



27 Jan 2015

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

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2014 (A)	83.0	11.70	12.5	6.70	4.6
2015 (A)	91.8	12.65	11.6	7.05	4.8
2016 (E)	99.7	13.80	10.6	7.35	5.0

Source: Company & Broker Estimates

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Destination & Premium:

- Marston's previously reported that its Destination and Premium units increased LfL sales by 2.1% in the first 7wks of the current year
- Year to date, sales are up 2% LfL suggesting that there has been little change to the underlying trend
- Both food and drink are +2%
- For the 2wks of Xmas itself, sales were up by 4.8% (+12.5% on Xmas Day itself) suggesting that, as other operators have commented, the big days held up well but the rest of December was nothing special
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- The group is on target to open 25 new pubs this year and it will open 8 in H1

Taverns:

- Within Taverns, Managed & Franchised, LfL sales were up 2% in the first 7wks of the current period and they are now up 2% for the 16wks to date
- Sales in the Xmas fortnight were +2.7% and sales on Xmas Day were up by 5.8% (both numbers LfL)
- The group says 'our franchise model continues to prove successful, providing motivated licensees with local flexibility and reduced risk while improving the quality, consistency and value of the consumer offer.'
- Comps were similarly not easy as Leased, Managed & Franchised was up by 3% in the same period last year

Leased:

- The group's leased units were up by 1% in the year to date. A 7wk numbers was not given when the company reported its full year numbers
- Some 200 more tenancies will be moved to franchised, around 100 in FY15

Brewing:

- Own brand beer volumes are +4% for the year to date
- Off trade sales are +8% with the group's largest brand, Hobgoblin, up by 10% y-o-y and recent sales trends across the group's major businesses are shown below:

- **Tab.1. Marston's Sales Trends – Pre Reorganisation:**

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Summary, Conclusion, Beer Tie & Other:

- CEO Ralph Findlay reports 'we have again traded well over the Christmas period, with good sales growth over the key Christmas fortnight for the third year in succession, including serving a record 60,000 meals on Christmas Day.'
- He adds 'this performance demonstrates that our customers remain attracted to the consistency and value for money we offer, underpinned by excellent service in a high quality environment.'
- The group concluded 'in addition, our Beer business continues to perform well, with a particularly strong performance in the off-trade. We remain confident of achieving our expectations for the full year.'

Langton Comment: Marston's has confirmed that trading continues to be in line with expectations. It has suggested that the busy days have remained busy and has suggested that, in line with comments made by other operators, December excluding the holiday days was satisfactory but not outstanding.

The growing importance of the 'big days' does leave revenues (along with those of other operators) open to more potential for weather or other shocks.

That said, with its new-build programme still firmly in place, much of Marston's success has been of its own making.

The group has not been aided by geography as it operates a largely provincial estate.

Earnings are set to move forward this year and next as the group has now worked through the period of dilution caused by the disposal of its bottom-end, tenanted units.

The group's shares trade on an undemanding 11.6x this year's earnings falling to 10.6x in FY16. The yield is a healthy 4.8% this year and 5.0% next.

Consumers remain value-driven but confidence is returning and the outlook is brighter than it has been for some time. Real wages are growing, unemployment continues to fall and there may be tax cuts in March's Budget. Interest rate rises may not kick in until 2016 and we would suggest that Marston's strongly asset-backed shares offer good value.

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