



10 Feb 2016

GREENE KING (GNK): 834.5p Q3 Trading Update – 40w to 7 Feb 2016:

Group reports that it has turned in ‘another strong performance...’

Year to end-Apr	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	168.5	61.0	13.7	29.75	3.6
2016 (E)	245.0	66.3	12.6	31.45	3.8
2017 (E)*	285.0	74.0	11.3	34.00	4.1

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

Q3 Trading Update – 20wks to 7 Feb 2016:

Greene King has this morning updated on trading for the 40wks to 7 February and our comments are set out below:

Current trading:

- Greene King reports LfL sales +2.2% for the 40wk period with Spirit Managed LfL sales up 1.1%
- It says ‘in the two Christmas weeks, LfL sales grew 5.0% in Greene King & 5.2% in Spirit’
- The group reports that Pub Partners LfL net income up 2.5%
- In Brewing & Brands, GNK says that own-brewed volume is up 3.9%
- Overall, combined Retail sales were up 67% after 40 weeks ‘benefitting from a 33 week contribution from Spirit and 6% growth at Greene King.’
- The group says ‘we achieved record sales of £6.8m on Christmas Day in the combined Retail estate’
- GNK adds ‘following the successful integration of the Spirit leased business at the end of the first half, Pub Partners performed well with LfL net income up 2.5% - an improvement on the trend seen at the half year.’
- The group says beer sales growth ‘was driven by Greene King IPA and Old Speckled Hen. Greene King IPA has been helped by its popularity surge in China and the distribution from within the Spirit managed estate. In addition, we recently announced that Greene King IPA is now the official beer of England cricket.’
- A summary of recent trends is shown below:

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Market Cap: £2.6n
12m range 772p – 977p

- **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

Source: Company Reports, *48wks

Cash, debt, balance sheet & other:

- Greene King reports that the Spirit integration is 'progressing well' and says that it has had an 'encouraging performance in rebranded trial sites'
- The group opened 10 new sites in the year to date
- It adds that its disposal programme 'is on track, with 33 Pub Partners disposals so far this year.'

Conclusion:

- Rooney Anand, Greene King CEO says 'this was another strong performance, with all divisions trading well during the important festive period, and record trading on Christmas Day.'
- He adds 'the latest Greene King Leisure Spend Tracker shows that, despite varying their choices when eating out, pubs were a major destination for customers.'
- Mr Anand says 'I am pleased to report continued progress with the Spirit integration, including encouraging signs from our rebranded trial sites thus far, and continued progress in terms of synergy delivery.'
- Overall, the group says 'our expectations for the full year are unchanged.' It concludes 'despite the current global economic uncertainty, we remain confident that we will deliver further value to our guests and shareholders by continuing to develop and enhance the existing Greene King business while successfully integrating Spirit.'

Langton Comment: Greene King's shares spiked up to 980p in December but have since edged back by around 15% in line with the market.

Today's numbers reassure that the group is on track and that trading is in line. The outlook for the full year should therefore be unchanged.

Numbers are now firming up for the current year and GNK looks as though it should earn around 66p in the current financial year, suggesting that the group's shares trade on around 12.6x earnings. The group's shares yield around 3.8%.

This is certainly not expensive but other shares within the sector now trade at a material discount.

Certainly GNK's growth should be 'home grown' as it integrates Spirit but it's hard not to notice that Mitchells & Butlers' shares trade on c7x earnings and MARS trades on a multiple of 10.8x.

We believe that much of the low-hanging-fruit (where modest capex led to materially better returns) has been taken at Spirit but there will be some more to come. Further integration benefits including the movement of units between brands should be possible.

As mentioned earlier, we believe it's unfair perhaps to ask GNK what it is going to do for an encore but growth (from a £2.6bn market cap) could be a little slower once Spirit has been integrated. With that and the choice in investments in mind it may be that investors consider there to be better value elsewhere.

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