

FINANCIAL REVIEW

HD **Wesfarmers' cash dilemma gets bigger**

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WC 427 words

PD 8 April 2014

SN The Australian Financial Review

SC AFNR

ED First

PG 20

LA English

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It is not the worst problem a **company** can face – Wesfarmers has more money than it knows what to do with.

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The **sale** of the conglomerate's insurance broking business adds another \$1 **billion** to the **company**'s swelling coffers which increases pressure on chief executive Richard Goyder to invest in growth or return more excess capital to shareholders.

While many chief executives would envy Goyder's position it is a dilemma nonetheless.

The latest deal follows the \$1.84 **billion sale** of its underwriting division to Insurance Australia Group (IAG), completing the **company**'s exit from insurance altogether. This leaves a significant gap in the **company**'s earnings profile which could be filled through acquisitions.

The problem is finding something to buy. Valuations remain high and expanding offshore has traditionally been fraught with risk for Australian companies. Analysts say Wesfarmers has the ability to fund a deal worth \$5 **billion** or more.

Goyder does not want to sit on a pile of cash either and says he could use the proceeds to pay down debt. But Wesfarmers is already undergeared with net debt of \$2 **billion** for a **company** with a market capitalisation of about \$48 **billion**.

Increasing shareholder returns through a special dividend or on-market buyback is an option. Investors' obsession with yield has contributed to a more conservative approach to growth since the global financial crisis. Goyder oversaw Wesfarmer's \$19 **billion acquisition** of Coles in 2008, proving he is not afraid of doing a big deal. However, the world has changed significantly since then.

Still, Wesfarmers risks stagnation if it cannot drive earnings growth. Coles's turnaround under Ian McLeod, who has now been moved into a senior strategic role, has been impressive but growth is slowing and the **company** is still working to turn around Target and is betting on a turnaround in **coal**.

Goyder never gives much away when it comes to deal making. A lot of options are on the table. Wesfarmers is looking at opportunities offshore and has a business development office in **Hong Kong**. But Australian companies have a poor track record expanding offshore and Goyder is wary that any push into retail overseas means competing with the world's best operators.

One potential deal is doing something with explosives maker Orica, which is looking to sell its chemicals business.

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NS ccat : Corporate/Industrial News

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AN Document AFNR000020140407ea480006b