Langton Capital Limited

13 May 2014

ENTERPRISE INNS (ETI): 144.75p
H1 Results, six months to 31 March 2014

Group says making 'positive progress with LfL net income growth maintained…'

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:

Enterprise Inns has this morning reported H1 numbers for the six months to end-March and our comments are set out below:

- Enterprise has reported LfL net income growth of 1.1% over the six months against a 4.2% decline in the weather-impacted H1 of last year
- Growth was 0.5% in Q1 and 1.5% in Q2; the group says it is 'pleased to have delivered LfL net income growth in the first 6w of H2'
- Total revenue, down on the back of disposals, is £308m against £312m last year
- Normalised EBITDA is down to £147m (2013: £153m) 'primarily reflecting the impact of our asset disposal programme'
- Adjusted PBT was unchanged at £55m 'as interest savings offset (the) reduction in EBITDA'
- Adjusted EPS is up 2.4% at 8.6p (2013: 8.4p) and, in line with expectations, no H1 dividend is being proposed
- The group has experienced 'strong cash generation' and has reduced its debt to £2.5bn from £2.7bn last year
- The group has spend £41m on capital projects and this has been wholly funded by disposals, which totalled some £42m
- The group goes on to say that business failures have been reduced and it has made 'further progress on implementation of initiatives to drive sales and reduce costs for publicans'
- Recent trends have been as follows:

Find us at:

Recent News Here:

- *Today's email*
- *Recent emails*
- *A day in the life...*
- *Who we are, what we do...*
- *Upcoming news-flow*
- *Recent company updates*
- *Thematic pieces*
- *LinkedIn profile*

Market Cap: £724m
12m range 98 168p

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

Tab.1. Enterprise Inns LfL Income Trends:

Period	Ave.income per pub (%)	LfL income per pub (%)	LfL income, substantive estate (%)
H1 – 2008/09	-8.0		
FY – 2008/09	-8.0		
H1 – 2009/10	-3.1		
FY – 2009/10	-2.0		
H1 – 2010/11	0.0	-5.0	-1.5
FY – 2010/11	+1.0		
H1 – 2011/12	+3.2	-1.6	+1.5
FY – 2011/12	+2.6	-1.2	+2.2
H1 – 2012/13		-4.2	
Est. 'real' decline		-2.0	
Q3 – 2012/13		-2.7	
Q4 – 2012/13		+0.6	
FY – 2012/13		-2.9	
First 18w 2013/14		+1.0	
H1 – 2013/14		+1.1	

Source: Company Reports

- The group continues to sell bottom end pubs and expects such disposals to net it some £70m in the current FY
- Enterprise says it has 'strong cash flow and (a) manageable capital structure' and says (re dividends) 'the Board believes that, currently, the best use of available cash is to continue to reduce debt to achieve a transfer of value to shareholders'
- The group bought back some £40m of bonds during H1
- Regarding running managed pubs, the group says only that it is 'evaluating a more proactive approach to the assessment, and selection, of the right retail offer and appropriate operating model for each pub, as well as the infrastructure requirements to support any alternative formats identified'
- Overall, the group concludes 'while market conditions remain challenging, we are pleased to have delivered like-for-like net income growth in the first six weeks of the second half of the financial year, maintaining the positive momentum delivered in the first half'

Langton Comment: Enterprise Inns has once again reassured that recent positive trends reported across its estate have remained in place and suggests that, whilst comps will become tougher, it will continue to perform for the remainder of the current financial year.

This is reassuring and does mean that would-be investors may gradually be coming to see Enterprise Inns as once again an investible stock and, over time, its PER (only 7.9x this year falling to 7.3x next), will become more relevant that its debt pile.

Debt appears to be manageable and is coming down. The group has yet to pay a dividend, however, and this may dissuade some observers from getting involved. Nonetheless, the group is performing well, it is a geared play on the performance of several billion pounds worth of improving assets and investors could (after several years of being repelled) be attracted by the group's large amount of fixed rate debt in a period during which interest rates (and perhaps inflation) could rise.

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

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