15 May 2014

MARSTONS (MARS): 151p
H1 Results: 26w to 5 Apr 2014

Group reports a good H1 and an encouraging start to H2…

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	88.4	12.3	12.2	6.4	4.3
2014 (E)	86.2	11.9	12.6	6.6	4.4
2015 (E)	97.0	13.4	11.2	6.9	4.6

Source: *Company & Broker Estimates*

H1 Results: Analysts' Meeting:

Following the announcement of its H1 results earlier today, Marston's hosted a meeting for analysts and our comments are set out below:

Overall Trading:

- Marston's reported that all divisions were in growth and that the economy now 'feels better' in the provinces as well as in London
    - The group is to put some new capital to work in its leased operations (a recent first)
- Positive trends highlighted include:
    - The fact that pubs are outperforming restaurants
    - The regions are now in growth
    - Community pubs are sharing in the uplift
    - Interest in beer is picking up
- Not mentioned in the same breath was the suggestion that the government is less antagonistic, real wages are growing and the economy is generally better
- The group has been consistently beating Peach; interestingly M&B, which is the largest contributor thereto, reports H1 numbers next week

Strategic issues:

- The company is refocusing its estate. Group return on capital has increased from 9.6% in 2010 to 10.8% last year – this on a gross capital base of nearly £2bn

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Market Cap: £902m
12m range 137p 166p

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- The group will open its 100th new build pub this summer. It is moving to 3yrly (was 5yrly) asset revaluations & expects an uplift
- Some 25-30 pubs per annum will be opened for the foreseeable future; land prices are rising but the group's pipeline is secure – it has walked away from at least 10 sites recently
- The group could do up to 15 lodges – on land that it already owns
- Disposing of bottom end pubs has caught on with competitors (it will sell c600 in FY14 and FY15) and Marston's franchised model 'is now the blueprint for the industry'
- Most pubs are going to alternative use; the group is unlikely to do another major multiple deal but will rather sell units singly

Current trading, balance sheet issues:

- Comps will be tougher in Q2 but the overall environment is positive
- Debt is manageable (including leases) at 5.9x EBITDA, but it will fall further

Langton Comment: Marston's has reported strong trading in H1 and its performance remains ahead of the peer group. H2 has begun well and April was ahead of the market but comps will get tougher through Q3 and Q4.

However, forecasts are intact and the group's earnings growth should pick up in FY15 and FY16 as the recent disposal of bottom-end units has been dilutive.

The migration of capital from smaller, typically wet-led units to food-led, managed new builds will materially improve the quality of Marston's earnings.

The group's shares trade on around 12.6x this year earnings (falling to 11.2x) and shareholders are to be paid (a rising) 4.4% yield whilst the quality of earnings is improved.

EPS should be growing by more than 10% per annum from FY16 onwards and the group's shares, which are asset backed and whose shares offer a substantial yield, are good value

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