14 Oct 2015

MARSTONS (MARS): 153.4p
Q4 Trading Update: Year to 3 Oct 2015

Group reports 'we have made good progress this year with underlying profit before tax in line with expectations…'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	83.0	11.70	13.1	6.70	4.4
2015 (E)	91.4	12.65	12.1	7.05	4.6
2016 (E)	99.0	13.75	11.2	7.35	4.8

Source: Company & Broker Estimates

Q4 Trading Update: Year to 3 Oct 2015:

Marston's has this morning updating on trading for its full year to 3 Octopber and our comments are set out below:

Destination & Premium:

- In Destination and Premium, LfL sales were up 1.8% (a slight increase on the position at week 41)
- LfL food sales were up 1.7% and drink sales were also up 1.7% suggesting that other income, accommodation & machines, performed well
- Marston's says 'in the last 11 weeks of the period, like-for-like sales have grown 2.2%.'
- The group says 'operating margin is ahead of last year'
- Marston's adds 'we completed 25 new pub-restaurants in the financial year just ended'
- Marston's concludes re the near future 'in the 2016 Financial Year we plan to open at least 20 Destination pub-restaurants, two Revere sites and five Lodges.'
- It adds 'we have a good pipeline of sites to maintain similar levels of expansion for the foreseeable future.'

Taverns:

- In Taverns Marston's reports LfL sales for year were +2.0% and says it saw 'growth of 3.1% in the last 11 weeks.'
- 'in the last 10 weeks of the period, like-for-like sales were up 2.0%.'

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Market Cap: £906m
12m range 137p 174p

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- The group says 'our franchise business, which now operates around 550 sites, continues to perform strongly as we evolve and develop the business model'

Leased:

- In Leased Marston's estimates profits to be +4% against last year
- At w41, the group said leased profits were in line with last year, suggesting that the last 11wks or so have been very strong

Brewing:

- In Brewing Marston's is able to report 'our strong brand portfolio, supplemented by the acquisition of the Thwaites' beer brands, has performed well'.
- Ex-Thwaites, own-brand beer volumes were +5% compared to last year. Including Thwaites, volumes are +15%. Recent sales trends are shown below:

Period	Premium & Destination LfL sales (%)	Taverns LfL sales %	Leased LfL EBITDA %	Beer Company Volumes %
H1 12/13	n/c	'down'		+12.0
FY 12/13	+2.2			
First 7w FY14	+3.1	+2.1		
First 15w FY14	+4.1	+3.0		Slightly lower
H1 13/14	+5.7	+3.8	+3.0	Slightly lower
To w41 2013/14	+4.1	+3.0	+3.0	+1.0
Last 11w FY13/14	-0.3	-1.0	+3.0	In line
FY13/14	+3.1	+2.1	+3.0	
First 7wks FY14/15	+2.1	+2.0	'ahead'	'ahead'
First 16wks FY14/15	+2.0	+2.0	+1	+4
H1 (26w) FY14/15	+1.5	+1.4	+4	+4
5w to 9 May	+2.0	+2.8	In line	In line
First 41wks	+1.7	+1.7	In line	+4
FY14/15	+1.8	+2.0	+4.0	+5.0
Last 11wks	+2.2	+3.1	Not given	Not given

Source: Company Reports, m/f = managed & franchised

Assets, Debt, Balance Sheet & Other:

- Marston's does not comment on net debt or cash flow
- Re its pension liabilities, it is able to say post its triennial valuation that 'we have agreed a reduction in cash contributions from the current £13m to £7.5m per annum.'

Conclusion:

- CEO Ralph Findlay reports 'the Group has made good progress in the last year, with underlying growth in all of the business segments.'
- He says 'our new pub-restaurants, premium pubs and lodges have all performed well and we have good visibility over the site pipeline to underpin our future growth.'
- The group is now through its disposal problem. It says 'we have substantially completed our disposal programme of smaller wet-led pubs' and adds 'these actions, together with the success of franchise, have significantly transformed our pub business over the last three years.'

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- Mr Findlay adds 'in brewing, the integration of the Thwaites' brewing business has gone well, and we are well placed to continue to exploit the market growth in premium and craft beers and ongoing growth in the off-trade.'

- The group will report FY numbers on 26 November

Langton Comment: Marston's has confirmed that trading continues to be in line with expectations.

Indeed the group is performing somewhat more strongly than the industry as a whole (per the Peach Tracker) and it is able to 1) add that its margins are rising and 2) confirm that sales in the last 11wks of the period have been ahead of the prior 41wks.

We believe that the rugby is broadly neutral, that the cool weather over the summer has not been unduly damaging and that big days remain important.

That said, Marston's has disposed of its bottom-end units and now operates a markedly better estate. It has evolved and remains relevant to and for its customers.

We see the balance sheet as robust and the new site pipeline in secure.

With that in mind, we would suggest that a PER of 12.1x falling to 11.2x is not overly demanding. The group's shares yield 4.6% (rising to 4.8%) and we believe that Marston's, transformed in terms of quality as it is, should be capable of delivering double-digit EPS growth into the medium term.

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