



13 March 2014

JD WETHERSPOON (JDW): 829p H1 results (26w) to 26 Jan 2014

Group turns in a “good sales performance and reasonable growth in profits & free cash flow...”

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	65.2	46.8	17.7	12.00	1.4
2014 (E)	79.0	46.7	17.8	12.60	1.5
2015 (E)	90.0	54.4	15.2	13.05	1.6

*Normalised, Source: Company & Broker Estimates

Trading Update: H1 results to 26 Jan 2014

JD Wetherspoon has this morning reported H1 numbers for the 26w to 26 January and our comments thereon are set out below:

Trading:

- JD Wetherspoon has reported H1 numbers saying that total revenues increased by 9.1% and that LfL sales, as previously reported, were up by 5.2%
- The group has generated an operating profit of £55.7m (2013: £52.1m) and pre-exceptional PBT of £37.8m (2013: £34.8m)
- EPS (pre-exceptional costs) is 22.1p, up 10.5% on last year's 20.0p and an unchanged H1 dividend of 4.0p is being proposed
- LfL sales were +5.2% in the period under review and are some 6.7% higher in the first six weeks of H2 (to 9 March) and recent LfL sales trends are shown below:

Tab.1. Recent Sales Trends:

Financial Period	LfL Sales (%)
Full year 2008/09	+1.2
Q1 2009/10	+0.3
H1	+0.1
Q3	-0.8
Full year 2009/10	+0.1
Q1 2010/11	+1.6
Q2	+3.1
Q3	+2.4

Find us at:



Recent News Here:

- Today's email
- Recent emails
- A day in the life...
- Who we are, what we do...
- Upcoming news-flow
- Recent company updates
- Thematic pieces
- LinkedIn profile



Market Cap: £991m
12m range 505p 805p

Full year 2010/11	+2.1
Q1 2011/12	+1.1
H1	+2.1
Q3	+2.0
Full year 2011/12	+3.2
Q1 2012/13	+7.1
H1	+6.9
Q3	+6.3
Full year 2012/13	+5.3
First 6w 2013/14	+3.6
Q1	+3.7
Q2 (first 12w)	+6.7
H1	+5.2
First 6w of H2	+6.7

Source: Company Reports

- The group has generated an operating margin of some 8.15% (pre-announced in January) against a margin of 8.32% last year and chairman Tim Martin says that H2 comps will be more difficult
- The group does not give details but at the time of its Q2 update on 22 January, it said that it expects an operating margin 'in the region of 8.1% to 8.3% for this financial year'
- He comments that tax and input price increases will continue to be an issue in H2 but says 'the company continues to expect to achieve a reasonable outcome in the current financial year and has a solid platform for future growth'
- The group highlights high levels of taxation as an issue for the company and points out that it paid (or at least collected) some £294.8m in taxes for the government in the first half
- The company continues to call for reduced taxation and is an active member of the Jacques Borel VAT Club

Debt, Balance Sheet & Other:

- The group opened 19 new pubs during the period to take the group to 905 units. It expects to open between 40 and 50 in the full year
- Bank debt had risen to £499.6m by H1 end compared with some £474.2m at the group's last year end – the net debt to EBITDA ratio was 2.93x

Langton View: JD Wetherspoon was up against tough comps in its Q2 but has nonetheless (as flagged at its Q2 trading update) turned in a very strong sales performance. The group had already reported on the first 25w of the trading period (LfLs up 5.2%) so the new news is the +6.7% LfL sales growth that the group has achieved in the first six weeks of H2.

This will have been helped by relatively better weather (though wet) and the group goes on to say that comps in its H2 will be tougher. The weather was good over the summer and JDW's own performance was much better.

Margins have suffered as a result of spending on repairs and staff and an 'investment' in low prices but the fact that food inflation is at its lowest level for many years and the National Minimum Wage has been set at 3.0% should help the company to rebuild these over the medium term.

Furthermore, the group's provision of everyday low prices will keep the pressure on other operators and may even deter some new entrants from entering the high-street in the first place.

A little under 47p in earnings is expected for the current year. This suggests that the group's shares, which rose strongly in the six months to August last year before moving sideways for a period before their recent rally, are trading on a current year PER of around 17.8x falling to perhaps 15.2x next year with a yield of around 1.6%.

The shares stood at around 500p in March last year and have risen by more than 50% since which, though it may suggest that JDW's shares may no longer be cheap, is partly as a result of the group's extremely strong sales performance and the anticipation of more to come.

Some profit taking is likely from time to time. Indeed the group points out that comps in its H2 will be tougher and the PER is relatively high but, operationally, the group's pricing is increasing barriers to entry and cementing its footprint. The operator remains well-positioned in what remains a tight consumer environment and further outperformance, both on the ground and, perhaps with a lag, of the share price, is likely over the medium term.

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

mark.brumby@langtoncapital.co.uk

This message (and files contained herein) may contain confidential or proprietary information and is intended solely for the use of the individual or organisation to whom it is addressed. If you are not the addressee you should not disseminate, distribute or copy this email or any part thereof. Further, please notify the author immediately by telephone or by replying to this email and then delete all copies of the correspondence from your system. We apologise for any inconvenience that this may have caused. This information is a financial promotion for the purpose of the European Markets in Financial Instruments Directive (MiFID) and FSA's Rules. It has not been prepared in accordance with the legal requirements designed to promote the independence or objectivity of investment research. This document is not based upon detailed analysis by Langton Capital of any market, issuer or security named herein and does not constitute formal research or a research recommendation, either expressly or otherwise. It is not investment advice and does not take into account the investment objectives and policies, financial position or portfolio composition of any recipient. This document should not be relied upon as authoritative or taken in substitution for the exercise of your own commercial judgment. Whilst Langton Capital has taken steps to control the spread of viruses on its systems, it cannot guarantee that this email and any files transmitted with it are virus free. No liability is accepted for any errors, omissions, interceptions, corrupted email, lost communications or late delivery arising as a result of receiving this message via the Internet or for any virus that may be contained in it. Recipients should review independently and / or obtain independent professional advice and draw their conclusions therefrom should decide to undertake transactions with third parties. Langton Capital or its employees may have positions in securities mentioned herein. We reserve the right to monitor email messages passing through our network. Langton Capital Limited is authorised and regulated by the Financial Services Authority. Langton Capital Limited is registered in England number 07112949.

Mark.brumby@langtoncapital.co.uk

Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389