



6 May 2015

JD WETHERSPOON (JDW): 736p Q3 Update: 13wks to 26 April 2015:

Says tough comps will make progress in remainder of H2 more difficult but expectations for FY are unchanged

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	79.4	47.4	15.5	12.04	1.6
2015 (E)	77.9	48.2	15.3	12.21	1.7
2016 (E)	86.0	54.0	13.6	12.64	1.7

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

Q3 Trading Update: 13w to 26 April 2015:

JD Wetherspoon has this morning updated on Q3 trading for the 13wk period to 26 April 2015 and our comments thereon are set out below:

Trading:

- LfL sales growth came in at +1.7% for Q3 with total sales including new openings +5.8%
- In the 39wks of the year to date, LfL sales are +3.6% and total sales are up by 7.9%
- Q3 operating margin was 7.5% (v 8.0% in Q3 last year), which compares (for once favourably) with the 7.4% reported at H1
- Margin watchers will point out that Q1 margin was 7.7%, the implied Q2 margin was around 7.0% and Q3 is 7.5%. Helpful but perhaps too little evidence to call a turn
- The group adds 'at this stage we expect the full-year margin to be in the region of 7.3% to 7.7%.' 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
Q1 2011/12	+1.1
H1	+2.1
Q3	+2.0

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Market Cap: £917m
12m range 700p 850p

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	+4.5
First 6wks H2	+1.6
13wks to 26 April	+1.7
39wks to 26 April	+3.6

Source: Company Reports

Balance Sheet & Other:

- JDW says it has opened 20 new pubs and disposed of 4 since the start of the financial year.
- It adds 'we have 12 pubs under development and, in line with our last update, intend to open around 30 pubs in the current financial year. It is our present intention to open a similar number of pubs in the following financial year.'
- Re the group's financial position, it reminds investors it has 'bought back 1,621,163 shares, at a total cost of £12.5 million, since the start of the financial year' but says that other than this 'there have been no other significant changes in the Company's overall financial position since the publication of the interim accounts on 13 March 2015.'

Company Comment & Outlook:

- Re the trading outlook, JDW says 'the Late Night Levy, combined with higher business rates per pint and a huge VAT disparity, mean that pubs continue to trade at a great disadvantage to supermarkets.'
- No change there. The group adds 'the second half of the last financial year was strong, which will make it difficult to improve on that performance in the current year' and it says 'our expectations for this full financial year remain unchanged.'
- Re FY16, JDW says it has more pubs and is seeing 'stable utility prices and slightly lower interest rates.'
- Less helpfully, it is seeing 'increased competition from supermarkets and restaurant groups, together with additional staff and repair costs.'
- Chairman Tim Martin does not comment further but the group says 'we will provide updates, when appropriate, on these, as next year progresses.'

Langton View: JD Wetherspoon performed strongly in Q1 but, on the back of tougher comps, this slowed a little in Q2 and slowed a little further at the beginning of H2. The group now seems to be saying that its LfL sales could trend towards flat for the rest of the year.

Lower LfL sales will prove to be a drag on margin. So will the reduced prices for coffees, drinks and breakfasts where the group has been accused of potentially sparking a price war. However, JDW still maintains that its expectation for the outcome for the year is unchanged.

We have little doubt that JDW will be outperforming its competitors – and particularly those without access to the funds to invest – and longer term, it should draw clear from the pack.

JDW is a superlative operator and, given the recent slide in its share price, it is becoming rather cheap. Numbers for July 2015 will shortly be historic meaning that the group's shares will soon be trading on a current year multiple of 13.6x with a 1.7% yield.

Bulls may focus on what looks as though it may be a turnaround in the trend on margins whilst bears will point to the tough comps faced in the remainder of H2 and the fact that further progress could be difficult.

Any material weakness, however, may present a buying opportunity. The company has bought back more than 1m shares since its h1 numbers in March and we would not be surprised to see it buy back more stock.

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

mark.brumby@langtoncapital.co.uk

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Mark.brumby@langtoncapital.co.uk

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