%)		3.2%	3.3%	3.4%	3.5%	3.5%	4.1%	4.5%
Franking (%)		100%	100%	100%	100%	100%	100%	100%

<b>Balance Sheet (A\$m)</b>								
Cash & near cash	992	787	589	597	675	650	693	701
Receivables	434	368	470	605	496	548	575	596
Inventories	2,166	2,107	2,448	2,323	2,703	2,616	2,750	2,898
Other	187	172	244	227	112	112	112	112
<b>Current assets</b>	<b>3,779</b>	<b>3,434</b>	<b>3,751</b>	<b>3,752</b>	<b>3,986</b>	<b>3,927</b>	<b>4,129</b>	<b>4,307</b>
Fixed assets	4,127	4,463	4,807	4,985	5,619	5,821	5,988	6,158
Right of use assets	7,660	7,288	7,199	6,507	7,048	7,071	7,128	7,185
Intangibles	1,597	1,698	1,864	2,035	2,203	2,365	2,500	2,610
Other	8,846	8,528	8,414	7,520	8,062	8,085	8,142	8,199
<b>Non current assets</b>	<b>14,570</b>	<b>14,689</b>	<b>15,085</b>	<b>14,540</b>	<b>15,884</b>	<b>16,271</b>	<b>16,630</b>	<b>16,967</b>
<b>Total assets</b>	<b>18,349</b>	<b>18,123</b>	<b>18,836</b>	<b>18,292</b>	<b>19,870</b>	<b>20,197</b>	<b>20,759</b>	<b>21,274</b>
Creditors	3,737	3,660	4,335	4,434	4,584	4,710	4,949	5,216
Borrowings	0	0	0	0	0	0	0	0
Lease liabilities	885	897	914	820	911	914	921	929
Other	1,059	1,262	1,166	1,154	1,276	1,230	1,333	1,396
<b>Current liabilities</b>	<b>5,681</b>	<b>5,819</b>	<b>6,415</b>	<b>6,408</b>	<b>6,771</b>	<b>6,853</b>	<b>7,204</b>	<b>7,541</b>
Borrowings	1,354	1,142	1,095	1,118	1,652	1,688	1,579	1,424
Lease liabilities	8,198	7,859	7,767	7,029	7,506	7,530	7,591	7,652
Other	501	490	435	381	324	331	347	359
<b>Non current liabilities</b>	<b>10,053</b>	<b>9,491</b>	<b>9,297</b>	<b>8,528</b>	<b>9,482</b>	<b>9,549</b>	<b>9,516</b>	<b>9,435</b>
<b>Total liabilities</b>	<b>15,734</b>	<b>15,310</b>	<b>15,712</b>	<b>14,936</b>	<b>16,253</b>	<b>16,403</b>	<b>16,721</b>	<b>16,976</b>
<b>Net assets</b>	<b>2,615</b>	<b>2,813</b>	<b>3,124</b>	<b>3,356</b>	<b>3,617</b>	<b>3,795</b>	<b>4,038</b>	<b>4,299</b>
Share capital	1,611	1,585	1,636	1,644	1,672	1,672	1,672	1,672
Reserves	43	69	95	104	103	103	103	103
Retained earnings	961	1,159	1,393	1,608	1,842	2,020	2,263	2,524
Outside equity interests	0	0	0	0	0	0	0	0
<b>S/holders' funds</b>	<b>2,615</b>	<b>2,813</b>	<b>3,124</b>	<b>3,356</b>	<b>3,617</b>	<b>3,795</b>	<b>4,038</b>	<b>4,299</b>
Net Debt (Cash)	362	355	506	521	977	1,038	886	722
Net debt (Cash) ex-CIT	902	931	1,065	868	1,330	1,416	1,281	1,133
Group indebtedness	9,985	9,687	9,746	8,717	9,747	9,860	9,794	9,714

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

**Research Team**

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Rob Crookston	Strategy	612 8224 2813	rcrookston
<b>Analysts</b>			
John Hester	Healthcare	612 8224 2871	jhester
Martyn Jacobs	Healthcare	613 9235 1683	mjacobs
Thomas Wakim	Healthcare	612 8224 2815	twakim
Michael Ardrey	Industrials	613 9256 8782	mardrey
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
Joseph House	Industrials	613 9325 1624	jhouse
Baxter Kirk	Industrials	613 9235 1625	bkirk
Daniel Laing	Industrials	612 8224 2886	dlaing
Hayden Nicholson	Industrials	613 9235 1757	hnicholson
Chami Ratnapala	Industrials	612 8224 2845	cratnapala
Jonathan Snape	Industrials	613 9235 1601	jsnape
Connor Eldridge	Real Estate	612 8224 2893	celdridge
Andy MacFarlane	Real Estate	612 8224 2843	amacfarlane
Regan Burrows	Resources	618 9236 7677	rburrows
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9325 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
James Williamson	Resources	613 9235 1692	jwilliamson
<b>Associates</b>			
Leo Armati	Associate Analyst	612 8224 2846	larmati
Kion Sapountzis	Associate Analyst	613 9235 1824	ksapountzis
Ritesh Varma	Associate Analyst	613 9235 1658	rvarma

**Research Coverage & Policies**

For Bell Potter Securities' Research Coverage Decision Making Process and Research Independence Policy please refer to our company website: <https://bellpotter.com.au/research-independence-policy/>.

**Authoring Research Analyst's Certification**

The Authoring Research Analyst is responsible for the content of this Research Report, and, certifies that with respect to each security that the Analyst covered in this Report (1) all the views expressed accurately reflect the Analyst's personal views about those securities and were prepared in an independent manner and (2) no part of the Analyst's compensation was, is or will be, directly or indirectly, related to specific recommendations or views expressed by that Research Analyst in the Research Report.

**Research Analyst's Compensation**

Research Analyst's compensation is determined by Bell Potter Securities Research Management and Bell Potter Securities' Senior Management and is based upon activities and services intended to benefit the investor clients of Bell Potter Securities Ltd. Compensation is not linked to specific transactions or recommendations. Like all Company employees Research Analysts receive compensation that is impacted by overall Company profitability.

**Prices**

The Price appearing in the Recommendation panel on page 1 of the Research Report is the Closing Price on the Date of the Research Report (appearing in the top right hand corner of page 1 of the Research Report), unless a before midday (am) time appears below the Date of the Research Report in which case the Price appearing in the Recommendation panel will be the Closing Price on the business day prior to the Date of the Research Report.

**Availability**

The completion and first dissemination of a Recommendation made within a Research Report are shortly after the close of the Market on the Date of the Research Report, unless a before midday (am) time appears below the Date of the Research Report in which case the Research Report will be completed and first disseminated shortly after that am time.

**Dissemination**

Bell Potter generally disseminates its Research to the Company's Institutional and Private Clients via both proprietary and non-proprietary electronic distribution platforms. Certain Research may be disseminated only via the Company's proprietary distribution platforms; however such Research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the Author's previously published Research. Certain Research is made available only to institutional investors to satisfy regulatory requirements. Individual Bell Potter Research Analysts may also opt to circulate published Research to one or more Clients by email; such email distribution is discretionary and is done only after the Research has been disseminated. The level and types of service provided by Bell Potter Research Analysts to Clients may vary depending on various factors such as the Client's individual preferences as to frequency and manner of receiving communications from Analysts, the Client's risk profile and investment focus and perspective (e.g. market-wide, sector specific long term and short term etc.) the size and scope of the overall Client relationship with the Company and legal and regulatory constraints.

**Disclaimers**

This Research Report is a private communication to Clients and is not intended for public circulation or for the use of any third party, without the prior written approval of Bell Potter Securities Limited.

The Research Report is for informational purposes only and is not intended as an offer or solicitation for the purpose of sale of a security. Any decision to purchase securities mentioned in the Report must take into account existing public information on such security or any registered prospectus.

This is general investment advice only and does not constitute personal advice to any person. Because this Research Report has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited Broker (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this Research Report.

While this Research Report is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in this document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee expressly or impliedly, that the information contained in this Research Report is complete or accurate.

Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views, opinions or recommendations contained in this Research Report or for correcting any error or omission which may have become apparent after the Research Report has been issued.

Bell Potter Securities Research Department has received assistance from the Company referred to in this Research Report including but not limited to discussions with management of the Company. Bell Potter Securities Policy prohibits Research Analysts sending draft Recommendations, Valuations and Price Targets to subject companies. However, it should be presumed that the Author of the Research Report has had discussions with the subject Company to ensure factual accuracy prior to publication.

All opinions, projections and estimates constitute the judgement of the Author as of the Date of the Research Report and these, plus any other information contained in the Research Report, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice.

Notwithstanding other departments within Bell Potter Securities Limited advising the subject Company, information obtained in such role is not used in the preparation of the Research Report.

Although Bell Potter Research does not set a predetermined frequency for publication, if the Research Report is a fundamental equity research report it is the intention of Bell Potter Research to provide research coverage of the covered issuers, including in response to news affecting the issuer. For non-fundamental Research Reports, Bell Potter Research may not provide regular updates to the views, recommendations and facts included in the reports.

Notwithstanding that Bell Potter maintains coverage on, makes recommendations concerning or discusses issuers, Bell Potter Research may be periodically restricted from referencing certain Issuers due to legal or policy reasons. Where the component of a published trade idea is subject to a restriction, the trade idea will be removed from any list of open trade ideas included in the Research Report. Upon lifting of the restriction, the trade idea will either be re-instated in the open trade ideas list if the Analyst continues to support it or it will be officially closed.

Bell Potter Research may provide different research products and services to different classes of clients (for example based upon long-term or short term investment horizons) that may lead to differing conclusions or recommendations that could impact the price of a security contrary to the recommendations in the alternative Research Report, provided each is consistent with the rating system for each respective Research Report.

Except in so far as liability under any statute cannot be excluded, Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in the document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of the document or any other person.

In the USA and the UK this Research Report is only for institutional investors. It is not for release, publication or distribution in whole or in part in the two specified countries. In Hong Kong this Research Report is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. In the United States this Research Report is being distributed by Bell Potter Securities (US) LLC which is a registered broker-dealer and member of FINRA. Any person receiving this Research Report from Bell Potter Securities (US) LLC and wishing to transact in any security described herein should do so with Bell Potter Securities (US) LLC.

**Bell Potter Securities Limited**

ABN 25 006 390 772  
Level 29, 101 Collins Street  
Melbourne, Victoria, 3000  
Telephone +61 3 9256 8700  
www.bellpotter.com.au

**Bell Potter Securities (HK) Limited**

Room 1601, 16/F  
Prosperity Tower, 39 Queens  
Road Central, Hong Kong, 0000  
Telephone +852 3750 8400

**Bell Potter Securities (US) LLC**

Floor 39  
444 Madison Avenue, New York  
NY 10022, U.S.A  
Telephone +1 917 819 1410

**Bell Potter Securities (UK) Limited**

16 Berkeley Street London, England  
W1J 8DZ, United Kingdom  
Telephone +44 7734 2929