



30 Nov 2016

GREENE KING (GNK): 710.5p H1 Numbers – 24w to 16 Oct 2016:

Group reports healthy trading but says 'the consumer environment is likely to become more challenging...'

Year to end-Apr	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2016 (A)*	189.8	69.9	10.2	32.05	4.5
2017 (E)	277.0	71.8	9.9	33.70	4.7
2018 (E)	290.0	75.8	9.4	35.50	5.0

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

First Half Numbers – 24wks to 16 October 2016:

Greene King has this morning reported H1 numbers for the 24wks to 16 October and our comments are set out below:

Full Year Numbers:

- Greene King reports group revenue up by 13.8% at £1.04bn with adjusted PBT some 14.6% higher at £139m
- The group says that all divisions are in profit growth
- Group EPS is 36.0p (up 9.0%) and H1 dividend is 8.8p (+4.1%)
- Pub Company LfLs are ahead of the market +1.3%. The group had been +2.8% at week 8 suggesting that the following 16wks were c0.5%
- Pub Partners LfL net income is +4.2%
- Own-brewed beer volumes were down 3.8%. GNK says this was in 'a cask ale market down 5.4% & a total ale market down 3.1%.' GNK reports 'our core brands maintained their UK market leading positions'.
- Nonetheless, the numbers imply a very poor trading period for beer over the last 6wks or so, potentially Rugby impacted
- The group reports that Spirit integration 'continues ahead of schedule' and it says 'synergies [are] expected to be £30m this year. The group should be hitting its original three-year target in two years.'
- A summary of recent trends is shown below:
- **Tab.1. Greene King's Sales Trends:**

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: £2.2bn
12m range 703p – 978p

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			
H1 16/17	+1.3	+4.2	-3.8	
Next 6wks	Improved	In line		

Source: Company Reports, *48wks

Current Trading:

- GNK says 'trading in Pub Company since the period end has improved versus the trends seen in the second quarter.'
- It says 'trading in Pub Partners and Brewing & Brands was broadly consistent with that seen in the first half.'
- The group reports 'our latest Leisure Spend Tracker highlighted that 28% of consumers expect to visit the pub in Christmas week and we are looking forward to another successful festive season with deposited bookings on all key dates up strongly on last year.'

Cash Flow, Balance Sheet & Debt:

- GNK has completed 50 brand conversions with average sales uplifts of over 30%.
- It says H1 featured strong free cashflow and net debt stands at 4.2x EBITDA. Debt stood at 3.9x EBITDA at the full year. The rise was 'as expected' following the tap of the group's securitisation in May
- GNK says it has 'flexible and long-term debt financing' in place

Market Conditions, Strategy and Other:

- GNK says much of the increase in consumer spending 'is being driven by the supply of new branded eating out sites'
- It says 'eating at home has become more attractive due to the twin drivers of grocery food deflation and the growth of branded takeaway and delivery businesses.'

- Group adds ‘there are also demand challenges with higher consumer expectations for value, service and quality, which are mainly impacting the value food sector, the on-going digitalisation of leisure and the demand for healthier options.’
- However ‘pubs can maintain their market share of eating out and drinking out.’
- Overall, Greene King CEO Rooney Anand reports ‘we have delivered market outperformance and strong integration momentum against a backdrop of continued challenging market conditions.’
- Mr Anand continues ‘our performance has been driven by growth in all divisions and the synergy benefits from the integration. These have helped to offset increased cost pressures, particularly from the National Living Wage, as well as additional investment in the customer offer to meet higher guest expectations of value, service and quality.’
- GNK says ‘the full impact of the UK decision to leave the EU remains unclear. Looking ahead, increasing levels of consumer uncertainty, further cost pressures and the changing dynamics of eating out, mean the consumer environment is likely to become more challenging.’
- Group concludes ‘we are confident that the strength of our brands, pubs, people and cash generation leaves us well placed to deliver another year of progress, value creation and returns for our shareholders.’

Langton Comment: Greene King has turned in numbers broadly in line with expectations.

The integration of Spirit would appear to be going well.

Managed houses have slowed in Q2 but the group reports trading has improved since.

The performance of tenanted houses has been good but beer looks disappointing.

Overall, GNK remains concerned about the wider economy and mentions Brexit, input costs, rising wage inflation and consumer confidence issues.

Uncertainty is unavoidable. We believe that this is more likely to lead to a delaying of large-ticket rather than small ticket purchases – although the pub is not immune.

GNK is one of the UK’s better-positioned pub companies and, with its shares now trading at a single-digit multiple, it is not expensive.

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 therefrom 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.