Langton Capital Limited

18 November 2014

ENTERPRISE INNS (ETI): 127p
Full Year Results: Year to 30 Sept 2014

Group sees 'continuing operational improvement with a return to LfL net income growth…'

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*

Full Year Results: Year to 30 Sept 2014:

Enterprise Inns has this morning reported full year numbers for year to 30 Sept and our comments are set out below:

Trading Results:

- Enterprise has reported that sales on a LfL basis rose by 0.5% in Q4 and by 1.4% for the year as a whole
- Pre-exceptional EBITDA was £302m (2013: £313m) and was 'in line with expectations following the impact of planned asset disposals'
- The group reports PBT (pre-exceptionals) held steady at £121m (lowe EBITDA and interest payments) and adjusted EPS were unchanged at 19.0p (2013: 19.0p)
- Enterprise says it has seen strong cash generation from operations and debt is down to £2.4 billion (2013: £2.5 billion)
- Recent LfL sales trends are shown below:

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		

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

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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	
H1 – 2013/14		+1.1	
Q3 – 2013/14		+2.1	
Q4 – 2013/14		+0.5	
FY – 2013/14		+1.4	
First 6w H2		Positive	

Source: Company Reports

- Re FY15, the group says 'we have continued to deliver like-for-like net income growth in line with our objectives for the year.'

Balance Sheet, Cash Flow & Other:

- Enterprise points out that it has undertaken a partial refinancing of 2018 corporate bonds and completed a new revolving bank facility on 7 October 2014
- It says this 'provides a smoother and extended debt maturity profile with a reduced overall cost of borrowing, improving flexibility and optionality'
- Net proceeds from disposals came in at £73m (2013: £150m) and the asset disposal programme has been 'materially reduced to focus primarily on under-performing assets with proceeds re-invested for higher returns'
- Some £66m has been invested in the estate

Outlook & Conclusion:

- Current trading is positive and said to be in line with objectives
- CEO Simon Townsend comments overall 'we are pleased to report like-for-like net income growth for the full year with each quarter delivering improvements on the prior year'
- He says 'this represents significant progress and has been achieved through our continued focus on the implementation of actions that drive sales and profit for our publicans and as a result enhance our income.'
- Pubs are being upgraded, fewer are to be sold and 'our teams remain focused on providing exceptional local support and value creating opportunities to our publicans'
- The group injects a note of caution, saying 'we view the consumer recovery as fragile and remain cautious in the near-term.'
- Mr Townsend concludes 'our focus for the current year is to continue to implement initiatives which assist publican profitability whilst increasing capital investment in relevant and innovative retail offers.'
- The group will update further via a meeting with analysts at 9.30am.

Langton Comment: Enterprise's shares had been week throughout 2014 but have bounced since around mid-October.

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The group has here reported that it remained in LfL EBITDA growth both in Q4 and in Q1 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 6.6x this year falling to 6.5x 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.

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