Langton Capital Limited

18 November 2014

ENTERPRISE INNS (ETI): 127p
FY14 Results: Analysts' Meeting

Group reports 5th quarter of LfL EBITDA growth, sees more to come…

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	121.0	19.0	6.7	Nil	Nil
2014 (E)	121.0	19.0	6.7	Nil	Nil
2015 (E)	123.5	19.2	6.6	Nil	Nil

Source: *Company & Broker Estimates*

FY14 Results: Analysts' Meeting:

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

Trading Results:

- Feeling is generally one of 'continuing progress', even in Q4, which provided tougher comps – now 5 consecutive growth quarters
- The South is +3.3% and London is +4.4%. Midlands + North flat (but an improvement on last year)
- EBITDA is down, as expected, on disposals. LfL net income at the unit level is £370m, up from £365m last year
- FY15 should see EBITDA down a further c£7m (due to disposals)
- Beer income is +£6m, rental income is down £1m
- Group has no detailed numbers but believes tenants' sales are c27% food. This is broadly stable on FY13. It believes tenants are a shade more profitable in FY14 v FY13
- Total number of business failures is down 16% y-o-y, the fifth year of relative decline. Cost per 'failure' is around £12k (down from c£18k two years ago) & all KPIs here are in positive territory

Strategy, Outlook etc.:

- There is a move to expansionary rather than maintenance capex (41% of total up from 32% last year)
- The outlook is modestly better but there are regional variations

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Market Cap: £630m
12m range 116p - 168p

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- Tax is less onerous, regulatory environment becoming more clear
- The group has kept 22 sites that are now operated as C-stores. Around 190 units were sold & leased back in FY10 and FY11
- Group is investing in its properties, its people and its offer
    - Group's increase in income 'should not be at the expense of our publicans'
    - The managed model is generating a number of management insights. Units here will split between 'community hub', 'young family' and 'premium drinking' outlets

Balance Sheet, Cash Flow & Other:

- Exceptional costs are largely property-related & came in at £65m after tax, against £99m last year
- Free cash flow (after interest & tax), rose to £111m v £109m last year; debt is down by £117m to £2.404bn.
- The group is no longer looking to sell viable pubs & NAV is 280p per share
- Estate written down by 1.9% overall (down 3.4% last year)
- Bond redemption in October moves £249.5m of repayment from 2018 to 2023; bank facility also renegotiated. Improved flexibility & lower interest charge
- What would make you consider a dividend? Group will focus on cementing in LfL EBITDA growth and a dividend can/will follow. No promises made here.

Conclusion:

- Group will host a capital markets day in the first six months of 2015
- Enterprise is encouraged by current trading. It's business model is evolving and the group has made an 'encouraging start' to FY15

Langton Comment: Enterprise Inns has now achieved five consecutive quarters of LfL EBITDA growth.

It is now annualising upon growth but the current FY remains in positive territory.

There is no distress and viable pubs will no longer be sold.

The consumer has a number of reasons to be cheerful but Enterprise remains of the view that the recovery remains fragile.

There is no dividend but debt continues to fall and NAV, at 280p, is more than twice the current share price.

Overall, would-be investors are right to consider that Enterprise Inns is once again an investible stock and, over time, its PER (only 6.6x this year falling to 6.5x next), will become more relevant that its debt pile.

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