

17 February 2021

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Coles Group Limited

Consumer Staples

HOLD

COL A\$18.18
TARGET PRICE A\$18.77

Coles Group Limited (COL) is an Australian retailer, providing customers with everyday products including fresh food, groceries, general merchandise, liquor, fuel and financial services through its store network and online platforms. Coles Group Limited provide value and service to the 21 million customers with over 2,500 retail outlets nationally.

Company Data

Number of shares	1,333.9 M
Market Capitalisation	24,250.8 M
Free float (%)	94.9
12-month high/low	\$19.12/\$14.21
Average Daily Turnover (\$m)	73.8447
% S&P/ASX200	1.26%
DDM Ranking	273
% All Ordinaries	1.024%
GICS Industry Group	Food & Staples Retailing

Source: FactSet, Barclay Pearce Capital

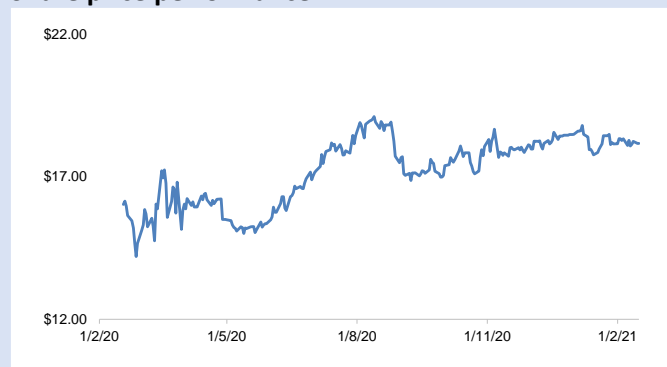
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	37,784.0	40,850.2	41,118.2	42,621.8
EBITDA (\$M)	3,257.0	3,559.4	3,606.7	3,759.9
Reported NPAT (\$M)	978.0	1,056.1	1,086.2	1,162.1
Adjusted NPAT (\$M)	978.0	1,057.8	1,089.8	1,150.2
Reported EPS (c)	73.3	79.5	81.9	87.6
Adjusted EPS (c - FD)	73.3	78.9	81.7	87.9
Adjusted EPS growth (%)	2.5	7.6	3.5	7.7
Adjusted P/E (x)	24.8	23.0	22.3	20.7
Dividend (c/sh)	57.5	65.8	68.5	74.0
Gross yield (%)	4.5	5.0	5.3	5.7
Net yield (%)	3.2	3.5	3.7	4.0
ROIC (%)	31.4	30.4	30.1	31.7

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

Share price performance.



Source: FactSet, Barclay Pearce Capital

FY21 Half Yearly Report

On the 17th of February, Coles Group (COL) released their interim results for the half year ended 3rd of January 2021 with the following highlights:

- Sales revenue increased by 8.1% to \$20.4 billion;
- eCommerce B2C sales growth of 61% with strategic investments made in user experience and capacity leading to significant improvements in Perfect Order Rate and customer satisfaction;
- Comparable sales growth of 7.2% in Supermarkets, 15.1% in Liquor and 9.9% in Express;
- Strong Group EBIT and earnings per share growth of 12.1% and 14.5% respectively;
- Cash realisation of 120%;
- Fully-franked interim dividend of 33 cents per share declared, a 10% increase on the 1H20 interim dividend;
- Supermarkets customer satisfaction up by 3.9pp to 89.8% compared to 2H20;
- Improved safety with 15% reduction in Total Recordable Injury Frequency Rate (TRIFR) compared to 2H20;

Half Year Ended 3 January	2021 AU\$M	2020 AU\$M	Change %
Sales Revenue	20,378	18,846	8.1%
EBIT	1,020	910	12.1%
Net profit after tax (NPAT)	560	489	14.5%
Basic earnings per share (cents)	42.0	36.7	14.5%
Interim dividend per share (cents)	33.0	30.0	10.0%

COL CEO, Steven Cain, stated:

"We have now delivered the first 18 months of our refreshed strategy whilst ensuring that we support our team members, customers, suppliers and community partners through a volatile and unpredictable COVID-19 year. I would like to thank all our stakeholders for pulling together to make Australia one of the safest countries in the world."

In the half we have made significant progress in our Own Brand product development, online operations and supply chain automation. Whilst COVID-19 will continue to present challenges it will also continue to present opportunities for change. With a strong balance sheet and team, Coles is well placed to continue delivering on our vision of becoming the most trusted retailer in Australia and grow long-term shareholder value."

Earnings changes

For H1 FY21 COL reported NPAT of \$560m representing 14.5% growth. This is well in excess of full year growth expectations for NPAT of just 4%. Hence, we expect positive earnings revisions of 4% for FY21 and 2% for future periods.

Valuation

We are initiating on COL with a price target of \$18.77 and a HOLD recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Valuation Methodology

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Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)