Langton Capital Limited

13 May 2014

ENTERPRISE INNS (ETI): 148.6p
H1 to end-March; Analysts' Meeting

Group says progress continues, seeks to find common ground with publicans, politicians, regulators etc.

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	121.0	19.0	7.6	Nil	Nil
2014 (E)	120.0	18.3	7.9	Nil	Nil
2015 (E)	123.0	18.9	7.7	Nil	Nil

Source: *Company & Broker Estimates*

H1 results to end-March 2014:

Following the announcement of its H1 results earlier this morning, Enterprise Inns hosted a meeting for analysts and our comments are set out below:

The Numbers:

- Enterprise reported PBT unchanged although that masked a number of moving parts
- EBITDA was down (on disposals), interest paid was also down (on cash proceeds), PBT was unchanged and tax was down, all of which led to the increase in EPS
- LfLs were relatively soft and Q3 and Q4 will be tougher – but the group has commenced H2 well and will finish the year in positive territory
- Ex the move of Easter into H2 and the collapse of the group's drinks distributor last year, the group would have achieved LfL sales growth of 0.6% (it reported 1.1%)

The Underlying Trading Picture:

- Recovery continues and the group now has some 'breathing space'; it no longer has to sell 'good pubs' simply to raise funds. A dividend is not likely in the very short term
- It can step back from fire-fighting & concentrate on its properties, its people and its business proposition
- The group is helping tenants to supply WIFI and sports packages and is helping with food-buying
- London performed more strongly than the South, which it turn generated better numbers than the rest of the country

Market Cap: £724m
12m range 98 168p

Mark.brumby@langtoncapital.co.uk
Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389

- The number of failures, the single biggest cost to the company of the economic slowdown, is down and is set to fall further
- Food is a growing part of the group's tenants' offer with an estimated 25% to 27% of revenues now estimated to come from food

Cash Flow, Balance Sheet & Strategic Issue:

- The group's next refinancing hurdle will be its £600m bond in 2018.
- Expansionary capex is back (modestly) and the group is targeting a minimum return of 15% thereon
- Any managed offer will only be undertaken after extensive research. The group is currently looking into the structural changes that it would need to make in order to operate in this area
- The regulatory picture is unclear but 1) the group believe firmly in self-regulation and 2) it shares the economic interests of the tenant over the medium and longer term

Langton Comment: Enterprise Inns has underlined the fact that, over the medium and longer term, its economic interests and those of its tenants are closely aligned.

Trading is not easy but it is less difficult. That said, comps over the summer will be tough but the underlying recovery that has allowed the group to report three consecutive quarters of LfL growth for the first time in six years, remains in place.

Debt appears to be manageable and is coming down but the group has yet to pay a dividend. It cannot be valued on a yield basis but, as trading continues to improve, earnings become more relevant.

Here the group's shares, trading as they are on a multiple of little over 7x EPS, do not look expensive.

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

mark.brumby@langtoncapital.co.uk

Mark.brumby@langtoncapital.co.uk
Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389