3 December 2013

GREENE KING (GNK): 879p
First Half Results, 24w to 13 Oct 2013

Group reports that it has turned in 'strong growth, attractive returns and dividends…'

Year to end-Apr	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	162.0	57.0	15.4	26.6	3.0
2014 (E)	171.8	61.0	14.4	28.5	3.2
2015 (E)	183.2	65.4	13.4	30.4	3.5

Source: *Company & Broker Estimates*

H1 Results, 24 weeks to 13 2013:

Greene King has this morning reported H1 results for 24w to 13 October and our comments are set out below:

Headline Numbers:

- Greene King has reported underlying revenues up by 5.2% at £595.4m with adjusted PBT up by 5.7% at £85.6m
- The group has announced EPS of 30.4p, up from 28.6p (+6.3%) and has proposed a H1 dividend of some 7.6p per share (2012: 7.15p)

Trading:

- The group last updated on 3 Sept (at the time of its AGM) saying that sales across the group's managed units were up by 4.6% in the first 18w of the current financial year.
- Tenanted & Leased average profits were up by 5.8% (first 16w) and own brand beer volumes were up by 1.5%
- Despite being up against Euro 2012 and Jubilee comps, both pub numbers were aided by the warm weather in July but this did not favour the brewing operations as lagers and cider outsold ale
- The group has this morning reported that LfL sales in its managed business rose by 3.5% for the H1 as a whole and that the retail margin was some 10bps better at 20.5%
- This implies a slowdown to around 0.2% in the last 6w of H1
- Food now comprises 41% of retail sales implying that food and drink with food will be more than two thirds of revenues

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Market Cap: £930m
12m range 120p 166p

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- Average EBITDA per tenanted & leased pub was up by 5.2 with LfL EBITDA up by 1.7% in the core; this implies a slowdown in average income to around 3.4% in the last 6w of H1

- Brewing & Brands own-brewed core volumes were up by 1.7% and recent trends are shown below:

- **Tab.1. Greene King's Sales Trends:**

Period	Managed Sales LfL (%)	Tenanted & Leased profit per pub (ave) %	Own-brand beer volumes %
H1 09/10	+4.6	-6.4	+9.4
H1 10/11	+3.8	+0.4 LfL	-3.7
FY 10/11	+4.9	+1.0 LfL	-2.0
H1 11/12	+3.8	-0.3 LfL	+2.0
FY 11/12	+3.6	-0.3 LfL	-0.7
H1 12/13	+3.9	+3.9	-0.9
FY 12/13	+2.3	+4.2	+1.0
18w (Q1+) 13/14	+4.6	+5.8	+1.5
H1 13/14	+3.5	+5.2	+1.7
30w of 13/14	+3.5		

Source: Company Reports

Disposals and Portfolio Reshaping:

- The group made 59 disposals from Pub Partners to take the estate to 1,218 sites, down 28% from peak numbers

- There is no mention of a larger, c300 pub, disposal, that may be on the cards over the medium term

- GNK added 22 Retail sites in H1 and is targeting 90 new sites over the next 18 months

Cash Flow, Capital Spending & Debt:

- Total net debt is 4.6x EBITDA and stands at £1.44bn (down £11.6m from the year-end); cash flow was said to have been 'strong'

Current Trading, Outlook % Conclusion:

- At its AGM, Greene King suggested that it had seen 'cautious signs of optimism in terms or recent UK macro-economic improvements'

- It has reported reassuring H1 results here and its suggestion that cumulatively retail sales are up by 3.5% to w30 implies that the last 6w have been +3.5%, a pickup on the last 6w of H1

- CEO Rooney Anand comments 'this is a very pleasing set of figures'. He goes on to say the group has 'made great progress' with growth led by the Retail business

- Overall, the group reports that 'the economic outlook looks to be improving' but cautions 'customers remain careful with their money, particularly outside London and the South East

Langton Comment: Greene King is a quality operator with a well-invested and well-located estate. During FY14 to date, the group has benefited from the warm weather during the summer and, though trading clearly dipped towards the end of H1, it has reassured on earnings.

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Its estate is well-positioned geographically (though Scotland remains a challenging market) and, in Hungry Horse, it has something of a winner in the eating out market with new builds now a major feature of strategy going forward.

The group is pencilled in to make in the region of 61p per share in the current year suggesting that the group's shares trade on a current year multiple of around 14.4x and yield a prospective 3.2%, neither of which make them look particularly cheap

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