



5 February 2015

ENTERPRISE INNS (ETI): 109p Q1 Trading Update: 18wks to 31 Jan 2015:

Group sees trading performance 'in line with expectations' with LfL income +0.3%

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	121.0	19.0	5.7	Nil	Nil
2015 (E)	123.5	18.7	5.8	Nil	Nil
2016 (E)	127.2	19.2	5.7	0.5	0.5

Source: Company & Broker Estimates

Q1 Trading Update: 18wks to 31 Jan 2015:

Enterprise has today produced a trading update for the 18wks to 31 Jan 2015, to coincide with its AGM and our observations are set out below:

- The group says trading 'has been in line with our expectations, resulting in like-for-like net income growth for our leased and tenanted estate of 0.3%.'
- It adds that it is 'encouraged that positive like-for-like net income has been delivered despite the more challenging comparatives of last year.'
- In common with other operators, it says 'trading over the Christmas period was positive although we have seen a little softening in the volume of beer ordered during January.'
- The number of business failures is down on the same period last year and recent LfL sales trends are shown below:

Tab.1. Enterprise Inns LfL Income Trends:

Period	Ave. income per pub (%)	LfL income per pub (%)	LfL income, substantive estate (%)
H1 – 2008/09	-8.0		
FY – 2008/09	-8.0		
H1 – 2009/10	-3.1		
FY – 2009/10	-2.0		
H1 – 2010/11	0.0	-5.0	-1.5
FY – 2010/11	+1.0		
H1 – 2011/12	+3.2	-1.6	+1.5
FY – 2011/12	+2.6	-1.2	+2.2

Find us at:



Recent News Here:

- Today's email
- Recent emails
- A day in the life...
- Who we are, what we do...
- Upcoming news-flow
- Recent company updates
- Thematic pieces
- LinkedIn profile



Market Cap: £523m
12m range 102p - 163p

H1 – 2012/13	-4.2
Est. 'real' decline	-2.0
Q3 – 2012/13	-2.7
Q4 – 2012/13	+0.6
FY – 2012/13	-2.9
H1 – 2013/14	+1.1
Q3 – 2013/14	+2.1
Q4 – 2013/14	+0.5
FY – 2013/14	+1.4
First 6w 2014/15	Positive
First 18w 2014/15	+0.3

Source: Company Reports

Regulatory issues:

- Enterprise comments on the Market Rent Only (MRO) encompassed within the Small Business Bill (currently in the H of Lords) saying and MRO 'would potentially have a significant impact upon aspects of our business'
- It says 'we are working with the industry and Government to ensure that the planned legislation does not lead to unintended consequences'

Balance sheet, capex & other:

- In view of the uncertainty caused by the proposed measures, Enterprise says we are 'reviewing our capital investment plans for the current year.'
- Unsurprisingly, the previous guidance of capex of £70m for FY15 is under review and, though the total may not change, ETI says 'we are diverting an increased proportion of capital investment into similarly attractive opportunities from shorter-term agreements.'
- The group expects to receive £60m in disposal proceeds this year, though it says 'the scale of future asset disposals will be subject to further review.'

Conclusion:

- CEO Simon Townsend says 'we are pleased to have maintained the positive momentum delivered last year into the first 18wks of the current financial year'
- He adds 'we continue to believe the tie offers the best operating model for the vast majority of our pubs with our interests closely aligned to those of our publicans.'
- However, he adds that 'the planned legislation may require us to evolve our business model over the longer term' but says 'we remain focused on providing exceptional local support to our publicans to aid their profitability which, in turn, will enhance our performance'

Langton Comment: Enterprise is trading in line with expectations but, with the MRO option currently making its way through the House of Lords before being returned to the Commons, some observers will have their eyes elsewhere.

And that's a pity. Furthermore, the group's reining back on capital spending on leases with longer to run and, though that is completely understandable in the circumstances, is arguably not the optimum solution for the industry, Enterprise itself, the fabric of its estate or its tenants and lessees over the longer term.

So unintended consequences may well result. We have outlined our thoughts on the MRO elsewhere, please drop us a line if you would like further details.

Re trading, Enterprise echoes the comments of other operators. Christmas was good but the rest of December and January have been slower.

The group should earn around 18.7p in the current year putting its shares on an undemanding 5.8x EPS. The MRO option has injected a note of uncertainty into proceedings but the results there, by definition at this stage are unknown.

We are not entirely pessimistic with regards to the outcome and believe that there is some upside risk developing in the share prices of ETI and other impacted pub companies.

Contact – Mark Brumby - +44(0)20 7702 3389

mark.brumby@langtoncapital.co.uk

This message (and files contained herein) may contain confidential or proprietary information and is intended solely for the use of the individual or organisation to whom it is addressed. If you are not the addressee you should not disseminate, distribute or copy this email or any part thereof. Further, please notify the author immediately by telephone or by replying to this email and then delete all copies of the correspondence from your system. We apologise for any inconvenience that this may have caused. This information is a financial promotion for the purpose of the European Markets in Financial Instruments Directive (MiFID) and FSA's Rules. It has not been prepared in accordance with the legal requirements designed to promote the independence or objectivity of investment research. This document is not based upon detailed analysis by Langton Capital of any market, issuer or security named herein and does not constitute formal research or a research recommendation, either expressly or otherwise. It is not investment advice and does not take into account the investment objectives and policies, financial position or portfolio composition of any recipient. This document should not be relied upon as authoritative or taken in substitution for the exercise of your own commercial judgment. Whilst Langton Capital has taken steps to control the spread of viruses on its systems, it cannot guarantee that this email and any files transmitted with it are virus free. No liability is accepted for any errors, omissions, interceptions, corrupted email, lost communications or late delivery arising as a result of receiving this message via the Internet or for any virus that may be contained in it. Recipients should review independently and / or obtain independent professional advice and draw their conclusions there-from should decide to undertake transactions with third parties. Langton Capital or its employees may have positions in securities mentioned herein. We reserve the right to monitor email messages passing through our network. Langton Capital Limited is authorised and regulated by the Financial Conduct Authority. Langton Capital Limited is registered in England number 07112949.

Mark.brumby@langtoncapital.co.uk

Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389