

8 May 2013

Leisure:JD Wetherspoon (JDW): 595p Q3 trading update: 13w to 28 April 2013

JD Wetherspoon has this morning updated on Q3 trading and our comments and further details are set out below:

- JD Wetherspoon has this morning updated on Q3 trading for the 13w period to 28 April 2013 saying that LfL sales rose by 6.3% and that total sales, including new openings, were some 9.3% higher
- For the 39w to date, LfL sales are up by 6.7% and total sales are some 10.1% higher
- The group last updated on 15 March (H1 + 6w of H2) at which point LfL sales were up 6.9% (H1) and were 7.3% higher for the 6w to 10 March
- Sales have subsequently been (slightly) impacted by snow towards the end of March and recent LfL sales trends are shown below:

Financial period	LfL sales %
Full year 2008/09	+1.2
Q1 2009/10	+0.3
H1 2009/10	+0.1
Q3 2009/10	Minus 0.8
Full year 2009/10	+0.1
Q1 2010/11	+1.6
Q2	+3.1
Q3	+2.4
FY 2010/11	+2.1
Q1 2011/12	+1.1
Q2 (first 12w of)	+3.6
H1 2011/12	+2.1
Q3	+2.0
FY 2011/12	+3.2
Q1 2012/13	+7.1
Q2 2012/13 (11w to 13 Jan 13)	+8.0
H1 (26w to 27 Jan)	+6.9
Q3 2012/13	+6.3
39w 2012/13	+6.7

Source: JD Wetherspoon

- The figures suggest that JDW is continuing to favour sales over margin and that it may be increasing barriers to entry via cheaper pricing for its customers]
- However, JDW reports that the operating margin for Q3 was some 8.5% compared with 8.3% in H1
- JDW has opened 16 new pubs & closed two in 2012/13 to date; it expects to open c30 in the full year before reverting to 20-25 next year
- The group says 'there have been no other significant changes in the company's overall financial position' since it last updated

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- Regarding the outlook, JDW says that the VAT disparity on food between pubs and the off-trade along with stealth taxes remain the major risks to the industry
- It welcomes the scrapping of the beer duty escalator and the 1p cut in duty and says 'the company continues to aim for a reasonable outcome in the current financial year'

Lancap view: JD Wetherspoon updated on H1 and early H2 trading on 15 March since which time it has traded through a second period of snow (with relatively little impact on LfL sales) and very recently a period of considerably better weather.

JD Wetherspoon's shares have been strong recently and market estimates of around 41.5p for the current year suggest that they are now trading at around 14.3x this year's earnings.

The multiple was 12.3x as recently as March and, despite the fact that JDW remains well-placed to continue to prosper in an environment where consumer spending remains tight, some holders may be tempted to take some profits at these levels.

Longer term, however, the group may be doing the right thing by holding down prices in order to drive sales. The group is increasing barriers to entry and cementing its footprint but, over the shorter term, profits are likely to suffer.

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