Langton Capital Limited

30 April 2014

GREENE KING (GNK): 902p
Pre-close Trading Update to 27 Apr 2014

Group reports 'continued strong trading momentum…'

Year to end-Apr	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	162.0	57.0	15.7	26.6	3.0
2014 (E)	171.8	61.0	14.7	28.5	3.2
2015 (E)	184.0	65.6	13.7	30.4	3.4

Source: *Company & Broker Estimates*

Q4 & Full Year Trading Update to 27 April 2014:

Greene King has this morning updated on trading for its fourth quarter and for 52 of the 53 weeks that will comprise its year to 3 May. Our comments are set out below:

Trading:

- The group last updated on 13 January (Q3) at which time LfL sales at managed units were up by 3.8% to week 36
- Greene King has reported this morning that strong sales momentum has continued and sales to week 52 are up by 4.1%
- Q4 has been particularly strong given the soft comps from last year with GNK reporting LfL managed sales up 4.8% in the last 16 weeks – this represents the 22nd consecutive quarter of LfL sales growth
- Average EBITDA, not like-for-like, per leased and tenanted pub rose by 5.0% in the 52w. GNK was some 5.6% ahead at week 36
- Core own-brand beer sales were ahead by 4.6% at week 52 having been up by 5.8% at week 36 and details 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

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Market Cap: £1.97bn
12m range 725p – 925p

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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		
36w of 13/14	+3.8	+5.6	+5.8
Last 6w	+5.0		
52w of 13/14	+4.1	+5.0	+4.6
Last 16w	+4.8		

Source: Company Reports

Greene King Retail:

- Managed sales on a LfL basis have accelerated over the period of soft comps with food sales up 5.0% LfL (52w) and room sales up by 6.8%
- Good growth was to be had over the key events such as Valentine's Day, Mothers' Day and Easter
- Retail margins should be 'slightly ahead' of last year and 45 new sites were added during the period

Pub Partners:

- Pub Partners traded as above with the group aiming to run a smaller but better estate
- The group says 'we expect to end this financial year with 1,164 sites, 149 less than last year, after 134 disposals and 15 transfers to Retail'.

Brewing & Brands:

- Core own-brewed brands have increased market share with growth of 4.6% against a market down by 2.3%
- The group says 'our continued strong performance was driven by Old Speckled Hen, the UK's leading premium ale brand, which recorded growth of 12.5%.'

Conclusion and Outlook:

- CEO Rooney Anand comments 'we have achieved consistently strong trading in each of our businesses through the year.'
- He goes on to say 'this reflects the strengths of our business and the success of our strategy to move to higher growth areas in our markets and to improve the customer offer.
- In concluding, the group expects 'to meet the market's full year expectations for profit, cash-flow and the balance sheet, with further improvement in our ROCE and a further reduction in leverage.'
- Re the medium term, Mr Anand comments 'looking ahead, we see the UK's economic outlook improving.'
- There is a note of caution but the group concludes 'we remain cautiously optimistic for the forthcoming financial year'.

Langton Comment: Greene King has performed strongly in its managed divisions over the period of soft comps in March. Over Christmas (already reported), all divisions performed well and the group will hit its numbers.

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The group is a quality operator with a well-invested and well-located estate. FY15 will be tougher given the good weather last year but the group has something of a winner in Hungry Horse and 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 14.7x falling to 13.7x next year. The group is trading well and offers a degree of certainty but the upcoming disposal of perhaps as many as 300 bottom end leased and tenanted units will be dilutive and its shares are therefore not currently particularly cheap

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