
Retail Confronted with Change... ...But Investment Opportunities Exist

AIA National Conference 2018

Johannes Faul, Morningstar



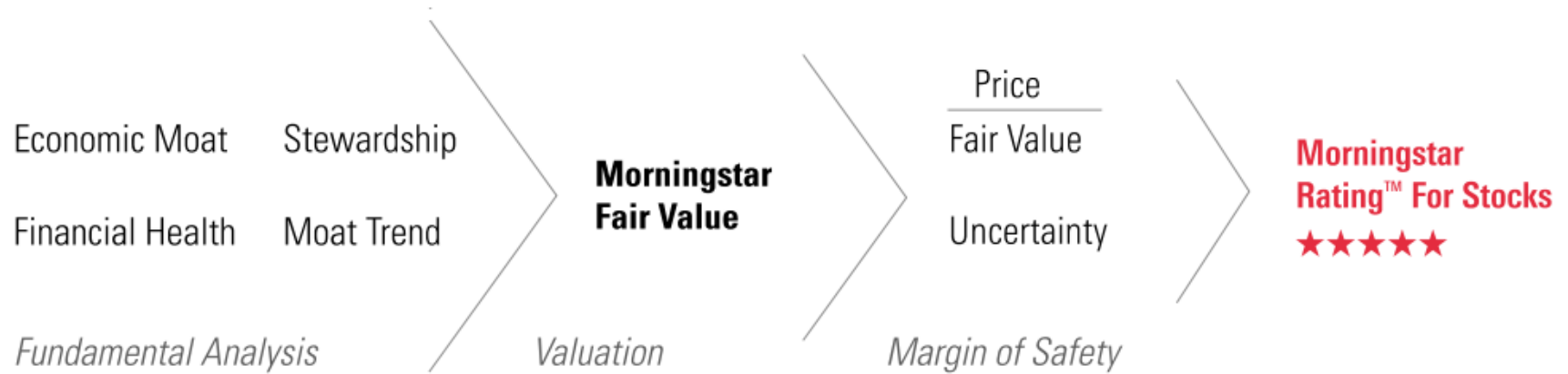
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Morningstar's Approach to Stock Investing – a Real Point of Differentiation



Source: Morningstar

Morningstar Equity Ratings

Five-star stocks trade at the biggest risk-adjusted discount to their fair values, whereas one-star stocks trade at premiums to their intrinsic worth.

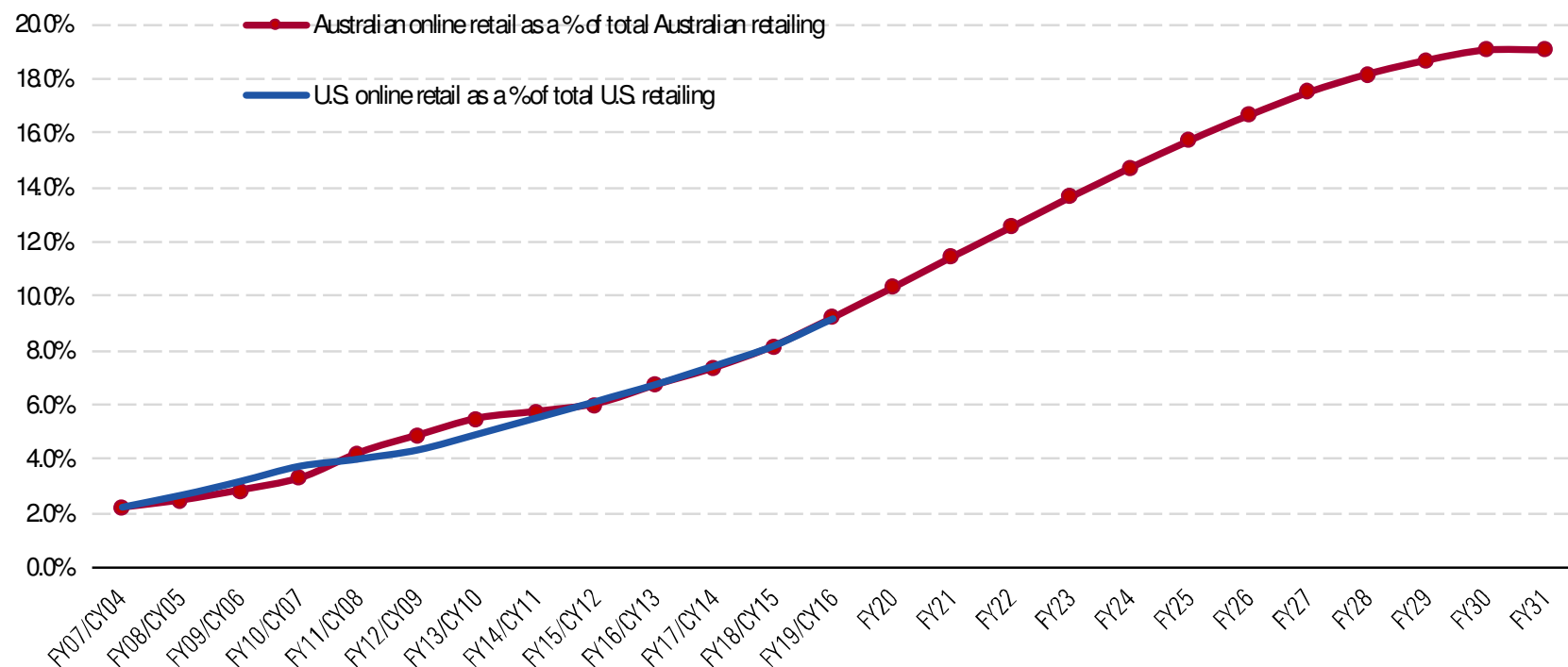
Four key components drive the Morningstar rating:

- 1. Competition:** our assessment of the firm's economic moat;
- 2. DCF Modelling:** our estimate of the stock's fair value;
- 3. Margin of Safety:** our uncertainty around that fair value estimate, and;
- 4. Market:** the current market price.

Chapter 1 – Consumer Discretionary

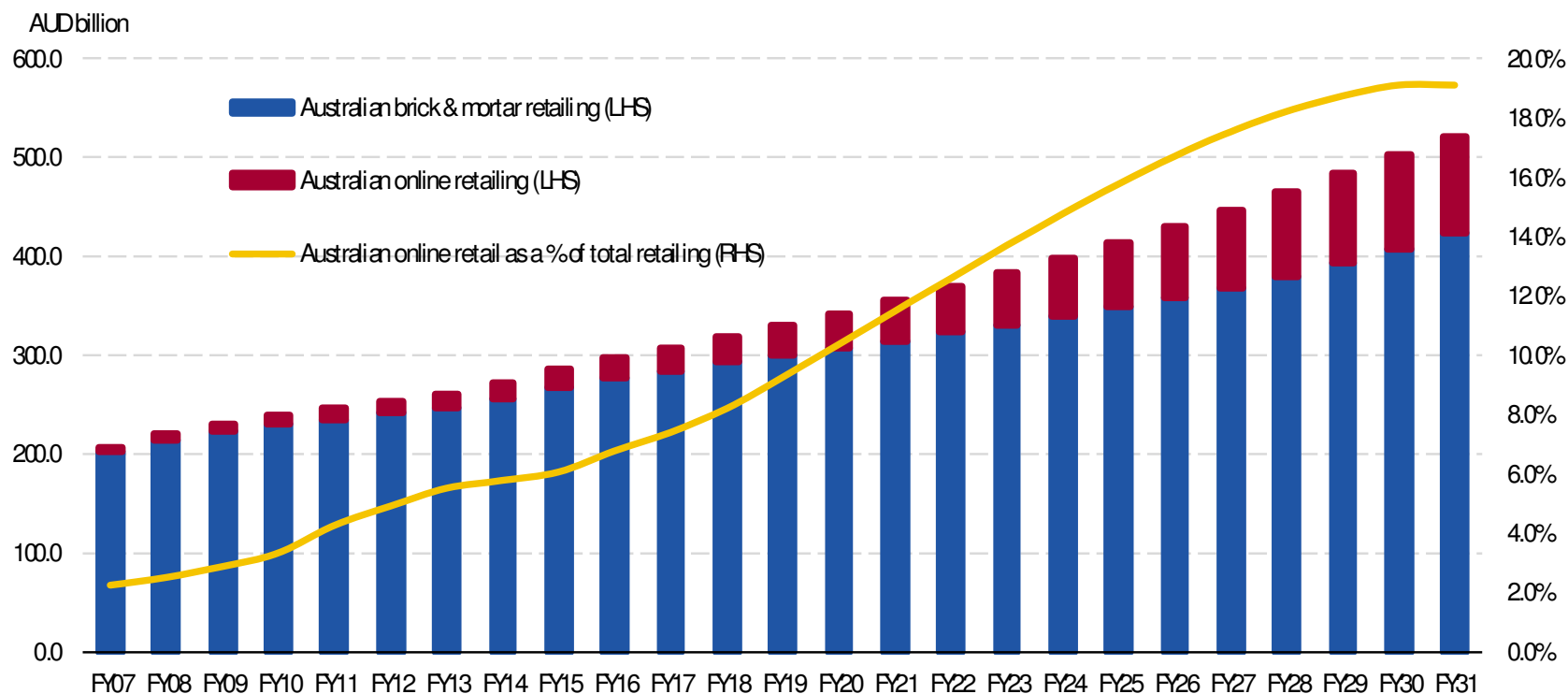


Consumer Trends are Globally Similar and Australia is Following America's Online Footsteps



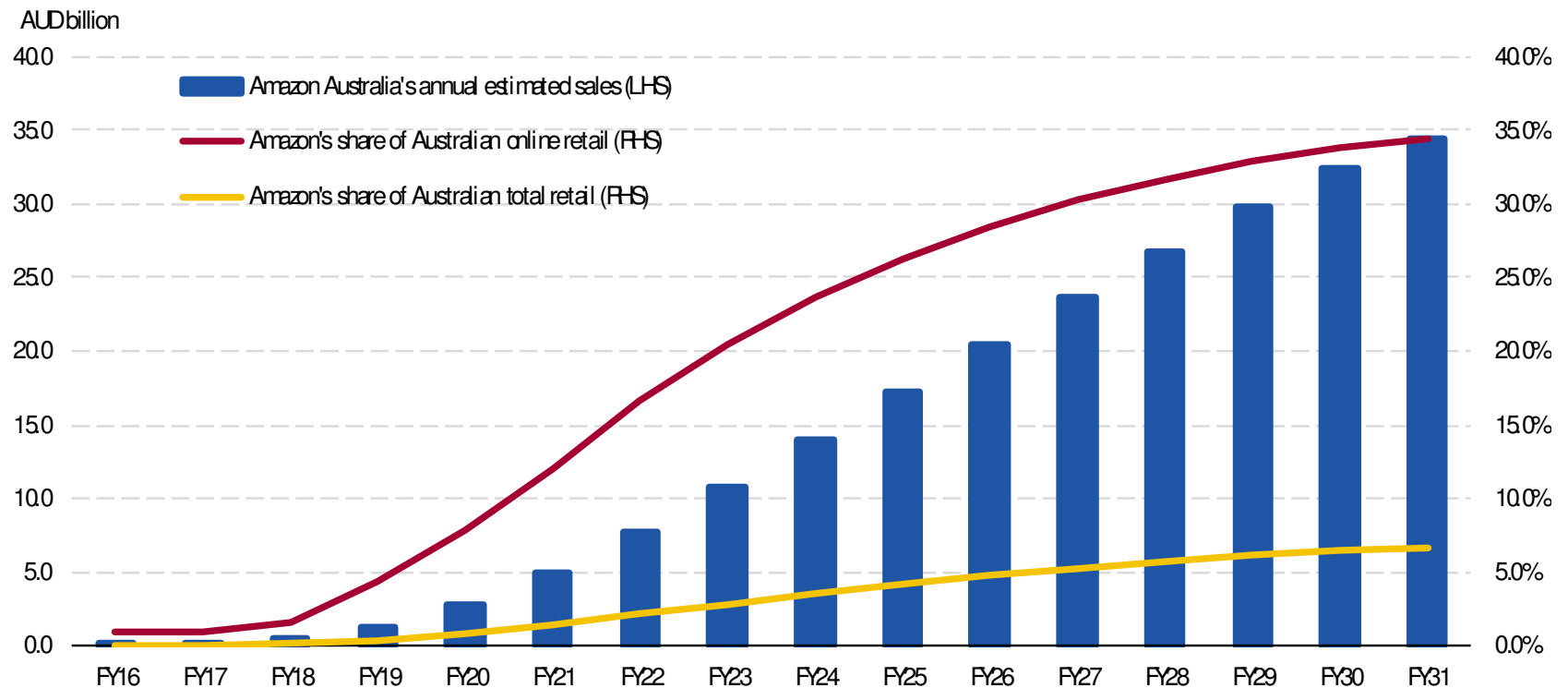
Source: U.S. Census Bureau, Australian Bureau of Statistics, Morningstar estimates

Online Penetration to Cap Out at Some Point, but Long-Term Shopping Habits and Disruption are Impossible to Predict



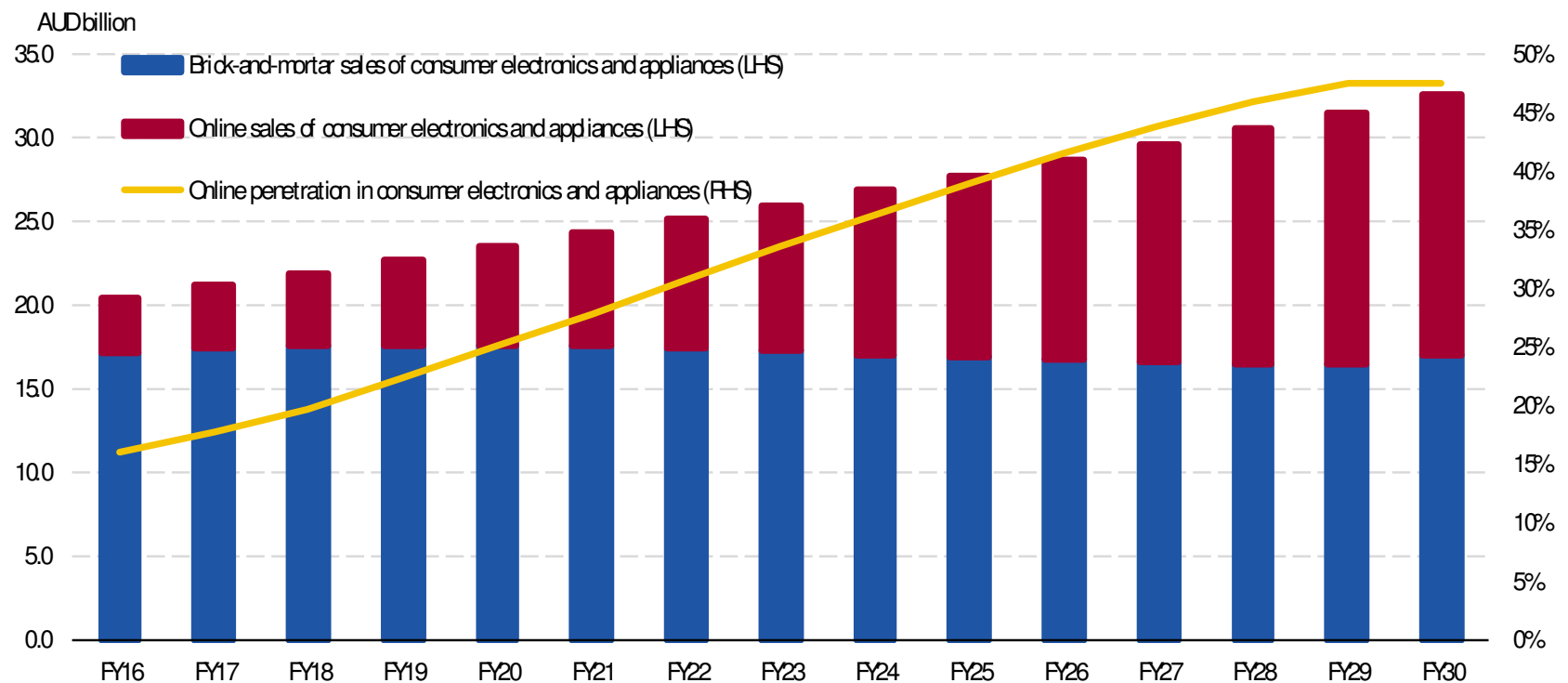
Source: Australian Bureau of Statistics, National Australia Bank, Morningstar estimates

Amazon One of the Largest Australian Retailers by the End of Next Decade



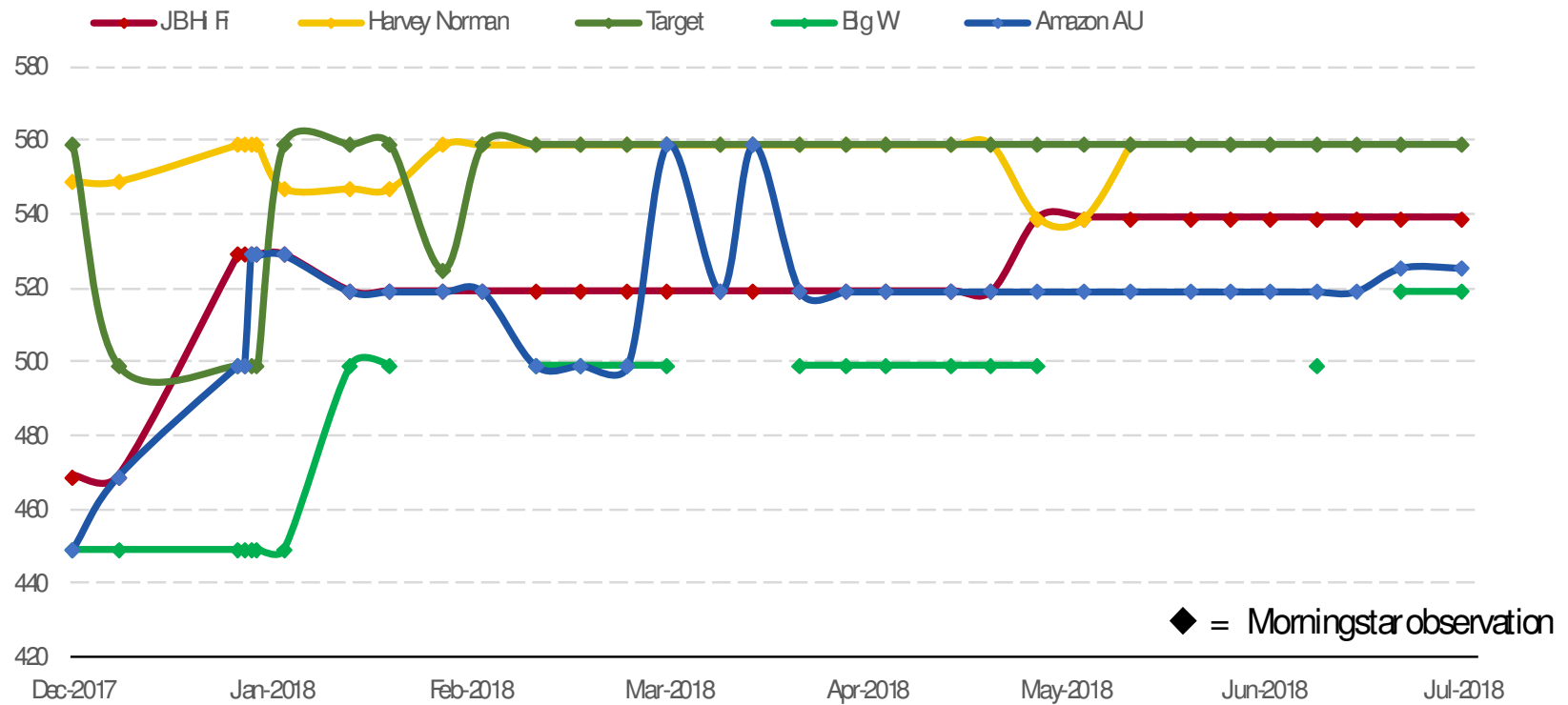
Source: Morningstar estimates

Commoditised Products More Exposed to the Migration to Ecommerce and Growth Will be Driven By Online Sales



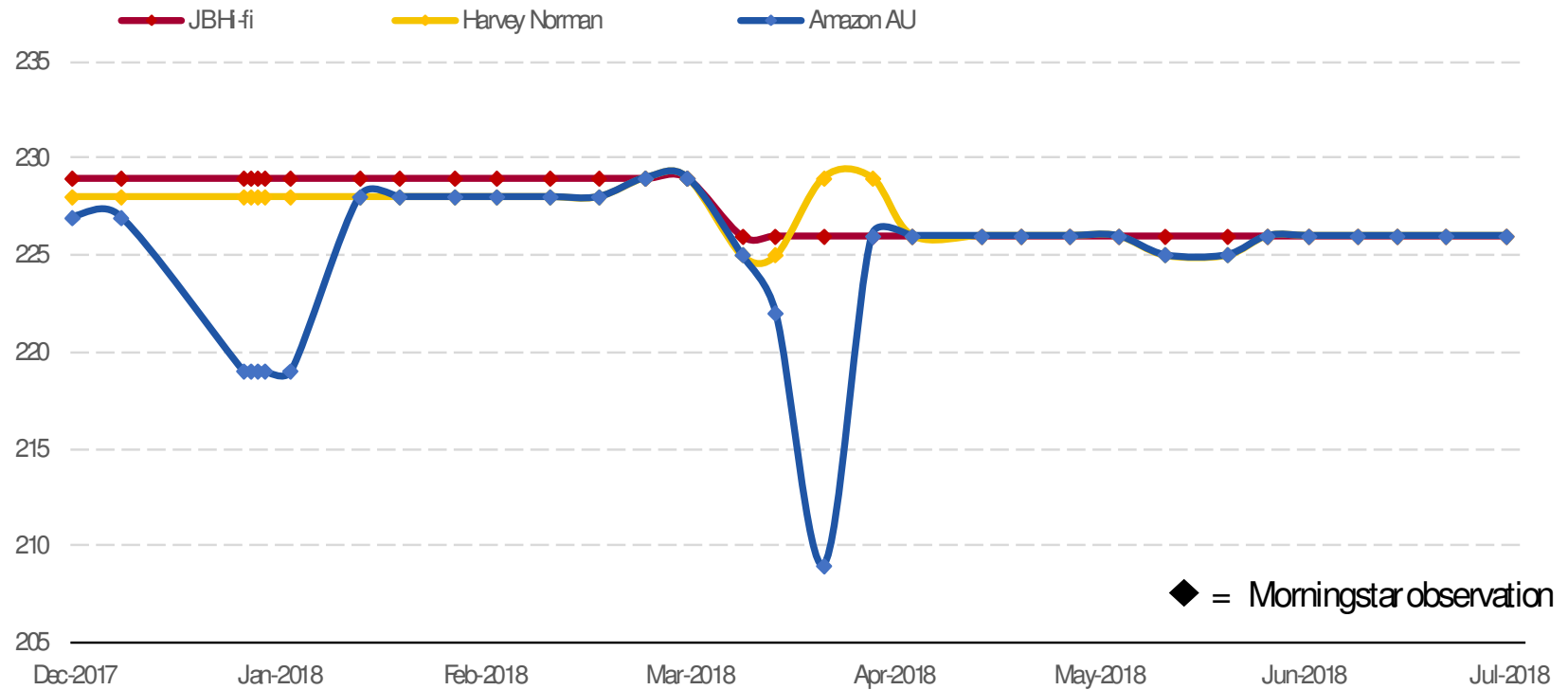
Source: Morningstar estimates

So far, Incumbent Consumer Electronic Retailers Don't Seem to Have Materially Dropped Prices



Source: Company websites, Morningstar

Scale Can Help in Keeping Competitive, But Margins Unlikely to Expand



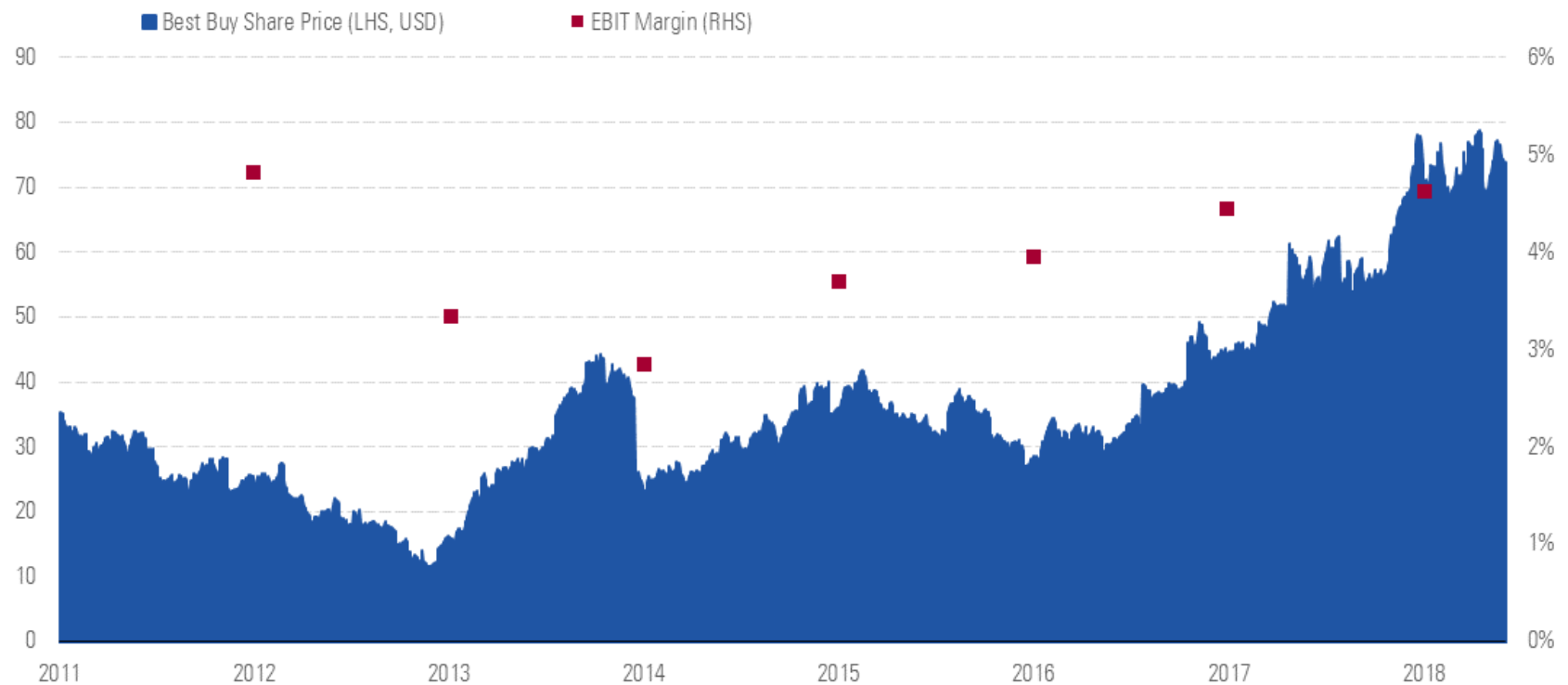
Source: Company websites, Morningstar

Readthroughs from U.S. Consumer Electronics Giant Best Buy

g Omnichannel retailers can compete with Amazon

g Consolidate store network

g Physical stores provide a competitive edge



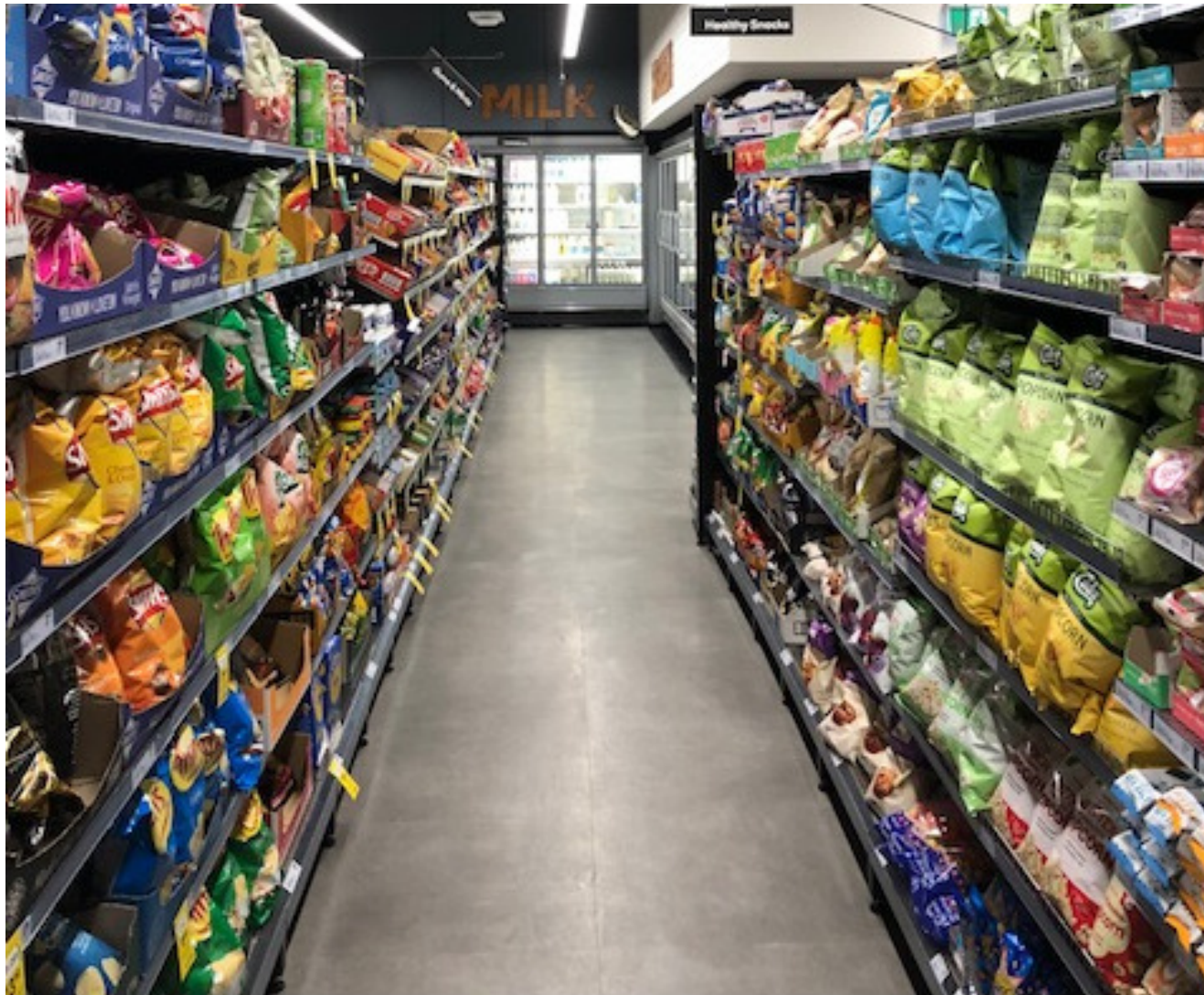
Source: Morningstar, Company filings

How to Gain Exposure to Consumer Discretionary Trends

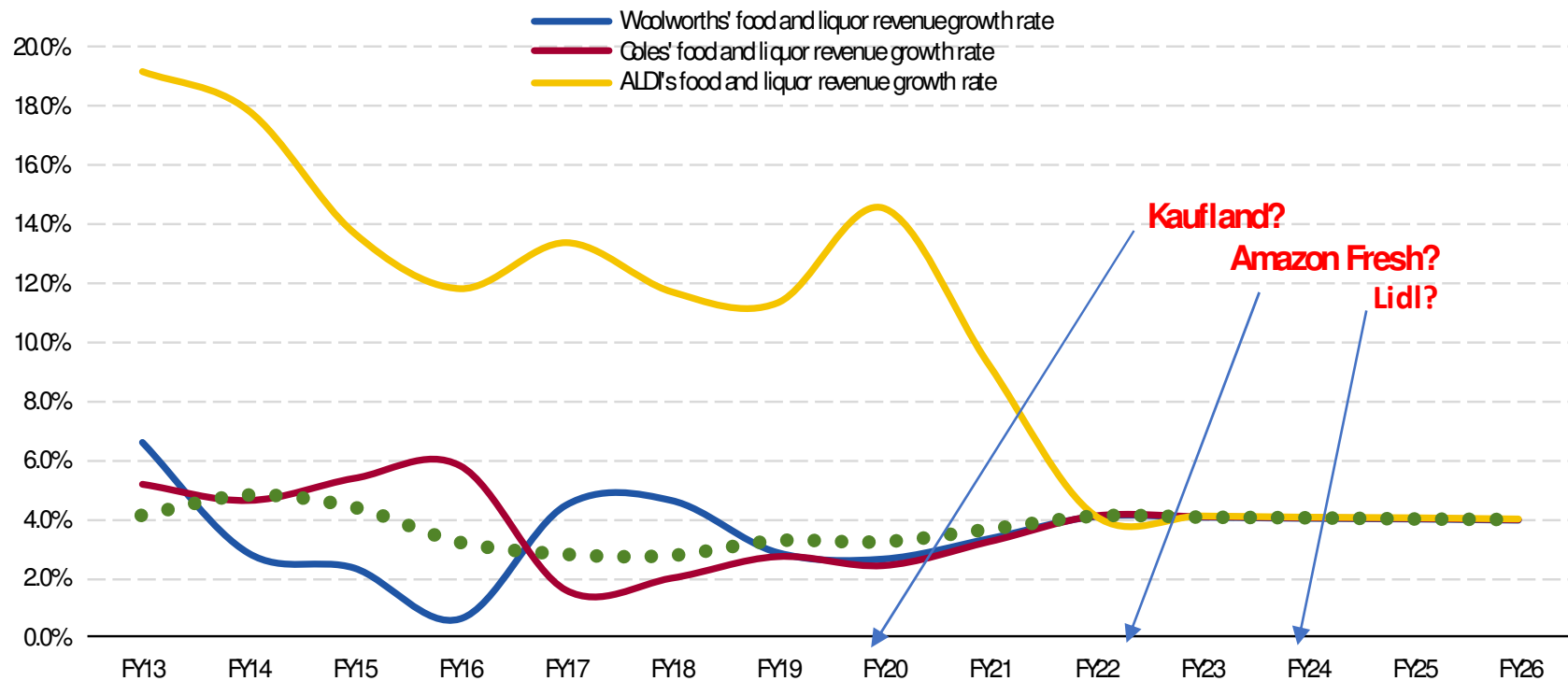
Company (ticker)	Exposure to Australian consumer discretionary sub-sector
Super Retail Group (SUL)	100%
JB Hi-Fi (JBH)	100%
Harvey Norman (HMN)	52%

Source: Morningstar estimates

Chapter 2 – Retail Defensive

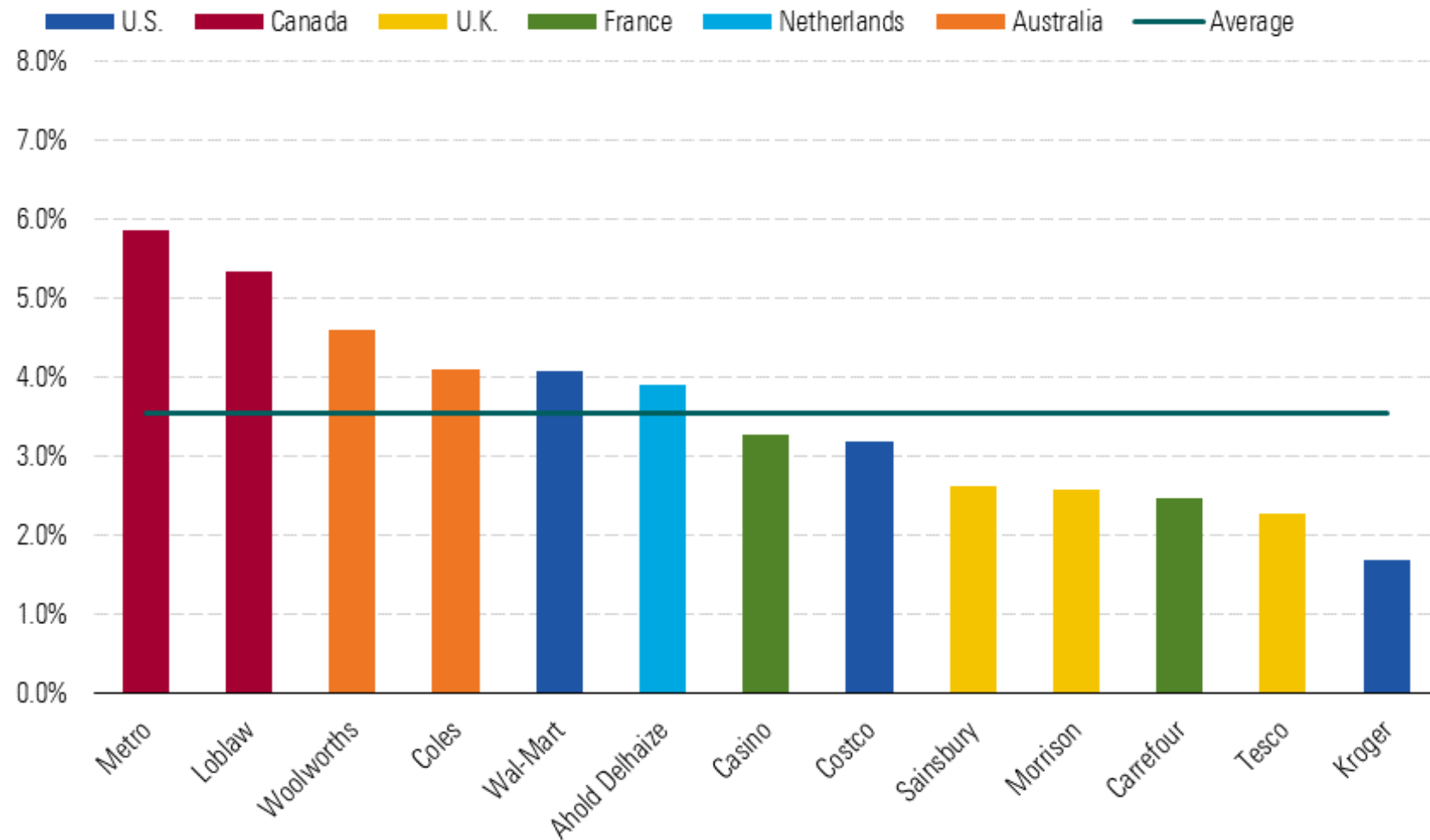


A Mature Market - One Player's Growing Rapidly, Resulting in Loss of Market Share for Others



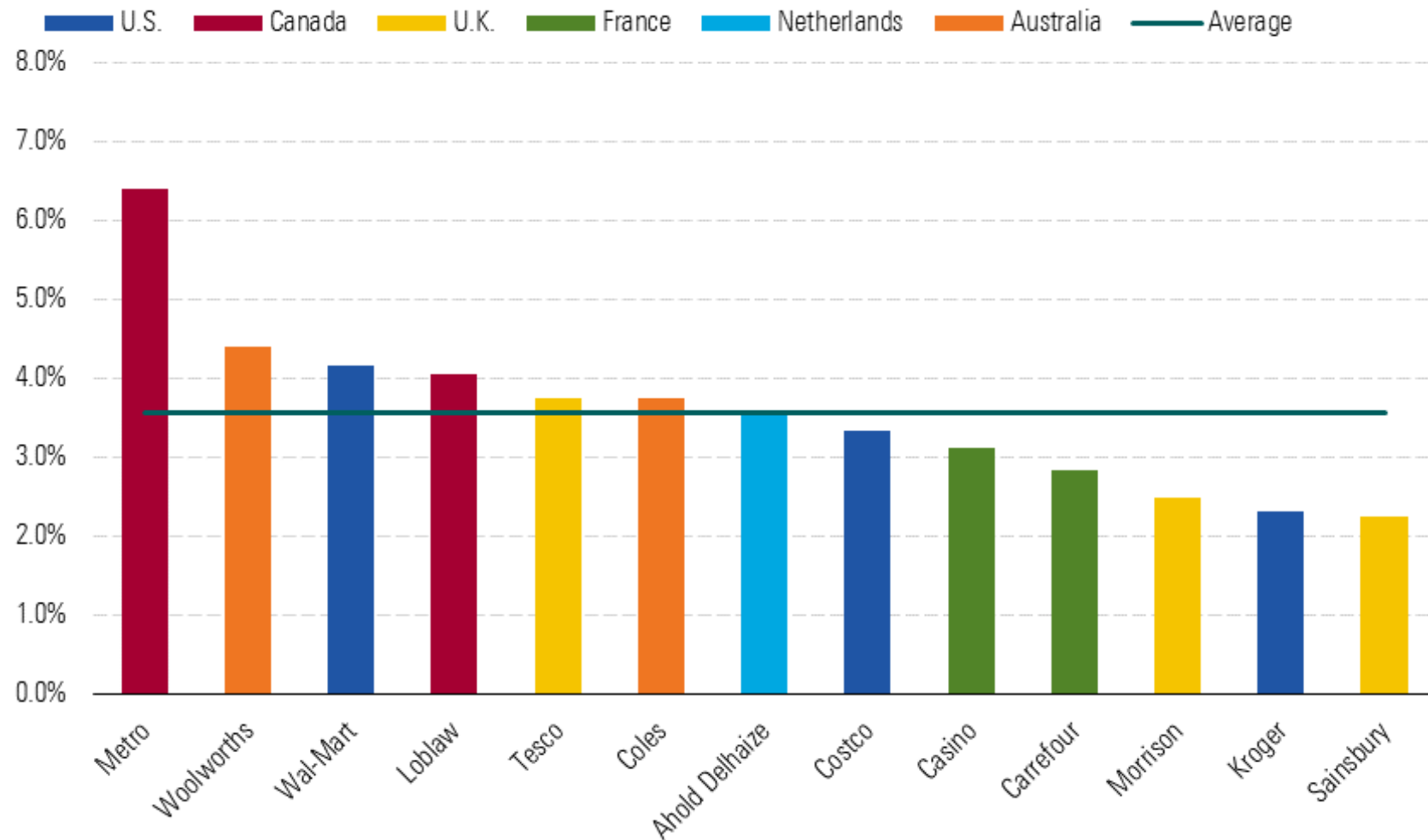
Source: Company filings, Australia Bureau of Statistics, Morningstar estimates

Australian Supermarkets Still Earn More Than Most International Peers...Attracting Overseas Competition



Source: Morningstar estimates, Company filings

Sustainable, but not Excessive Operating Margins... Otherwise Consumers Will Vote With Their Feet



Source: Morningstar estimates, Company filings

How to Gain Exposure to Retail Defensive Trends

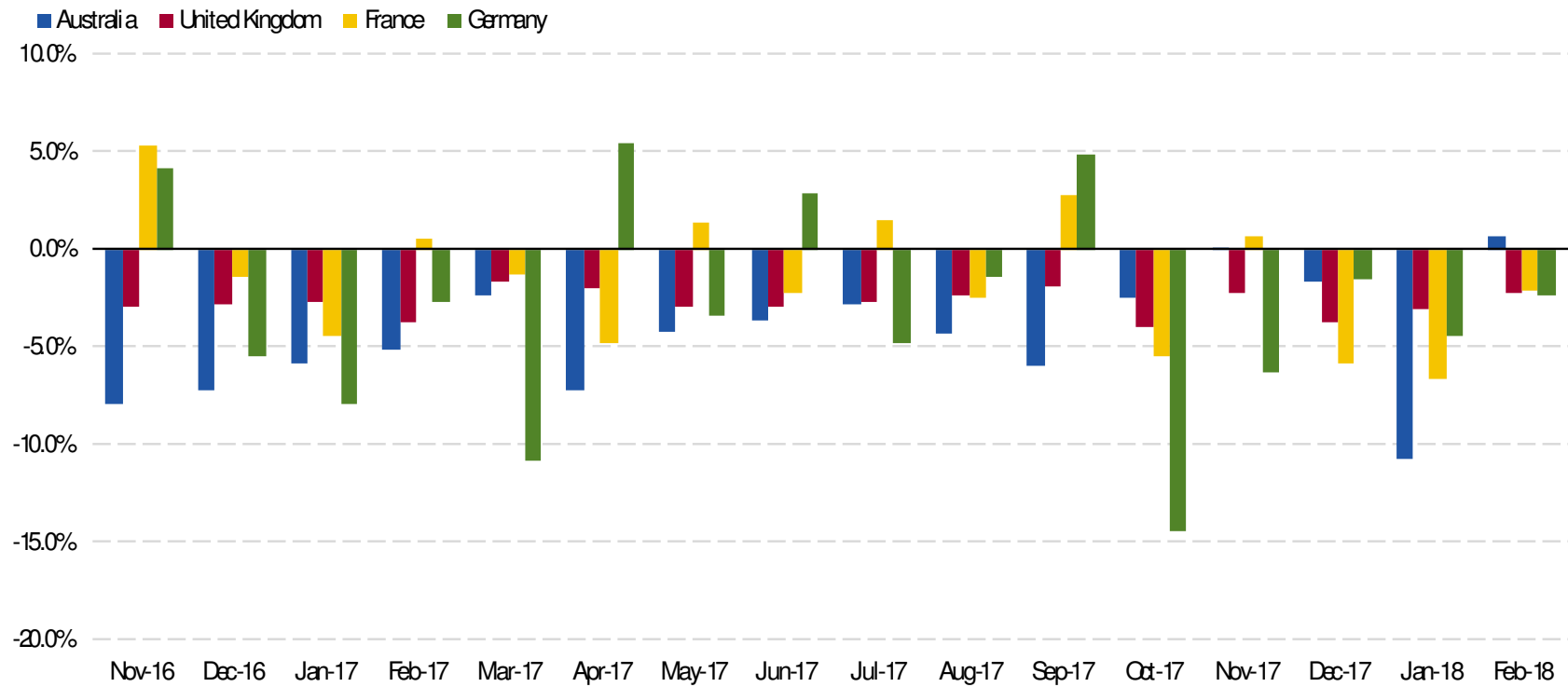
Company (ticker)	Exposure to Australian consumer staples sub-sector
Woolworths (WOW)	80%
Metcash (MTS)	76%
Wesfarmers (WES)	35%

Source: Morningstar estimates

Chapter 3 – Department Stores and Apparel

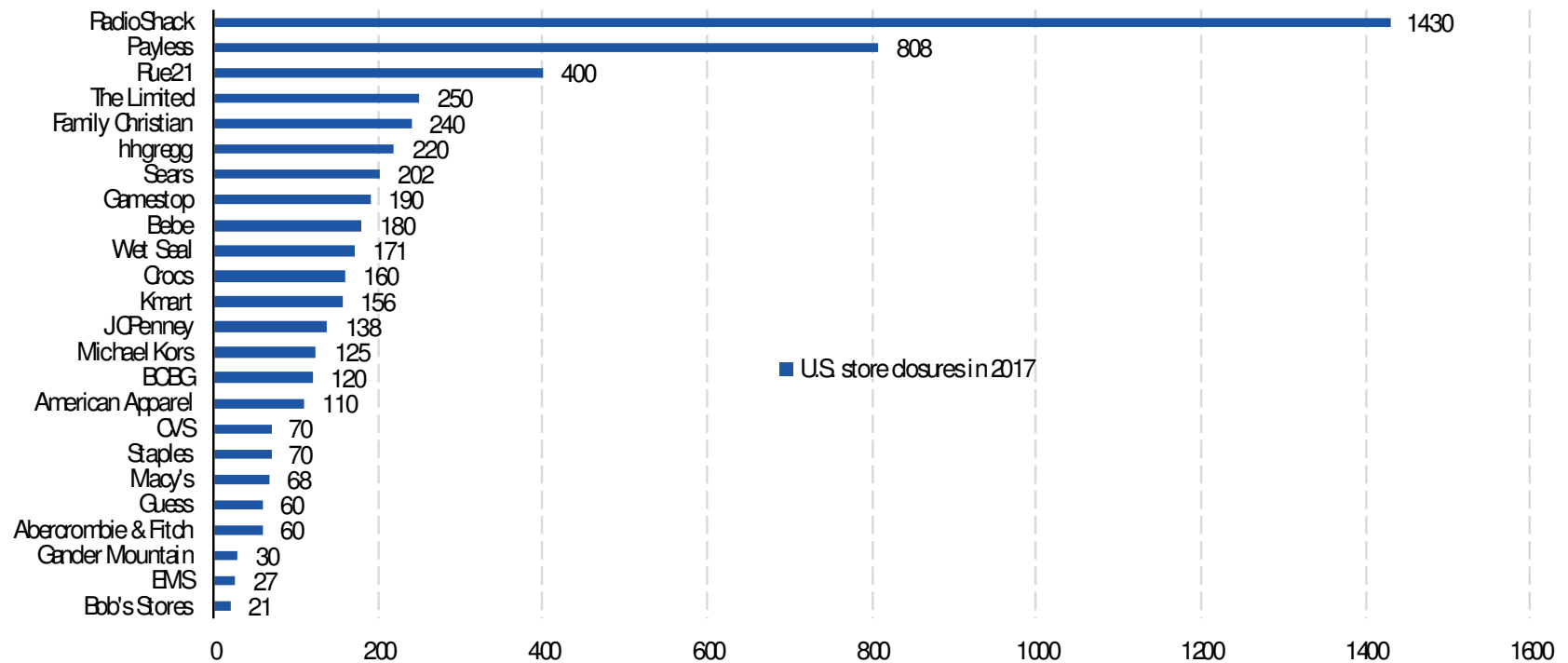


Footfall to Malls Reflects the Transition to Ecommerce



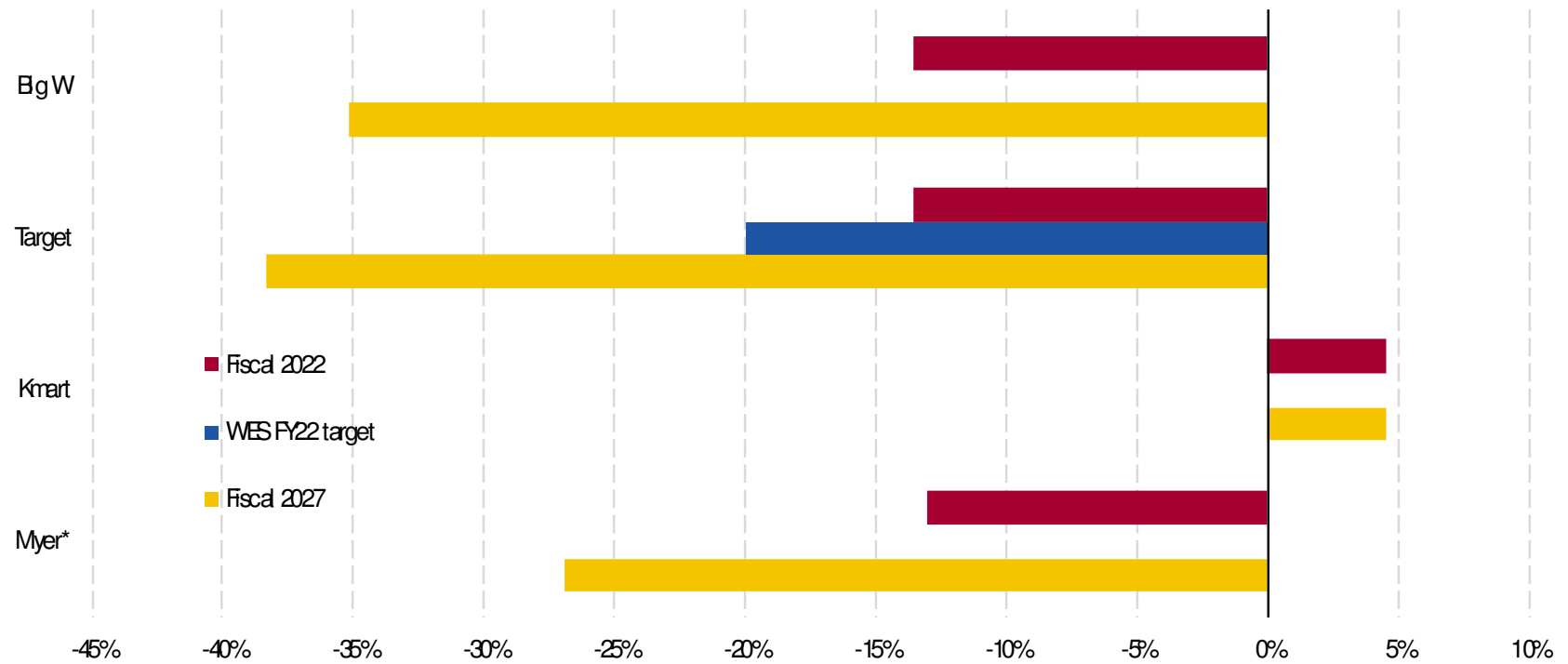
Source: ShopperTrak

Physical Stores are Closing in the U.S...



Source: Business Insider, Clark

...And We Expect a Similar Trajectory in Australia



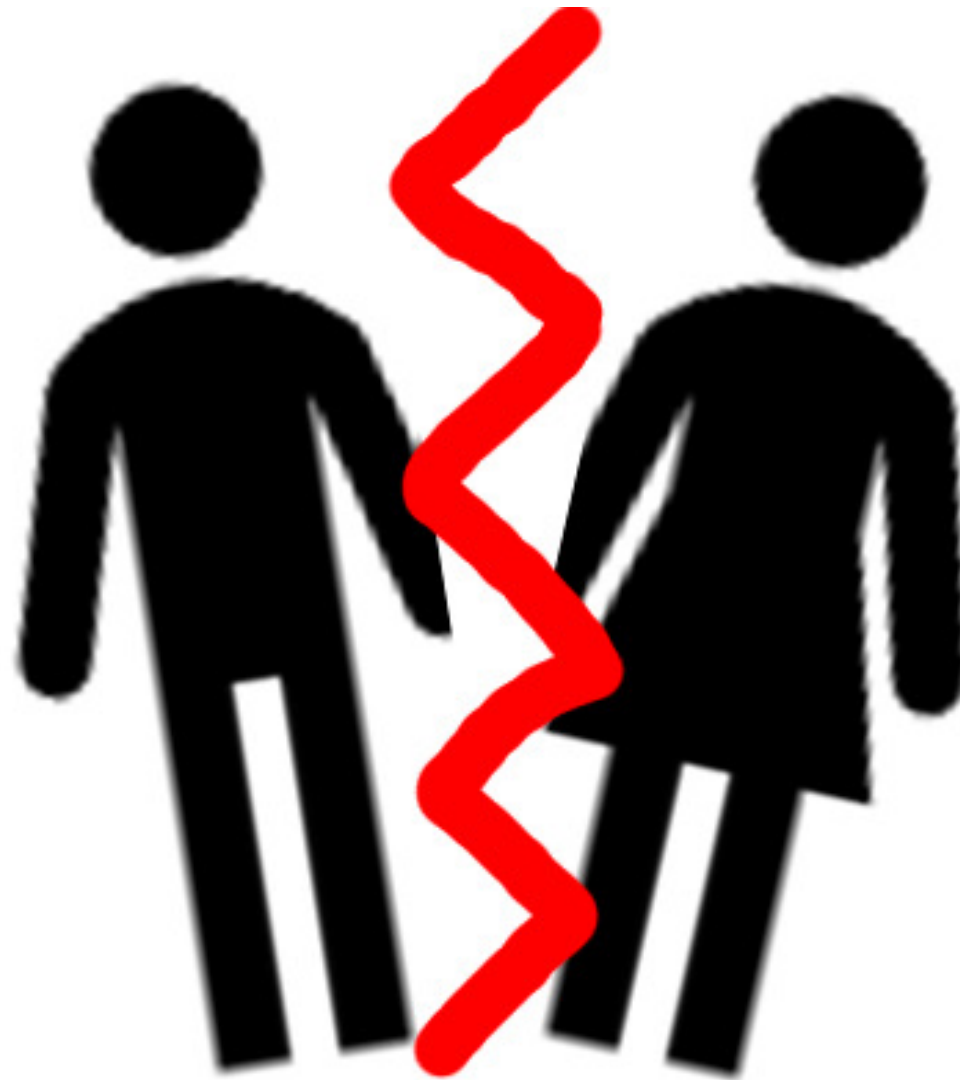
Source: Morningstar estimates

How to Gain Exposure to Department Stores and Apparel Trends

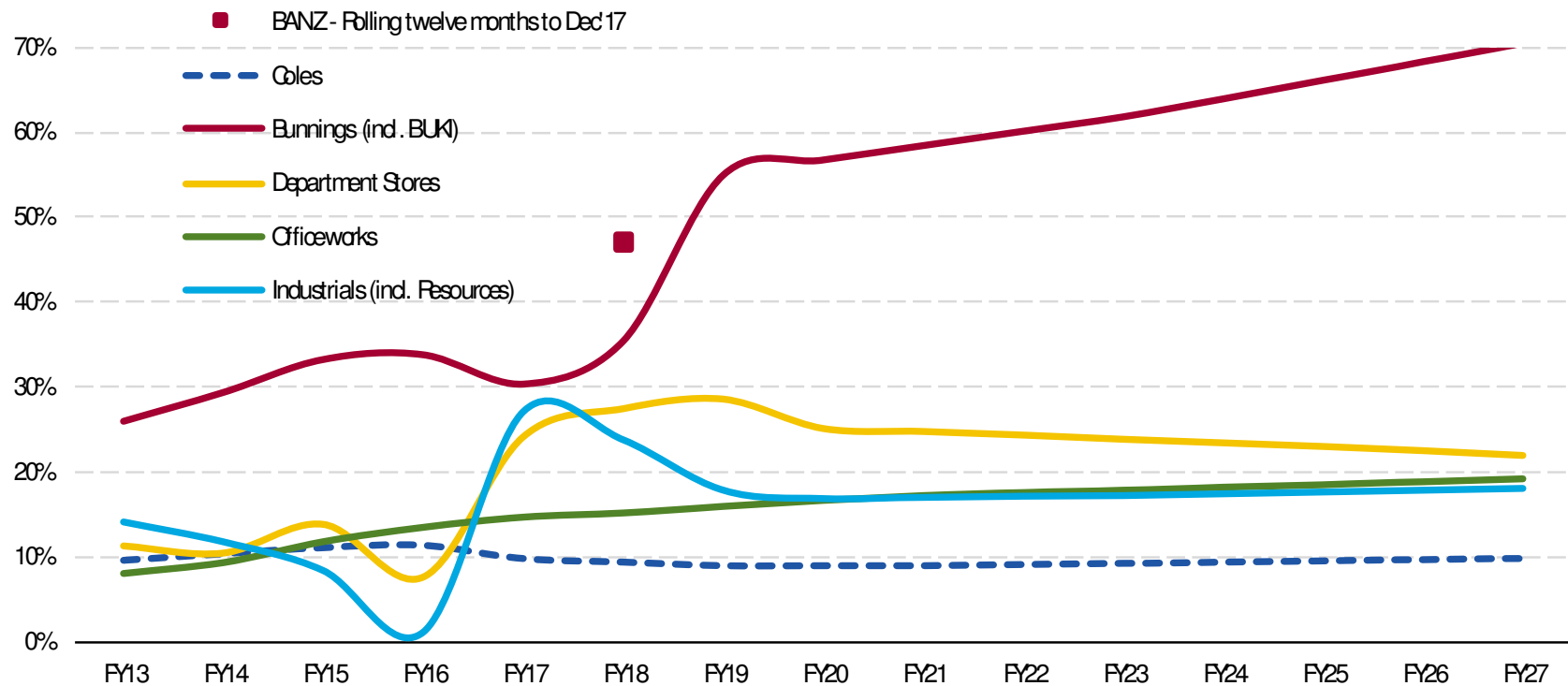
Company (ticker)	Exposure to Australian department store and apparel sub-sector
Myer (MYR)	100%
Wesfarmers (WES)	13%
Woolworths (WOW)	immaterial

Source: Morningstar estimates

Chapter 4 – Coles Demerger



Why Coles? Returns Haven't Looked Too Flash

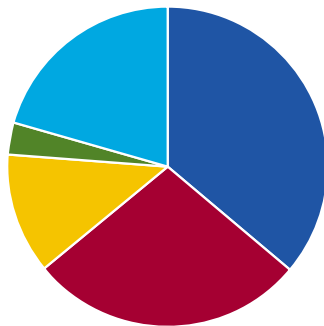


Source: Wesfarmers, Morningstar estimates

It's All About Bunnings From Here

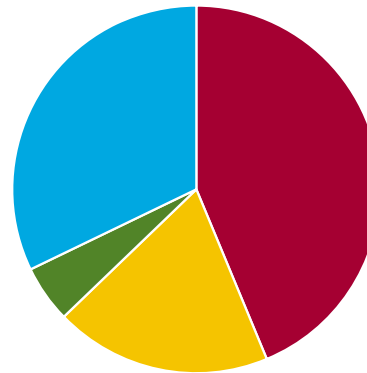
WES Today FY17

- Coles
- Bunnings (incl. BUK)
- Department Stores
- Officeworks
- Industrials (incl. Resources)



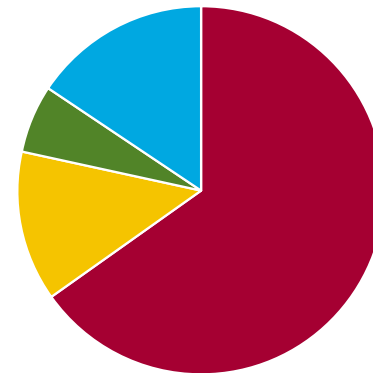
WES Post Demerger FY17

- Bunnings (incl. BUK)
- Department Stores
- Officeworks
- Industrials (incl. Resources)



WES Post Demerger FY27

- Bunnings
- Department Stores
- Officeworks
- Industrials (incl. Resources)



Source: Wesfarmers, Morningstar estimates