



21 Jan 2014

MARSTONS (MARS): 153p Trading update, 15w to 18 Jan 2014

Group reports 'our performance in the FY to date has been encouraging...'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	88.4	12.3	12.4	6.4	4.2
2014 (E)	89.5	12.3	12.4	6.7	4.4
2015 (E)	97.9	13.4	11.4	7.0	4.6

Source: Company & Broker Estimates

AGM and Trading Update, 15w to 18 Jan 2014:

Marston's has this morning released the trading update that will accompany its AGM later today and our comments are set out below:

Destination & Premium:

- Marston's has reported that its destination and Premium units have increased LfL sales by 4.1% in the year to date (food sales up 5.6% and wet sales up 2.2%)
- The group has thus outperformed the Coffer Peach Tracker (excluding London)
- They were up by 3.1% at week 8 and were up by 5% over the last 8 weeks including a 3.3% advance over three weeks of Christmas trading
- Christmas 2012 was up by 5.8%, providing tough comps, which were nonetheless beaten
- Margins to date are slightly ahead of those recorded at the same stage last year
- New build is in line with plans; some 11 new pubs will be opened in H1 with a possible 16, perhaps a couple more, due to open in H2

Taverns:

- Within Taverns, Managed & Franchised units are up by 3% in the year to date; the group says 'our franchised model continues to prove successful'
- They had been up by 2.1% at week 7 and they increased LfL sales by 4% over the Christmas period

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Market Cap: £923m
12m range 132p 166p

- Leased LfL profits are up by 1% in the year to date having been flat at week seven

Brewing:

- Total brewing volumes are slightly down but low margin revenues have been surrendered and the business's profits are slightly higher and recent trading trends are shown below:
- Tab.1. Marston's Sales Trends – Pre Reorganisation:**

Period	Managed Sales LfL (%)	Tenanted & Leased profit per pub LfL %	Own-brand beer volumes %
FY 08/09	-0.6	-7.0	+8.0
H1 09/10	+1.4	-4.5	'strong'
FY 09/10	+1.7	-3.7	+4.5
H1 10/11	+2.4	+0.3	+4.0
FY 10/11	+2.9	+0.6	+2.0
H1 11/12	+3.6	+3.1	+2.0
FY 11/12	+2.2	+3.2	+2.0

Source: Company Reports

- Tab.2. Marston's Sales Trends Post Reorganisation:**

Period	Premium & Destination LfL sales (%)	Taverns & Leased LfL EBITDA %	Beer Company %
H1 12/13	n/c*	'down'	+12.0
6w to 11 May	+6.0	'up'	
10w to 20 Jul	+6.0	'up in July'	
11w to 5 Oct	+2.6		
FY 12/13	+2.2		
First 7w FY14	+3.1	+2.1	
First 15w FY14	+4.1	+3.0	Slightly lower

Source: Company Reports, *food up 2%, drink down 2%,

Debt, Cash Flow & Other:

- Marston's has announced that net debt remains in line with expectations
- There is no overall change to guidance; soft comps in March should ensure that H1 ends well but tougher comps in July will provide more of a challenge in H2
- The group will realise in the region of £60m to £70m from disposals this year, this being in addition to the disposal to New River
- CEO Ralph Findlay concludes 'we traded well over the Christmas period' and says 'our performance in the first quarter has been good'

Langton Comment: Marston's has reassured that Christmas traded out well and that expectations for the full year (notwithstanding the help from snow last year this March and the headwinds provided in July by last year's good summer) are unchanged.

The group remains set to reshape its business further in FY14 and thereafter. As many as 600 leased and tenanted units are likely to be sold over the near term and the proceeds will be reinvested in food-led, managed units.

The deal with New River should lead to a better quality of earnings growing by around 10% or so by FY16 and cutting bottom-end pubs remains a sensible course of action in a market that continues to evolve.

Trading is in line with expectations. Marston's shares trade on around 12.4x this year earnings and shareholders are to be paid (a rising) 4.1% yield whilst the quality of earnings is improved.

EPS should be growing by more than 10% per annum from FY16 onwards and the group's shares, which are asset backed and whose shares offer a substantial yield, are good value

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

mark.brumby@langtoncapital.co.uk

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Mark.brumby@langtoncapital.co.uk

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