13 September 2013

Leisure:JD Wetherspoon (JDW): 735p
Full Year Results to28 July 2013

JD Wetherspoon has this morning reported preliminary full year results (52 weeks) to 28 July 2013 and our comments and further details are set out below:

- JD Wetherspoon has this morning reported full year numbers to 28 July saying that sales rose by 7.0% (and by 9.3% stripping out week 53 last year) and that LfL sales rose by 5.3%
- LfL bar sales rose by 3.8% and food sales were 10.9% higher; machine sales were +0.4%
- Operating profit was up by 3.7% (6.0% excluding w53), PBT was up by 6.3% (8.8%) to £76.9m and EPS is 46.8p compared with 41.3p last year
- Operating margin declined to 8.7% (2012: 9.0%) and the full year dividend will be 12.0p, in line with last year
- Chairman Tim Martin comments ‘I am pleased to report another year of progress’ but goes on to say that it is ‘unsustainable to have far higher taxes for the pub industry than those for supermarkets’
- The group last updated to week 50 on 24 July at which point sales were running some 6.0% ahead of last year (suggesting a slight slowdown in the hot weather) 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
Full year 2010/11	**+2.1**
Q1 2011/12	+1.1
Q2 (first 12w of)	+3.6
H1 2011/12	+2.1
Q3	+2.0
Full year 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
Full year 2012/13	**+5.3**
First 6w of 2013/14	+3.6

Source: JD Wetherspoon

- Growth in LfL sales of 3.6% in the first six weeks of the current FY reflects the fact that comps are getting tougher (Q1 last year was +7.1%)
- The hot weather may have favoured other operators but JDW is still growing strongly

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Langton Capital Limited
Suite 415, No1 Alie St,
London, E1 8DE
020 7702 3389

- JDW opened a net 26 new pubs in 2012/13 and intends to open around 30 in the current FY
- Closing debt was £474m (2012: £463m), debt to EBITDA was 2.88x (2012: 2.96x) and the group has some £111m of unused facilities at year end
- The dividend has not been increased ‘in view of the high levels of capex in recent years and the potential for advantageous investments in the future’
- The group is to reduce its prices by 7.5% for one day only (25 Sept) in order to highlight the higher levels of tax paid in the on- versus the off-trades
- The group says that LfL sales in the last two weeks were +2.5% and ‘this may be a reasonable indicator of future sales trends, in the light of strong sales in the last FY’
- Numbers are slightly ahead of consensus and the group’s comments re slowing LfL sales should not be a surprise meaning that numbers are unlikely to change materially on the back of today’s news

Lancap view: JD Wetherspoon sailed through the cold spring without too much of an impact on sales with LfL trading only really slowing as comps became much more difficult around (and after) the company’s year-end.

Comments regarding trading, debt, expansion and taxes are all in line with what might have been expected and forecasts are unlikely to change materially from the c£81.5m that is expected for the full year – giving around 49.5p of EPS.

This suggests that the group’s shares, which have risen strongly in recent weeks, are trading on a current year PER of around 14.8x. The shares stood at around 500p in March and have risen by around 50% since.

Hence JDW is hardly cheap but earnings momentum looks good and, if the market is in a mood to believe the company when it says that investment opportunities look to be substantial, the shares should be supported at around this level although there could be profit taking short term.

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. The group will host a meeting for analysts at 9am.

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

mark.brumby@langtoncapital.co.uk