Langton Capital Limited

4 Dec 2014

GREENE KING (GNK): 761p
H1 (24wks) to 19 October 2014

Group reports 'record sales, strong returns & further progress…'

Year to end-Apr	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	173.1	61.4	12.4	28.4	3.7
2015 (E)	176.6	63.5	12.0	30.1	4.0
2016 (E)	192.6	69.6	10.9	32.6	4.3

Source: Company & Broker Estimates

H1 Results, 24w to 19 Oct 2014:

Greene King has this morning reported H1 numbers (for the 24wks to 19 October) and our comments are set out below:

Summary:

- Greene King has reported H1 numbers saying that total group revenue increased by 3.3% to £614.9m
- Operating profit came in at £123.3m, down 3.1% on last year (on tenanted disposals) and PBT was down by 3.5% at £82.6m
- Adjusted EPS is 29.9p (last year 30.4p) and the interim dividend has been increased by 4.6% to 7.95p
- The group reports that LfL sales were up by 0.8% in its retail business and net income across Pub Partners on a LfL basis was +3.7%
- Brewing & Brands own-brewed volumes were +5.9% 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

Find us at:

Recent News Here:

- *Today's email*
- *Recent emails*
- *A day in the life...*
- *Who we are, what we do...*
- *Upcoming news-flow*
- *Recent company updates*
- *Thematic pieces*
- *LinkedIn profile*

Market Cap: £1.67bn
12m range 740p – 925p

Mark.brumby@langtoncapital.co.uk
Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389

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	+3.7LfL	+6.2
H1 14/15	+0.8	+3.7LfL	+5.9
30w of 14/15	+0.8	+3.4LfL*	+7.1

Source: Company Reports, *28wks

Greene King Retail:

- LfL sales were +0.8% at w24 having been +0.4% at w18. GNK goes on to say that at w30, sales were also up 0.8% implying +1.5% for the last 12wks
- Group says bookings for Christmas are +7.2%
- GNK points that average EBITDA per pub was down 1.1% at £110.5k, despite the group having added pubs via its new-build programme (expected 30-35 for the full year)
- The group says 'we outperformed the sector delivering total sales growth of 6.4% compared to 4.0% sector growth.'
- GNK adds 'all main sales categories achieved LFL sales growth. Metropolitan, our premium London estate, continued to perform particularly well as did Farmhouse Inns, our carvery restaurant brand.'
- Food is now 42% of sales.
- Re current trading, LfL retail sales are +0.8% at w30

Pub Partners:

- Pub Partners traded 'made further financial and strategic progress in the first half of the year' and 'it traded ahead of our expectations'
- The size of the estate is down by 26.6% on bottom-end disposals and, as a result, average EBITDA per pub is up 13.8%.
- Total revenues were down 17.2% on last year and 'operating profit was also impacted by the acceleration of our disposal strategy'
- Margins were better and the group says it will remain focused on 'recruiting the right licensees in the right pubs on the right agreement and offer.'

Brewing & Brands:

- Core own-brewed brands grew revenues by 4.1% but EBITDA and operating profit are down by 0.6% and 0.7% respectively
- This suggests a different sales mix or discounting or both. Sales since the H1 end have clearly been very good and cumulative revenues are +7.1% for the first 30wks
- The group is taking share and says 'volumes in the take home channel were up significantly'

Mark.brumby@langtoncapital.co.uk
Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389

Conclusion and Outlook:

- GNK CEO Rooney Anand comments 'we have delivered record sales and strong returns against a challenging backdrop, reflecting the inherent strength of our business model and our proven strategy.'
- He adds 'we improved our ROCE, lowered our leverage and increased the dividend.'
- The group has made further 'significant strategic progress' by adding to its retail estate and selling bottom-end, non-core tenanted pubs. Since the H1 end, the group has also made a recommended offer for Spirit Pub Company.
- Adding a note of caution, Mr Anand comments 'with real incomes struggling to grow, customers remain cautious about spending on eating and drinking out.'
- The south has outperformed the north and the group says 'looking ahead, we expect a slight moderation in the operating margin decline for the retained business in the full year due to improved trading, increased cost savings and lower net cost inflation.'
- The group concludes 'we will continue to tailor our customer-focused strategy to ensure we deliver another year of progress, long-term growth and strong returns to our shareholders.'

Langton Comment: Greene King has traded against tough comps in H1 but it has continued to make progress against its strategic benchmarks.

The group is a more focused operator and the proportion of operating profit taken by its retail business is at all-time highs.

Here, however, trading has presented some challenges and EBITDA per managed pub is slightly down. There is a whiff of discounting in the air and the scrabble for market share, mentioned by M&B more than a year ago, goes on.

There is perhaps no upward pressure on estimates and recently numbers have been edged down. We believe that the outlook in general for the on-trade remains good but relatively unpredictable and, though GNK is doing pretty much everything right, investors are not likely to wish to own holdings in every single pub company.

Strategically, the group's bid for Spirit Group is likely to go ahead on the terms announced and the group will inherit both the good work that has been done, and the low-hanging fruit that remains, at the target company.

That said, the group is making the right moves strategically and its shares, at around 12x this year's earnings and less than 11x next with a 4.0% yield, are beginning to look like good value.

Contact – Mark Brumby - +44(0)20 7702 3389

mark.brumby@langtoncapital.co.uk