

09 Sept 2016

GREENE KING (GNK): 801.7p Q1 Trading Update – 18w to 4 Sept 2016:

LfLs up 1.7% but group warns of 'potentially tougher trading' ahead...

Year to end-Apr	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	168.5	61.0	13.2	29.75	3.7
2016 (A)	256.5	69.9	11.6	32.05	3.9
2017 (E)*	285.0	74.0	10.9	34.00	4.2

Source: Company & Broker Estimates, *including part-year Spirit

Q1 Trading Update – 18wks to 4 Sept 2016:

Greene King has this morning updated on trading for the 18wks to 4 September and our comments are set out below:

Current trading:

- Greene King reports LfL sales +1.7% for the 18wk period, citing a strong start thanks to the European Football Championship and better weather.
- Pub Partners LFL net income was up 4.5% after 16 weeks, while in Brewing & Brands, own-brewed volume declined 0.5%.
- Strong progress made with the integration of Spirit; a quarter of its managed pubs now operate under its 'best of both' IT system. Greene King completed 41 brand conversions with 'encouraging sales uplifts'.
- A summary of recent trends is shown below:
- **Tab.1. Greene King's Sales Trends:**

Period	Managed Sales LfL (%)	Tenanted & Leased profit per pub (ave) %	Own-brand beer volumes %	Spirit %
H1 09/10	+4.6	-6.4	+9.4	
H1 10/11	+3.8	+0.4 LfL	-3.7	
FY 10/11	+4.9	+1.0 LfL	-2.0	
H1 11/12	+3.8	-0.3 LfL	+2.0	
FY 11/12	+3.6	-0.3 LfL	-0.7	
H1 12/13	+3.9	+3.9	-0.9	
FY 12/13	+2.3	+4.2	+1.0	
H1 13/14	+3.5	+5.2	+1.7	
FY 13/14	+4.1	+5.2	+4.6	
H1 14/15	+0.8	+3.7LfL	+5.9	
36w 14/15	+0.6	+2.8	+5.2	
FY 14/15	+0.4	+3.5	+4.2	
18w 15/16	+1.3	+2.0	+1.7	
H1 15/16	+2.0	+2.4	+3.6	+1.2

40w 15/16	+2.2	+2.5	+3.9	+1.1
16w 16/17	+1.7	+4.5	-0.5	

Source: Company Reports

Langton Comment: It has been a busy summer for Greene King shares, down from 892.5p to 733p in June-July (-18%) before gradually recovering to a high of 840p prior to today's relatively subdued statement.

The numbers are mixed but it is the tone when discussing the industry's outlook that might have gotten investors thinking.

Contrary to JD Wetherspoon's cheeriness in today's other big update, Greene King talks of 'softening economic indicators', a 'reduction in consumer confidence', 'risks to leisure spend', and a 'potentially tougher trading environment ahead.'

It will be interesting to see which pub groups' view of the immediate future plays out. The other pub companies have, so far, implied that the UK post-Brexit has been business as usual. Only Greene King has felt the need to mention its effect on trade.

Furthermore, reports point to a stellar August Bank Holiday, implying that the rest of the trading period will have been less good and that total period LfLs may have been skewed to the upside.

Greene King trades on 11.9x earnings and its premium to MARS (11.7x earnings) has narrowed somewhat. Questions remain as to the sustainability of current levels of growth post-Spirit, although this acquisition should generate synergies and drive like-for-likes for some time yet.

With this in mind, questionable trading aside, Greene King is as dependable an income-play as ever and today, with its shares closer to 800p than 1,000p, marks an undemanding entry point.

Contact – Jack Brumby - [+441223311233](tel:+441223311233)

jack.brumby@langtoncapital.co.uk