

Contact Asset Management

INSIGHTS

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Curiosity does not take a break

From the team at Contact we hope you and your families had an enjoyable Christmas break and we wish you a Happy New Year. As a curious bunch, residing all around Sydney from the Blue Mountains to the beaches, we regularly share different insights and information from the people we speak to and the things we see in the areas we live in. Therefore, it is unsurprising that our COVID-19 restricted holiday destinations were also vastly different. In this month's insights note we share the team's thoughts on some discretionary and non-discretionary spending that took place over the Christmas period and our observations from various locations around NSW.

Wesfarmers (WES) - Bunnings

I travelled back to Cowra in Central West NSW to our family property for the Christmas break. Whilst in town on the 29th of December, I visited the Cowra Bunnings store. The store and the whole town in general was buzzing which was the complete opposite from this time last year. Our property has been in the family since the 1950's and 2019 was our third driest year on record. In comparison, 2020 was one of the best rural seasons experienced, despite the impacts of trade relations with China. The shift in seasons has had a huge impact on agricultural prices from grain, beef and lamb right through to property values. Parking availability is generally a good indicator of how busy a store might be and I've never been forced to park down the street before when visiting the Cowra Bunnings. The rear car park was also full. Queues at the checkouts were 6-8 customers deep and for Cowra this is a lot. Sales have been strong with a staff member mentioning "we have been flat out". The surge in regional tourism and traffic is a trend that has been driven by the lack of international travel, and as people flock to explore their own backyards, townships like Cowra prosper. - *Tom Millner, Portfolio Manager*



Before heading up north, I stopped by Bunnings in Chatswood to grab some straps for a new surfboard for the kids. Observations were that the store was surprisingly quiet, although it was early. The shelves and inventory looked fine and stocked ready for the Boxing Day rush. - *Will Culbert, Portfolio Manager*

Due to miscommunication regarding some outdoor play equipment that Santa was expected to bring and if it needed to be painted or not, I was forced to make a quick trip to Bunnings at Eastgardens. The store was quite busy for 6pm on a Monday night with very little empty shelves. One staff member noted "activity has been strong, very little stock issues and with the forecast rain, our gardening department will be busy." - *Jared Tilley, Investment Analyst*

With half of Sydney in Byron Bay over the holidays, I took advantage of the lack of cars on the road and moved houses. This involved dragging my sisters to three different Bunnings in search of a new wardrobe. They were not happy about needing to drive to Eastgardens after leaving Randwick and Alexandria without a purchase – one store did not have any wardrobes on display and the

other was out of stock. They were equally frustrated and embarrassed after I dropped a can of paint on my foot causing the pictured mess. I was pleased that all three stores were busy, well stocked and as always, the staff were extremely helpful and polite – even after the paint incident! - *Jovana Gagic, Investment Analyst*



I visited Bunnings in Penrith to pick up some gardening supplies on New Year’s Eve. With the entry and exit gates still allowing for ease of COVID access, it was a seamless customer experience. The register line was only three people deep, whereas during peak COVID time in May, the same store was over 10 people deep. As per usual, the store was well presented and clean. With a carpark that was full, the only spots available were Click and Collect, so it was a long walk to the store entrance given the open parking setup at Penrith. The experience highlighted the store was a destination shop. - *Rodney Forrest, Senior Investment Analyst*

Bunnings is Wesfarmers’ largest operating segment, accounting for 62% of Group EBIT in FY2020. Its competitive advantage lies with its strong pricing power, market position and brand. As such, we remain optimistic on the long-term growth prospects for WES and this is further boasted by its high-quality management team and strong Balance Sheet which should support future growth opportunities.

Woolworths Group Limited (WOW)

For our Christmas break, I travelled north with the family to Umina Beach. The Woolworths at Umina Beach is a relatively new store in the heart of the main street, well placed with convenient underground car parking. The drawcard for us in terms of categories was the Seafood case. The price points in Seafood were hard to go by with WA Lobsters, traditionally a luxury item, selling at \$20 each, 50% lower than last year. When speaking to the Seafood counter Manager, she said “We have been extremely busy.” When asked how the Lobsters were going, the Manager said “We ordered multiples of last year.” In addition to Lobsters, Barramundi at \$18/kg, Whole Turkey at \$7.80/kg, and the Easy to Carve Leg Ham at \$14/kg was an impressive range and all made an appearance on Christmas Day. I’m not normally tempted by sweets or anything from the bakery section, however, couldn’t go past traditional Pavlova bases at \$5.70 and Profiteroles at \$3 for a pack of 8, all conveniently placed at the front of the store. The depth and frequency of promotions in the Health and Beauty aisle although being high was largely indifferent to the past. On reflection, I was most impressed by the customer engagement levels, with store greeters and no waiting time at the registers for what was a packed store. - *Rodney Forrest, Senior Investment Analyst*

Late Afternoon Christmas Eve – potentially the worst time to do any shopping for Christmas day lunch, I visited Dan Murphy’s at Willoughby but decided to use Click and Collect to avoid the queues. I was shocked that the order was ready within the hour and only had to venture into the front of the store with pick-up taking less than three minutes. After Christmas we spent some time at the family holiday house on the mid north coast. I dropped by the Tuncurry Woolworths on the way into Forster. The store is fairly new, built eight years ago for less than \$10 million according to the press and to this day remains very well presented. We were time poor so Click and Collect was utilised again but like the 40% of all shoppers that use Click and Collect as part of the Online offer, we still walked into the store to grab a few last-minute items. We noticed that the store was busy but not frantic and despite being in regional NSW, many shoppers were wearing masks. - *Will Culbert, Portfolio Manager*

On the Tuesday following Christmas, I visited the Cowra Woolworths. It too was packed. It is one of the best businesses in town; great turnover, always clean and tidy and usually has a full range of items. However, after Christmas there were some signs that it was a very big few days for the store. There were no baked goods at all and no toilet paper! *Tom Millner, Portfolio Manager*

I was a last-minute shopper at Woolworths and on New Years' Eve, dropped by the Coogee Metro store. The new layout with tight aisles can be slightly difficult to maneuver especially with three shelf stackers frantically replenishing shelves at 11am. I was accompanied by my 2.5-year-old son whose shopping skills involve hitting or pulling the yellow promotional tags. I recommend avoiding the health and beauty aisle which had extensive promotional activity. - *Jared Tilley, Investment Analyst*



As we progress through 2021, WOW will be cycling strong numbers as part of the COVID-19 panic buying we saw last year. As long-term investors we remain attracted to WOW's latent pricing power, leading store network, strong culture and a customer offer that is leading in terms of number of products.

Coles Group Limited (COL) - Supermarket and Liquorland

After visiting Woolworths earlier in the trip, we dropped by Umina Beach Coles Supermarket and Liquorland stores to do a comparison. Both stores are segmented as resort stores with a value-oriented offer. Overall impressions for both were positive. In Coles the shelves were well stocked with little out of stocks. Key categories such as Seafood, BBQ, and Fresh Produce were well presented with attractive price points, and little promotional activity. Cherries a key traffic driver were \$4 a kg cheaper than the local Independent, and attracting plenty of customer engagement and impulse purchases, my wife included. Service standards were high with manned checkouts having little waiting time as customer depth was only two. At Liquorland, it was a complete contrast, the line was 30 deep just to get into the store, so trade volume was clearly strong. Liquorland had many on floor displays where customers we witnessed made impulse purchase decisions. - *Rodney Forrest, Senior Investment Analyst*



After a quick surf at Maroubra, I stopped by Coles at Maroubra Junction. First time visiting the store, so early impression was it looked dated, but stock shelves were full and the fruit and vegetable department looked fresh. Key insights came from chatting to one of the employees who mentioned that the "poor weather was having an impact on key items", so I was not surprised to see sunscreen heavily discounted. - *Charlie Kingston, Investment Analyst / Dealer*

With Coles Supermarket contributing 90% to COL EBIT in FY20 and Liquor 7% to Group EBIT, our customer experience bodes well for the upcoming result. We continue to hold COL in our portfolios, liking the strong financial discipline, high performing store manager culture, and operations leadership team. The online offer of Coles Supermarket we believe will put it a step ahead of the competition when its new Ocado distribution centre it is building with Brickworks in Western Sydney is complete.

Metcash (MTS)

The Horne's QLD family holiday plans were derailed with the swift border closures, so we had a brief holiday down at Callala Bay, situated in Jervis Bay on the South Coast of NSW. It is a small coastal community serviced by a village shopping complex fulfilling largely basic needs. The nearest majors being Coles and Woolworths are 30 minutes away in Nowra so the IGA in town has a captive market. This distinct local strategy has seen strong trading reflected by IGA retail networks like-for-like sales growth of 16.4% in 1H21. The IGA store pre-Christmas was well stocked across fresh, frozen, dairy and meat with no noticeable stockouts. Foot traffic was moderate for 7.30am with two staff on checkout and two on shelf replenishment. There was no self-checkout which created a small social distanced queue that obstructed aisle entry in an already tight store footprint. The store layout was busy with product offerings trying to provide as many points of sale opportunities as possible, this tactic however has been supported by recent MTS data showing increased basket size transactions. On balance this format felt entirely suitable to fulfill the needs of the community and tourists alike. - Rob Horne, Investment Analyst



Metcash Supermarkets forms 50% of MTS EBIT, with Liquor at 20% and Hardware at 30%. Although Metcash Supermarkets has a strong Independent network of 1,600 stores, we do not own MTS as we see pressure on margins emerging as it is required to invest in price and its online offer. The business is also part way through a strategy reset across digital, network and private label.

Happy New Year

Once again, from all of us here at Contact asset Management wish you a Happy New Year. After the holidays and some time away with our families, we remain positive on the opportunities ahead and look forward to sharing our insights with you over 2021. To stay up to date with our insights please subscribe via our website <https://contactam.com.au/>.



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