Langton Capital Limited

18 Sept 2014

Booker (BOK): 120.70p
Q2 update, 12w to 12 Sept 2014

UK's no. 1 wholesaler maintains strong trading record as Makro acquisition moves closer to profitability…

Year to end-Apr	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	122.1	5.82	28.6	3.20	1.9
2015 (E)	138.4	6.31	18.4	3.55	3.0
2016 (E)	155.7	7.13	16.3	5.09	4.3

Source: Company & Broker Estimates

Q2 update, 12w to 12 Sept 2014:

Booker (BOK) has this morning reported its Q2 trading update for the 12 weeks to 12 Sept 2014 and our comments are set out below:

Summary:

- Booker has maintained its enviable operating track record -- excluding Makro -- through Q2 2014, with like-for-like sales up 1.8% and non-tobacco LfLs up 3.1%.
- Its recently acquired Makro business has held back total sales (+0.1%) as management 'continues to exit non profitable, non professional categories' in order to refocus the core, ongoing business.
- Management continues successful strategy to 'Focus, Drive and Broaden Booker Group.'
- BOK is still prima facie expensive however, having fallen from 30x PE to roughly 20x PE, with forward price/earnings falling to 18.4 in 2015 and 16.3 in 2016.
- This compared to a sector average of 15.9 suggests its current strong operating performance is the minimum requirement going forward.

BOK excluding Makro:

- This statement highlights Langton's stance in recent days – namely negative sentiment spilling over from the UK grocery sector being misplaced and too much being read into Metro's selling off of its 9% stake in the company.

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Market Cap: £2,110.18m
12m range 115p – 176p

- Whilst there are concerns that its ultimate customers, corner shops etc., may be impacted, most of these fears are reduced when one considers BOK occupies the wholesaler market – not the grocery -- and has not had to react to the same structural changes causing turbulence in that sector.

- Furthermore Metro's exit from the shares in our opinion is driven by the wish to capitalise on Booker's strong share price performance over the two years it has held them (during which time they have doubled from 74p to 120p) and to use those now-realised gains to pay off its own debt, among other things.

- Taking this into account, the group has reported solid figures excluding its Makro business. Total like-for-like sales have grown by 1.8% over the 12 weeks to 12 September, with non-tobacco sales up 3.1% and tobacco sales down 0.5%. This performance is broadly in keeping with long-term trends.

BOK including Makro:

- Its loss-making Makro unit (acquired in 19 April 2013) obscures this performance somewhat, bringing total like-for-likes up just 0.1% (non-tobacco +0.8%, tobacco -1.4%). This drag is a consequence of continued efforts to shift Makro into profitability – an objective that has been making progress since its consolidation.

- The Makro turnaround is on track and in line with expectations. Unprofitable sales categories are being exited and four Makro outlets have been converted to 'the new, improved format,' with another four scheduled in H2.

- Sales in its fledgling India business continue to progress and the business as a whole is net cash positive, holding £107m.

Langton Comment: Booker's shares are up 4% at the time of writing as investors are heartened by this morning's update and are taking recent underperformance as providing an attractive entry point to the shares. The group's successful integration of Makro is key if Booker is to justify its premium relative to the sector. Despite having lost more than a third of its value over the past year, its shares are still expensive.

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