Langton Capital Limited

3 July 2014

GREENE KING (GNK): 847p
53wk Numbers to 4 May 2014

Group reports 'record results, strong returns and strategic progress…'

Year to end-Apr	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	162.0	57.0	14.9	26.6	3.1
2014 (E)	172.6	61.1	13.9	28.5	3.4
2015 (E)	180.4	63.6	13.3	30.3	3.6

Source: *Company & Broker Estimates*

Full Year Numbers, 53w to 4 May 2014:

Greene King has this morning reported full year (53w) numbers to 4 May. Our comments are set out below:

Trading:

- Revenues for the 53w come in at £1.302bn (up 6.9% on a 52w basis) with operating profits up 7% at £265.6m (up 5% on a 52w basis) and PBT up by 9.4% at £173.1m (up 7.4% on 52w)
- Adjusted basic EPS is 61.4p (up 8.3% on a 52w basis) and the dividend is 28.4p against 26.6p last year (up 6.8%)
- Retail LfL sales are up by 4.1% (this had already been announced) and food sales were up by 5.0% on a LfL basis
- Average EBITDA per tenanted pub was up by 5.2% and core LfL income was up by 2.2%
- Own brand beer sales were up by 4.6% with profits up by 1.3%
- The group says it has made 'continued progress across all businesses in the first eight weeks of the new financial year'
- As regards current trading (first 8w of FY15), LfL sales in the managed business are up by 1.1%
- LfL EBITDA across the tenanted estate is up by 3.5% and beer sales are up by 6.2%
- Details are shown below:
- **Tab.1. Greene King's Sales Trends:**

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Market Cap: £1.85bn
12m range 765p – 925p

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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
FY 13/14	+4.1	+5.2	+4.6
8w of 14/15+	+1.1	+3.5	+6.2

Source: Company Reports

Greene King Retail:

- Managed sales on a LfL basis are up by 4.1% in the year (pre-announced) but have slowed to +1.1% in the first 8w of the current year
- Greene King says 'this performance mirrors the trends seen in recent industry reports, including the latest Greene King Leisure Spend Tracker, which showed a softening in GB eating and drinking out from April to May.'
- GNK goes on to say 'we have also seen regional differences in trading with LFL sales at Metropolitan, our premium London pubs, up 7.4%, and LFL sales overall in the south up, while LFL sales in the north are down.'
- Comps will clearly be tougher when running against the hot weather experienced last year

Pub Partners:

- Pub Partners traded up across the year with the group aiming to run a smaller but better estate
- Average EBITDA was up by 5.2% with the core estate up 2.2%
- The first 8w of the current year have been strong with the group saying 'LFL net income in our core Pub Partners estate was up 3.5%'
- The tenanted estate is a little more wet-led and will have benefitted from the football; comps will toughen over the summer

Brewing & Brands:

- Core own-brewed brands have increased market share and were up by 4.6% in the year (pre-announced)
- In the first 8w of the current year, the group says 'Brewing & Brands OBV, helped by strong Take Home sales due to the World Cup, [was] up 6.2%.'
- The hot summer last year favoured cider and lager so comps should not be as tough as they will be for the retail and tenanted businesses

Conclusion and Outlook:

- CEO Rooney Anand comments 'we have delivered four years of record results since the credit crunch and maintained this momentum over the last 12 months by giving our customers what they want, in the right way and at the right price.'

- He reminds observers GNK has generated 'profit growth of 12% in our largest business, Retail' and says this 'was driven by strong like-for-like sales growth and by newly-acquired sites.'

- GNK says 'there are now clear signs that both the UK economic outlook and consumer confidence are improving, although consumers continue to spend cautiously' and goes on to say 'we are shaping the business for the future to benefit from the opportunities these changes will bring'.

- GNK concludes 'looking ahead to the rest of the year, we anticipate an improvement in LFL Retail sales and continued momentum in both Pub Partners and Brewing & Brands. We also expect to add 50-60 new Retail sites in the year. As a result, we are confident of achieving another year of strong progress.'

Langton Comment: Greene King has turned in numbers broadly in line with estimates. Its businesses performed strongly over the period of soft comps in March. Over Christmas (already reported), all divisions performed well.

Trading in the first 8w of the current year has been more varied and comps will be tougher over the summer. This is an industry issue and, beneath any vagaries the weather may throw at it, the business (and indeed the industry) is performing well.

Tenanted disposals have been dilutive and there have been some (technical) downgrades. Estimates for the current year are unlikely to change materially, leaving the group's shares trading on a current year multiple of around 13.5x and yielding 3.5%.

This looks like fair value. Elsewhere, the group will be pressed on its corporate ambitions going forward and current trading will remain the focus of attention.

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