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## MARSTONS (MARS): 151p Q1 & Xmas Update – 16wks to 23 Jan 2016

*Group reports trading 'has been encouraging, including good trading over the Christmas & New Year Period...'*

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	83.0	11.70	12.9	6.70	4.4
2015 (A)	91.5	12.90	11.7	7.00	4.6
2016 (E)	99.0	13.75	11.0	7.31	4.8

Source: Company & Broker Estimates

### AGM & Trading Update – 16wks to 23 Jan 2016:

Marston's has this morning updated on trading for its first quarter including the Xmas and New Year periods and our comments are set out below:

#### Trading:

- Marston's reports 'our performance in the financial year to date has been encouraging, including good trading over the Christmas and New Year period.'
- The group adds 'in Destination and Premium, like-for-like sales were 3.0% ahead of last year including like-for-like food sales growth of 2.5% and wet like-for-like sales growth of 3.4%.'
- Xmas was strong. Marston's comments 'in the key two week Christmas trading period to 2 January trading was good with like-for-like growth of 4.9% despite tough comparatives.'
- The group says 'operating margins are ahead of last year.' There is little if any discounting going on. We believe that margins could come back to level for the year as a whole as the NLW kicks in.
- As regards Taverns, managed and franchise pub, Marston's reports 'like-for-like sales were 2.7% ahead of last year, with 5.0% growth over the Christmas fortnight.'
- It says 'the evolution of the franchise model continues to be a key driver of growth, and has been extended into higher turnover pubs, with the highest turnover franchise pub achieving £30k per week over the holiday period.'
- Re Leased units, profits are estimated to be around 3.0% ahead of last year in the period under review.

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Market Cap: £918m  
12m range 139p 174p

- In Brewing MARS says 'our strong brand portfolio has performed well with own-brewed volume up 21% in the year to date, underpinned by a very strong performance in the off-trade.'
- This number is inclusive of Thwaites' business (purchased April 2015) and we believe that underlying beer sales are up in the low single digits
- 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			
H1 13/14	+5.7	+3.8	+3.0	Slightly lower
FY13/14	+3.1	+2.1	+3.0	
H1 (26w) FY14/15	+1.5	+1.4	+4	+4.0
FY14/15	+1.8	+2.0	+4.0	+5.0
Last 11wks of 14/15	+2.2	+3.1	Not given	Not given
First 16w of 15/16	+3.0	+2.7	+3.0	+21.0*

Source: Company Reports, m/f = managed & franchised, \*distorted by April 2015 Thwaites purchase

#### Debt, cash-flow, capex etc.:

- Marston's new-build programme continues apace with the group saying it should 'open at least 20 new pub-restaurants and five lodges in the current financial year, with seven pub and three lodge openings expected in the first half.'
- This being a trading update, there is no comment on debt. We believe that expectations are in line with earlier guidance.

#### Conclusion:

- CEO Ralph Findlay reports 'once again we traded well over the Christmas period with record sales over the key Christmas fortnight for the fourth year in succession, maintaining our record of market out-performance, including pub retail sales of over £3 million on Christmas Day for the first time.'
- He says 'this performance demonstrates the appeal of our pubs and the value for money we offer, underpinned by excellent service.'
- Regarding the outstanding beer result, Mr Findlay comments 'in Brewing, our principal brands and new beers contributed to an excellent first quarter.'

**Langton Comment:** In short, Marston's has reported that it has traded very satisfactorily over its Q1 – including the critical Christmas and New Year period. It has effectively maintained the momentum with which it finished FY15.

Whilst this is in line with our expectations, it does appear to contrast with cautionary comments made by Restaurant Group as recently as the week before last.

We would expect similarly reassuring comments when Greene King releases its December Tracker tomorrow and – one would hope – when M&B hosts its AGM the day after.

The bottom line would appear to be that well-located units selling customers what they want to buy at a price they are prepared to pay continue to perform well.

Furthermore, Marston's has transformed its business over recent years and it is now beginning to reap the benefits in that its tail has gone and its new-build pubs, now around 140 of them, continue to trade strongly.

It is adding its own units at an attractive EBITDA multiple of under 6x and the return on capital on these freehold units remains between 13% and 15% depending on location.

Margins are up at a time during which the group has been beating the market in terms of LfL sales growth. This contrasts with the performance reported by JD Wetherspoon and leaves Marston's looking well-positioned.

Marston's is in control of its own destiny with most of its pubs now under its control. It's new-build units add a degree of certainty lacking with some other operators.

The group is growing EPS and cutting its debt. Its shares trade on around 11x current year earnings and offer a 4.8% yield. We see estimates as unlikely to change. They may currently be under a little upside pressure but, until we get some more clarity on the impact of the NLW, they will remain where they are. We believe that Marston's is capable of delivering double-digit EPS growth into the medium term and see its shares as offering extremely good value.

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