Langton
Capital Limited

19 Nov 2013

ENTERPRISE INNS (ETI): 148p
Full Year Results – Year to 30 Sept 2013

Company hosts meeting to discuss FY preliminary results…

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2012 (A)	34.0	20.5	7.2	Nil	Nil
2013 (E)	121.0	19.0	7.8	Nil	Nil
2014 (E)	123.0	19.2	7.7	Nil	Nil

Source: *Company & Broker Estimates*

Full Year Numbers to 30 Sep 2013:

Following the announcement of its preliminary results for the full year to 30 September, Enterprise Inns hosted a meeting for analysts and our comments are set out below:

Trading:

- Enterprise reported that it had taken a charge of £81m against sold and awaiting sale units as it was disposing of bottom-end units
- The group reported that the bulk of the reduction in its EBITDA, from £340m to £313m was as a result of the sale of pubs
- Margins have increased slightly and the various measures used to measure lessee performance (or lack of it) have moved better
- The group is 'encouraged' by its recent performance and would have been in growth in Q1 (to date) even if the effect of Waverley collapsing last year were stripped out
- ETI is striving to help tenants (WIFI, encouragement with food, sports packages etc.) and costly business failures are being reduced in number
- A number of business failures have been caused by assignees paying too much for leases and ETI will become more involved in this process
- A pub failure has cost £18k in the year of failure historically; the number of failures is down and the cost has reduced to £14k
- The number of pub enquiries is up to 70 a week (was 50) but the selection process is more rigorous than it has been in the past
- Although wet sales are faster to react than rents, the group aims to get both income streams back into growth in the short term

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Market Cap: £698m
12m range 66p 158p

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Balance Sheet, Debt & Cash Flow:

- The group has sold fewer pubs this year than last and it will not be selling quality units going forward
- ETI's debt amortisation schedule will no longer oblige the group to make asset disposals
- £150m were sold in FY13 (FY12 was £208m) and the group expects disposal proceeds of £70m in FY14 and £60m per annumthereafter
- Group has only taken a 3% write-down and reiterated that its NAV per share is some 281p
- Net debt / EBITDA is unchanged at 8.05x
- Capex has been defensive for a number of years but it can now be targeted towards increasing sales; less fire-fighting also gives the group room to think

Langton Comment: Enterprise Inns says that stage one of its recovery was arresting its decline and stage two was to get back into LfL income growth These have been achieved and the next stage is to get back into EBITDA growth, which Enterprise says it should be this financial year.

Whilst the BISC recommendations remain unknowable at this stage, there is some threat to the business model and Enterprise has suggested that it will consider a franchised system as well as potentially managing some of its top-end units.

Having arguably been meaningless in recent years, ETI's rating (less than 8x for an asset-rich company) may be coming back into focus.

Should interest rates rise, ETI will be no worse off (though its lessees and their customers may be) and should inflation pick up, ETI should (in theory) see the nominal value of its pubs rise whilst the real burden of its debt would fall.

The latest government investigation of the beer tie notwithstanding, there remains a degree of upside risk in the shares.

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