Langton Capital Limited

15 July 2015

JD WETHERSPOON (JDW): 771p
Q4 Update: FY to 26 July 2015:

Says profit for the year is unlikely to be higher than FY14…

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	79.4	47.4	16.3	12.04	1.6
2015 (E)	78.2	48.1	16.0	12.12	1.6
2016 (E)	86.2	53.7	14.4	12.52	1.6

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

Q4 Trading Update: FY to 26 July 2015:

JD Wetherspoon has this morning updated on Q4 trading for the full year to 26 July 2015 and our comments thereon are set out below:

Trading:

- LfL sales growth for the 11wks to 12 July came in at +2.9% with total sales including new openings +6.5%
- For the full year (first 50wks thereof) the group generated LfL sales growth of 3.4% and total sales growth of 7.6%
- Q4 operating margin was 7.0% compared with 8.3% in the same 11 weeks last year.
- FY operating margin 'is expected to be around 7.4% and, as previously indicated, full-year profit before tax is unlikely to be higher than last year.'
- 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
Full year 2011/12	+3.2
Q1 2012/13	+7.1
H1	+6.9

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Market Cap: £910m
12m range 700p 850p

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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
11wks to 12 July	+2.9
50wks to 12 July	+3.4

Source: Company Reports

Balance Sheet & Other:

- JDW says it has opened 26 new pubs and disposed of 6 since the start of the financial year.
- It adds 'we have 9 pubs under development and, in line with our last update, intend to open around 30 pubs in the current financial year.'
- The group comments 'it is our present intention to open between 20 and 30 pubs in the next financial year and we have recently announced our intention to sell 20 pubs which no longer fit our requirements.'
- JDW bought back 1,621,163 shares, at a total cost of £12.5m during the financial year
- The group says 'in our preliminary results announcement we intend to provide an update on impairment provisions' but it adds 'the Company remains in a sound financial position.'

Company Comment & Outlook:

- Re the trading outlook, JDW Chairman Tim Martin comments 'the recent government announcement regarding the "living wage" adds considerable uncertainty to future financial projections in the pub industry.'
- He says staff costs in supermarkets are around 10p per pint whilst in pubs they are 75p meaning that the Living Wage will impact the on-trade more significantly
- Mr Martin calls for a levelling of the playing field with regard to VAT and says that 'pubs contribute around 40% of sales as taxes of one kind or another and are important generators of jobs.' He adds 'capricious initiatives by the government, widening the financial disparity between pubs and supermarkets, will threaten the future of many more pubs.'
- Re the outlook, JDW comments 'at this early stage, a number of factors likely to influence our trading performance next year are difficult to quantify.'
- The economy is performing better but Mr Martin says 'less favourable aspects include heightened competition from supermarkets and restaurant groups, and increased staff, repairs, bar and food costs.'

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- Overall, the group says 'we currently anticipate a trading performance similar to, or slightly above, the current year, with an increased second half weighting, and will provide updates in our regular statements in the course of the next 12 months.'

Langton View: JD Wetherspoon has reported a slowing performance throughout FY15.

The group is now suggesting that FY16 could be a shade better but, in the medium term, slower LfL sales will prove to be a drag on margin.

The group has also introduced reduced prices for coffees, drinks and breakfasts where the group has been accused of potentially sparking a price war.

Nonetheless, the group, which has recently announced that it will reshuffle its assets via a disposal of around 20 leasehold pubs, is likely to be outperforming its competitors – and particularly those without access to the funds to invest – and longer term, it should draw clear from the pack.

The Living Wage will increase costs but it will also put more money in the pockets of would-be JDW customers.

Overall, JDW should earn around 48p in the year just ending and 54p in the year to July 2016. This implies that the group's shares are soon to be trading on a current year multiple of 14.5x with a 1.6% yield.

This is not cheap, per se, but bulls may focus on what looks should be higher margins next year whilst bears will point to the tough comps faced in the near term.

We would suggest that any material weakness should present a buying opportunity. Indeed the company itself could buy back more shares. The Living Wage should be a net positive and trading is set to improve a little in the coming year.

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