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HD **Wesfarmers weighs buying spree after disposals**

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Wesfarmers, the Australian retailing-to-**coal**-**mining** conglomerate, is eyeing **acquisition** targets following an agreement to sell its insurance broking division to US **company**Arthur J Gallagher & Co for A$1.15bn (US$1.1bn).

The disposal of its broking businesses in Australia, UK and New Zealand follows the A$1.8bn **sale** of the group's insurance underwriting business to IAG in December.

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Regulatory approval for both sales, still pending, would create a nearly A$3bn cash pile for Wesfarmers, estimates UBS. With that, Wesfarmers is considering whether to go on a buying spree.

"We have our eyes on a number of sectors," Richard Goyder, Wesfarmers' managing director, told the Financial Times in an interview last week, before Monday's announcement of the proposed disposal of its insurance broking division.

"We do the work then we wait for an opportunity to buy at a price we think is attractive for our shareholders."

The **sale** by Wesfarmers is the latest in a string of mergers and **acquisition** activity in Australia. Deal volumes reached US$19.4bn in the first quarter, compared with $9.6bn in the same period a year earlier, according to Dealogic. That is the highest level of **M**&A activity since the first quarter of 2011, reflecting an improved economic outlook for the country.

Wesfarmers began life as a farmers' co-operative in Western Australia in 1914 and has grown into a conglomerate comprising retailing, **mining** and chemicals divisions among others. It is Australia's biggest private sector employer with about 200,000 staff, and its retail businesses include the Coles supermarket chain as well as Target and Kmart.

In a note to clients on Monday, UBS said Wesfarmers had three options for the almost A$3bn in cash generated from its recent disposals: a one-off return of capital to shareholders; acquisitions; or paying down debt.

"Following the divestment, [Wesfarmers] will have in excess of A$5bn of unused facilities. We estimate that a A$7bn **acquisition** funded via a 50/50 mix of debt and **equity** would be about 2 per cent accretive in fiscal year 2015," said UBS.

Mr Goyder said Wesfarmers would not simply sit on a "whole pile of cash" but would either use it to take advantage of opportunities or give it back to shareholders.

"One of the things we have been good at over time is to take advantage of discontinuities," said Mr Goyder.

Wesfarmers bought Coles for A$19bn in 2007 in an opportunistic deal following an ownership review by the retailer, and the supermarket chain has flourished under Wesfarmers' management. Last month Coles said it would open 70 new stores, creating 16,000 jobs over three years.

Last year Wesfarmers was rumoured to have bid for **Hong Kong**-based supermarket chain ParknShop, which was valued at up to US$4bn, before the process was subsequently halted by Li Ka-shing, its **billionaire** owner.

Wesfarmers' success at turning round distressed assets could make the **coal** industry a potential target given the sharp fall in prices across the sector.

"I'd rather be buying **coal** assets [now] than a few years ago," said Mr Goyder. "We'd have a strict rule on any resources business. If you are not a low cost quartile producer you do not want to be in it . . . if you are a high cost producer at current pricing it would be difficult to make any money."

CO galgha : Arthur J. Gallagher & Co | wsfrm : Wesfarmers Ltd

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