

30 September 2014 | 7 pages

Building Products
Western Europe | United Kingdom

Wolseley PLC (WOS.L)

Results: Reassuring Results, Strong Momentum in the US

- **Citi's Take** — Full year results were slightly ahead of expectations with trading profit from ongoing business of £761m (+8.6% on constant FX) compared to consensus of c.£750m and our estimate was £754m. Underlying trading margins improved by 20bps to 6.0%. Management announced a new £250m share buyback plan supported by strong cash generation from its operations. For the next six months management expects LFL revenue growth of c.5% (previously c.4%) and we would not be surprised to see consensus to edge up slightly.
- **US was the top performer** — Underlying trends in the US pointed to a strong positive momentum in H2 with LFL revenue growth accelerating to 9.0% in Q3 and 11.1% in Q4 and trading margins for the full year improved by 40bps to 7.7%. In the UK like-for-like revenue were broadly flat as the group lost some market share and gross margins were slightly lower affected by adverse mix changes from Burdens. In Nordics, Sweden and Denmark posted positive trends while Finland remained difficult. Like-for-like trends in Canada were sluggish with growth in the West offsetting weakness in the Quebec markets and underlying gross margins were slightly ahead. Europe was generally weaker overall.
- **Net debt came in better than expected at £711m** — after acquisitions of c.£194m and a special dividend of £489m, supported by strong cash generation from its operations. The group has today announced c.£250m share buyback.
- **Outlook comments are reassuring** — Management has guided for a like-for-like revenue growth of c.5% over the next six months supported by a strong positive momentum seen in its US markets. LFL growth rates since the year end have been broadly in line with Q4. Total bolt-on acquisitions of c.£194m in the year bring in a further annualized revenue of c.£444m.
- **Conference call** — Management will host an analyst meeting at 9:30 am at Deutsche bank auditorium. It will also be available via a webcast.
- **Implications** — The stock trades on a EV/Sales of 0.68 times for 2015e and we continue to see value from good recovery in its US and the UK markets with higher returns and good cash generation and today's share buyback should also be supportive. We continue to like the shares, which have performed relatively poorly recently but look well supported by its dividend yield, share buyback and decent EPS growth going forward.

Buy	1
Price (29 Sep 14)	£32.57
Target price	£36.60
Expected share price return	12.4%
Expected dividend yield	5.8%
Expected total return	18.2%
Market Cap	£8,681M
	US\$14,100M

Price Performance
(RIC: WOS.L, BB: WOS LN)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Wolseley PLC

Valuation

We have used target multiples slightly higher than long-run averages to reflect the potential for volume recovery, as well as the group's strengthening balance sheet. We apply the following 2014E target multiples - earnings (P/E of 14x), EBITDA (EV/EBITDA of 9.5x), sales multiple (EV/sales of 0.70x) - and a DCF valuation. We then apply equal weightings to each to each methodology. Our DCF calculation is the average based on a range of discount rates from 7.3% (WACC) to 9.0%. Our target price on this basis is 3,660p.

Risks

Along with the other merchants, Wolseley is exposed to the overall health of the housing and renovation market. House price inflation and housing transactions are key drivers of the demand for the merchants.

Currency risks are also a feature within Wolseley, although they are essentially translational only.

Improved credit and mortgage availability would lead to a more robust housing market across a number of the group's market and boost both new housing and renovation.

Rising US bond yields de-railing the US housing recovery would negatively impact earnings.

If the impact of these risk factors is more or less negative than we currently anticipate, then the share price could deviate significantly from our target price.

Appendix A-1

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Wolseley PLC (WOS.L)

Ratings and Target Price History Fundamental Research

Analyst: Aynsley Lammin

Covered since December 10 2012



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	8-Oct-11	*1	23.99	17.20
3	28-Mar-12	1	*28.49	24.44

* Indicates change

	Date	Rating	Target Price	Closing Price
4	5-Oct-12	*2	28.49	27.01
5	14-Dec-12	2	*29.47	28.29
6	12-Mar-13	2	*33.96	32.72

	Date	Rating	Target Price	Closing Price
7	29-Aug-13	*1	*35.96	32.75
8	17-Mar-14	1	*36.60	33.84

Rating/target price changes above reflect Eastern Standard Time

Wolseley PLC (WOS.L)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Aynsley Lammin

Covered since December 10 2012



	Date	Rating	Target Price	Closing Price
1	1-May-12	*REM MP	-	24.22
2	4-Jul-12	*ADD MP	-	24.31

* Indicates change

	Date	Rating	Target Price	Closing Price
3	5-Oct-12	*REM MP	-	27.01
4	3-Oct-13	*ADD MP	-	31.92

	Date	Rating	Target Price	Closing Price
5	3-Apr-14	*REM MP	-	34.64

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Data current as of 30 Jun 2014

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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