Langton Capital Limited

10 Sept 2014

GREENE KING (GNK): 832p
18wk Trading Update to 7 Sept 2014

Group reports sluggish LfL sales against tough comps, improvement expected in H2…

Year to end-Apr	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	173.1	61.4	13.6	28.4	3.4
2015 (E)	179.3	64.3	12.9	30.1	3.6
2016 (E)	194.8	70.1	11.9	32.5	3.9

Source: Company & Broker Estimates

Q1 Trading Update, 18w to 7 Sept 2014:

Greene King has this morning updated on trading for the first 18w of its current financial year (the period to 7 September) and our comments are set out below:

Summary:

- Greene King has updated on trading saying that Q1 numbers have been impacted by tough comps and by a poor World Cup. 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
H1 12/13	+3.9	+3.9	-0.9
FY 12/13	+2.3	+4.2	+1.0
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
18w of 14/15	+0.4	+3.7	+6.2

Source: Company Reports

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Market Cap: £1.82bn
12m range 765p – 925p

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Greene King Retail:

- LfL sales were up by only 0.4% in the first 18w of the year. They had been up by 1.1% at week 8 suggesting that weeks 9-18 were negative
- The group says this was due to 'tough comparatives from the excellent summer last year compounded by a disappointing World Cup this year'
- The group nonetheless says 'it is also evident that while the UK economy continues to strengthen' but adds 'customers remain cautious and are spending very carefully'
- The group has avoided discounting and says it is being 'careful not to over-invest in tactical, short-term sales building initiatives'
- Accommodation has performed well and the group says 'our Retail expansion programme continued with a net additional five sites opened in the year-to-date, taking the total estate to 1,037 sites'
- The pipeline is said to be 'healthy' with openings 'significantly weighted towards the second half of the year'

Pub Partners:

- Pub Partners traded up with total LFL net income up 3.7% after 16 weeks. Net income had been up by 3.5% at w8, suggesting a slight recent improvement

Brewing & Brands:

- Core own-brewed brands have increased volumes by 6.2% at w18. The rate of growth is the same as it was at w8 suggesting a relatively good World Cup

Conclusion and Outlook:

- GNK says 'our balance sheet and cash generation remain strong and in line with our expectations'
- Re the outlook, GNK reassures 'we anticipate that Retail LFL sales will improve as the year progresses and that the momentum in Pub Partners and Brewing & Brands will continue'
- It says 'we remain focused on our strategy of delivering long-term growth and returns to our shareholders through expanding our retail estate, increasing our exposure to the eating out market and driving the best value, service and quality for our customers'
- GNK concludes 'overall, we look forward to another year of continued progress across the business'

Langton Comment: Greene King has traded against tough comps and its 18w trading has not been helped by the World Cup. The latter may have both disrupted the eating out market and disappointed drinkers in the group's more wet-led units.

The group reassures that trading at its managed units should improve and suggests that the consumer is feeling a little more confident. However, GNK continues to trade against soft comps (winter 13/14 was mild), it has sold bottom end tenancies (which is dilutive) and it is up against a 53w year last year.

Hence there is no upward pressure on estimates and recently numbers have been edged down. We believe that the outlook in general for the on-trade is the best that it has been for a number of years

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(everything is relative!) but investors are not likely to wish to own holdings in every single pub company and there may be better value elsewhere.

That said, the group is making the right moves strategically and its shares, at around 13x this year's earnings and 12x next with a 3.6% yield, are not unduly expensive.

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