



21 Jan 2015

JD WETHERSPOON (JDW): 829p Q2 Trading Update: 12w to 18 Jan 2015:

Says 'has seen flat bar sales in the last 2mths...'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	79.4	47.4	17.5	12.04	1.5
2015 (E)	84.0	51.5	16.1	12.40	1.5
2016 €	93.0	57.8	14.3	12.94	1.6

*Normalised, Source: Company & Broker Estimates, 2015 upgrades likely

Q2 Update: 12w to 18 Jan 2015:

JD Wetherspoon has this morning updated on trading for the 12 to 18 January and our comments thereon are set out below:

Summary:

- JD Wetherspoon has reported LfL sales up by 2.8% in the first 12w of Q2 with total sales up by 6.8%

Trading:

- LfL sales growth has edged down. The group says 'like-for-like sales slowed to approximately 2% in December and have slowed further in the last fortnight.'
- In the Y to D (25w to 18 Jan), LfL sales are +4.6% with total sales +9.1%
- JDW says 'we expect the operating margin (before any exceptional items), for H1 to be around 7.3%, 0.9% lower than the same period last year.'
- It says 'this reduction is mainly due to an above-inflation increase in pay for staff and an increase in utility and supplier costs. In addition, gross margins are under pressure as a result, we believe, of increased price competition from supermarkets.'
- Recent trends are shown below:

Tab.1. Recent Sales Trends:

Financial Period	LfL Sales (%)
Full year 2008/09	+1.2
Full year 2009/10	+0.1
Full year 2010/11	+2.1

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Market Cap: £982m
12m range 700p 880p

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
Q1	+3.7
Q2 (first 12w)	+6.7
H1	+5.2
Q3	+6.2
Full year 2013/14	+5.5
First 6w 2014/15	+6.3
Q1	+6.3
Q2 (12w)	+2.8
H1 to date	+4.6

Source: Company Reports

Balance Sheet & Other:

- JDW has opened 11 new pubs in H1 to date and says it Q1 and has '10 sites under development.' It intends to open 'approximately 30-40' units this year
- JDW adds that it has opened its second pub in Ireland & has 3 sites in development
- JDW spent around £21m buying back c2.6m shares between April & July last year at prices of around 810p. It spent another £1.5m buying back c200k in Nov at c800p
- Re debt, etc. JDW says 'there have been no significant changes in the Company's overall financial position since the publication, on 13 October 2014, of the annual report and accounts for the year ended 27 July 2014.'

Outlook:

- Tim Martin comments that JDW's market-beating growth has slowed
- He says 'even Wetherspoon...has seen flat bar sales in the last two months, when food sales have continued to rise.'
- He suggests that elsewhere in the market, pubs 'especially where pubs have not benefited from Wetherspoon's level of investment, will have fared less well.'
- Drink continues to be less important with Mr Martin commenting 'fewer and fewer customers, outside pockets of affluence, in an accelerating trend, are using pubs for "drinking occasions", which do not involve eating.'
- Supermarket pricing is playing a part here and the group continues to campaign for a lower rate of VAT on some products
- Re the outlook, JW suggests that 'although the reduction in sales growth may have an impact on our operating margin if the trend continues, the company is aiming for a broadly satisfactory outcome in the current financial year.'

Langton View: Q1 represented a strong performance in terms of sales (margins were lower) but, against the backdrop of tougher trading outside the key Xmas days, this momentum has clearly faltered somewhat.

Lower LfL sales will prove to be a drag on margin and JDW once again cautions that this will be lower this year than last.

We have little doubt that JDW will be outperforming its competitors – and particularly those without access to the funds to invest.

Longer term, we are expecting to see the group open around 40 units per annum for the foreseeable future and it has shown itself willing to buy back shares.

JDW is a superlative operator and, though hardly cheap, its shares do not look unduly expensive at c16x this year's earnings with a yield of 1.5%. Having said that, the group has once again managed to disappoint on margins and the shares could come under some downward pressure today. Any material weakness may present a buying opportunity.

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