Langton Capital Limited

15 May 2014

MARSTONS (MARS): 150p
H1 Results: 26w to 5 Apr 2014

Group says 'the first half year was good and current trading is strong…'

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: 26w to 5 Apr 2014:

Marston's has this morning reported H1 numbers for the 26w to 5 April and our comments are set out below:

Headline numbers:

- Marston's has reported that revenues rose on an underlying basis by 4.5% to £374.3m in H1
- Profit before tax is up by 9.4% at £29m. EPS is some 10.8% higher at 4.1p and the group to pay an interim dividend of some 2.4p, up 4.3%
- LfL sales at the group's Premium & Destination pubs are up by 5.7%, managed and franchised revenues are up by 3.8% LfL and leased income is up by 3%

Destination & Premium:

- Marston's has reported that its Destination and Premium units have increased LfL sales by 5.7% over the 26w
- Sales had been up by just 4.1% at week 15 and operating profit is up by 18.2%
- The group has thus outperformed the Coffer Peach Tracker (excluding London)
- New build is in line with plans; the group comments that it is 'on target for at least 27 new pubs' in FY14

Taverns:

- Within Taverns, Managed & Franchised units are up by 4% in H1 (they were up by 3% at w15)

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Market Cap: £902m
12m range 137p 166p

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- The group has converted a further 65 pubs to its franchised model in H1

Brewing:

- Total brewing volumes are slightly down against strong comps; sales of premium ale, however, are up

- Lower margin products have been dropped and divisional revenues are up by 3%, operating profits are up by 4% and the operating margin is some 10bps higher

- **Tab.1. Marston's Sales Trends – Pre Reorganisation:**

Period	Managed Sales LfL (%)	Tenanted & Leased profit per pub LfL %	Own-brand beer volumes %
FY 08/09	-0.6	-7.0	+8.0
H1 09/10	+1.4	-4.5	'strong'
FY 09/10	+1.7	-3.7	+4.5
H1 10/11	+2.4	+0.3	+4.0
FY 10/11	+2.9	+0.6	+2.0
H1 11/12	+3.6	+3.1	+2.0
FY 11/12	+2.2	+3.2	+2.0

Source: Company Reports

- **Tab.2. Marston's Sales Trends Post Reorganisation:**

Period	Premium & Destination LfL sales (%)	Taverns & Leased LfL EBITDA %	Beer Company Volumes %
H1 12/13	n/c*	'down'	+12.0
6w to 11 May	+6.0	'up'	
10w to 20 Jul	+6.0	'up in July'	
11w to 5 Oct	+2.6		
FY 12/13	+2.2		
First 7w FY14	+3.1	+2.1	
First 15w FY14	+4.1	+3.0	Slightly lower
H1 13/14	+5.7	+3.8 m/f +3.0 lease	Slightly lower

Source: Company Reports, *food up 2%, drink down 2%, m/f = managed & franchised

Current trading:

- Marston's has reported that LfL sales in the first 5w of H2 (to 10 May) were up by 4.1% in Destination & Premium, +3% in Taverns and +5% in Leased; own brewed beer volumes were up by 6%

- Within the above, Week 5 last year saw extremely strong trading and April only numbers are ahead of those for the first 5 weeks

- Within Destination & Premium, sales in April were up by 5.5% and Taverns increased sales by 5.0% - both numbers being ahead of the Peach Tracker

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Debt, Cash Flow & Other:

- Marston's has announced a further £46m in sold & leased back managed assets on a yield of 4.6%.
- This represent cheap money and compares with the 5.3% paid on similar assets last year
- Leverage, including leased back pubs, is 5.9x against 6.1x last year
- Pub disposals amount to 286 units for a total of £116m in the half-year on an average EBITDA of more than 10x
- The group is reporting an £8m loss on disposal and will provide an additional £8m against future sales
- Net debt at H1 was £1,190m, down marginally from last year's £1,194m
- CEO Ralph Findlay concludes 'the first half year was good and current trading is strong'
- He says that the quality of Marston's estate is improving and says 'we are beginning to see some evidence of consumer confidence returning in the regions'

Langton Comment: Marston's has reported strong trading in H1 and its performance remains ahead of the peer group as measured by the Peach Tracker.

H2 has begun well, April was ahead of the market and May, though it will present tougher comps, is also trading well.

The group's transition continues. New units are being built (it will open its 100th new pub built since 2009 this summer) and smaller, wet-led units are being sold. Strategically, this is the right thing to do as it best-positions the company to take advantage of developing trends within the eating & drinking out market.

The disposal of bottom-end units has been dilutive but growth is set to come through strongly in FY15 and beyond. The deal with New River should help to generate earnings growth of around 10% or so by FY16.

Marston'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.

Confidence is returning and the outlook is bright. 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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