Langton Capital Limited

17 November 2015

ENTERPRISE INNS (ETI): 95p
FY Results – Analysts' Meeting:

Group reassures that it is executing on its May strategy update…

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	121.0	19.0	5.0	Nil	Nil
2015 (E)	116.3	18.7	5.1	Nil	Nil
2016 (E)	124.3	19.1	5.0	Nil	Nil

Source: *Company & Broker Estimates*

FY Results: Analysts' Meeting:

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

Trading:

- Strategy (below) is perhaps more important than short term trading but the group was nonetheless able to say that tied pubs have performed well.
- The macro situation is 'a little better' but the MRO is an unknown & there is a lot of restaurant capacity going on
- The group has recorded a second consecutive year of positive LfLs and business failures are down. These ran at 7.9% in FY15 and may stabilise between 6% and 7%
- Profits from both beer retailing and rent were up (by £1m and by £2m respectively)
- Investment will be ongoing – but this will be concentrated on short leases, tenancies and to-be managed units
- The first 6wks of the new financial year have been 'good', the group's tied offer will be re-launched in the spring and conversions and disposals, in line with the group's may 2015 strategy, will continue

Balance Sheet:

- >90% of assets are now valued externally. The write-down may have been 'a little higher than anticipated' but it was focused in the North & the Midlands

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Market Cap: £508m
12m range 95p - 136p

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- Value is now ‘underpinned’. Shareholders’ funds are some 270p per share. The group has 21% of its assets valued at >£1m and only 23% valued at <£0.5m

- Debt is falling. It was 8.1x EBITDA in FY13, 8.0x in FY14 and 7.8x in the year just reported

Strategic Highlights:

- The group’s evolution is ‘on track’. It now looks at each pub & allocates it into one of eight categories. It then executes on any change in status (including disposal)

- By May 2016 ETI will have dealt with some 200+ MRO trigger events & will be able to report more knowledgably on how tenants and lessees are reacting

- The group still believes that a large number of lessees will remain tied. Commercial leases carry with them a whole new level of risk

- Investment is likely to fall, the group is offering no new long leases & the number of managed and franchised units is bound to rise

- The group is using surplus space & will take back some leases to manage units itself when these come to the end of their leases

- The group’s Craft Union managed pubs are averaging £7k per week (this should rise), Bermondsey pubs average £11k and the Hippo pubs(only one open) should achieve c£22k

Langton Comment: Enterprise has reassured that it has moved into the execution phase of its transition and has shown that this need not be associated with a sharp drop in profits.

The group insists that it has a ‘clear line of site’ in terms of its transformation. It will release KPIs alongside its half year and full year numbers and it is to host a capital markets day in May next year.

Trading is a shade better. The Rugby World Cup will have boosted revenues in October, real incomes are rising and the group’s less-good pubs have gone.

Enterprise promises us more of the same alongside a continued evolution towards a multi-strategy pub company in which it concedes that one size will not fit all.

Making money from tenanted and leased pubs should still be possible but the ‘spreadsheet approach’ of yesteryear may be gone for good.

Fortunately, Enterprise has a portfolio of good pubs and, though it may have to work harder for its money, it’s future appears secure – in which case its share price is perhaps a shade too low.

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