



29 Jun 2016

GREENE KING (GNK): 761.5p FY Numbers – 52w to 1 May 2016:

Group reports on a 'transformational year'

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)	252.0	68.4	12.6	31.60	3.8
2017 (E)*	287.0	74.8	11.3	34.00	4.1

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

Full Year Numbers – 52wks to 1 May 2016:

Greene King has this morning reported full year numbers for the 52wks to 1 May and our comments are set out below:

Full Year Numbers:

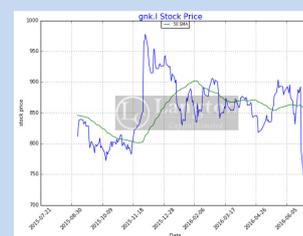
- Greene King reports group revenue, including Spirit, up by 57.6% at £2.1bn with adjusted PBT +52.2% at £256.5m
- Adjusted EPS is up by 14.6% at 69.9p and the group is to pay a full year dividend of 32.05p (+7.7%)
- LfL sales are +1.5% at managed houses and LfL net income is +2.7% for tenancies. Brewery volume is +2.9%
- At wk40, managed houses were some 2.2% ahead suggesting that trading in April, along with most of the industry, was challenging
- LfL sales are better (helped by the football and by better weather) in the first 8wks of FY17. LfL managed sales are ahead by some 2.8%
- Chairman Philip Yea reports '2016 was a year of strong growth for Greene King, reflecting a continued good performance from the underlying business, enhanced by a substantial contribution from Spirit. Including a 45 week contribution from Spirit, group revenue grew 57.6% and exceeded £2bn.'
- He says 'including synergies, operating profit before exceptional items increased by 53.1% and profit before tax and exceptional items grew 52.2% to £256.5m, resulting in a 14.6% increase in adjusted earnings per share to 69.9p.'

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Market Cap: £2.4n
12m range 748p – 978p

- Mr Yea adds 'cash generation remained strong and net debt to EBITDA improved to 3.9x. Excellent progress has been made integrating the Spirit business and we realised synergies ahead of target in the first year.'
- 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
52w 15/16	+1.5	+2.7	+2.9	
8wks 16/17	+2.8			

Source: Company Reports, *48wks

Cash Flow, Balance Sheet & Debt:

- Operating cash flow was +24.1% and net debt to EBITDA was 3.9x
- Group return on capital is +10bps at 9.4%

Strategy and Other:

- Re Spirit, the group says that it has driven £16.7m of cost synergies in year one versus estimates of around £12m
- CEO Rooney Anand comments 'it has been a transformational year for Greene King.'
- He says 'we completed the acquisition of Spirit Pub Company and reached the milestone of £2bn revenue. We have delivered growth across each of the three divisions, outperforming the market in a challenging environment, while making significant progress in combining the best of both businesses to build Britain's best pub company.'
- Mr Anand continues 'I am pleased to report a strong start to the new financial year, although it is likely that consumer confidence will be affected by Brexit in the near-term.'
- He says 'however, Greene King has a strong track record of performing well in challenging conditions, we are a resilient business with a talented team and a strong balance sheet, and we will benefit from the opportunities created by the Spirit acquisition. We are well placed to continue delivering value to our shareholders.'

Langton Comment: Greene King has turned in numbers slightly ahead of expectations.

The integration of Spirit would appear to be going well and the group is well-positioned to prosper.

However, the Brexit vote will cause and is causing a degree of uncertainty for domestic stocks, pub companies amongst them.

Uncertainty is unavoidable. This is more likely to lead to a delaying of large-ticket rather than small ticket purchases, however, and the UK's better-positioned pub companies, Greene King amongst them, should continue to trade acceptably, if not as well as they may have done given a better economy.

The shares are trading on around 11x EPS for the year just started and they are not expensive.

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