

4 August 2011

**Leisure: Enterprise Inns (ETI): 46p
44w trading update to 30 July 2011**

Enterprise Inns has this morning updated on trading for the first 44w of its current financial year being the period to 30 July 2011. Our bullet points and further comments are set out below:

- ETI has this updated on trading to its w44 saying that it has 'continued to see a stabilization in trading performance' and that food now comprises an estimated 25% of (tenants') sales
- Average income per pub is up by 1% in the 18w since the group's H1 (at which it was 0.0%) suggesting that the better performance seen in February and March has continued
- Good weather helped in April but World Cup comps in June and July have been tougher and the group suggests that whilst it remains 'cautious about the underlying economic environment' results should be in line with expectations; recent trading is shown below:

Period	Ave. income per pub* %
H1 2008/09	-8.0
H1 2009/10	-3.1
H1 2010/11	0.0
(includes Feb & Mar)	+1.0
Week 27 to week 44 2010/11	+1.0

Source: Enterprise Inns, average income includes impact of estate churn

- At the LfL level, EBITDA (in the substantive estate only, comprising 88% of units) fell by 'less than 1%' with pubs in the south of England up by 1% and pubs in the north down by 3%
- Support given to tenants stands at £1.4m per month but is now beginning to reduce and non-core pubs continue to be sold (335 units for £69m y-t-d) and some 500 should go by year-end
- The group's sale & leaseback programme is broadly complete, cash generation is described as 'strong' and the group believes its borrowings and the amortization thereof are sustainable, even if consumer spending remains subdued

Langcap Comment: Enterprise Inns' shares have lost almost two thirds of their value this year and are down by around 95% from their 2007 highs. But trading has been improving for some time now and the outlook, though still difficult, is no longer worsening. And Enterprise has said that its debt is manageable 'even if, as we believe, the UK economy and consumer spending remain subdued for a considerable period of time'. Nonetheless, trading is challenging and, whilst the high street retailers, restaurant operators and managed pub chains are finding the going difficult, many observers believe that individual tenants, even if they are supported to some extent by their pub company, will have even more trouble in coping with cost increases and slack demand. Overall, whilst trading is stable, LfL income, even across the best pubs in Enterprise's estate is still falling and, with debt standing at over seven and a half times EBITDA, we believe that there remains better value elsewhere.

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