Langton Capital Limited

8 Oct 2014

MARSTONS (MARS): 140.8p
Q4 & FY Trading Update: 52w to 4 Oct 2014

Group says has made 'sound progress' & results 'broadly in line with expectations…'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	88.4	12.3	11.4	6.4	4.5
2014 (E)	84.0	11.7	12.0	6.7	4.8
2015 (E)	95.0	13.2	10.7	7.0	5.0

Source: Company & Broker Estimates

Q4 Trading Update: 52w to 4 October 2014:

Marston's has this morning updated on trading for its Q4 and its year to date, being the 52w to 4 October. It comments that results will be broadly in line with expectations and our comments are set out below:

Destination & Premium:

- Marston's has reported that its Destination and Premium units have increased LfL sales by 3.1% in the year to 4 October. For the last 11w of the period, sales were down by around 0.3%
- Poor weather in August impacted sales from around the middle of the month. The August Bank Holiday was not good and the first week of September was similarly slow
- Trading has improved since early September
- LfL food sales are up 3.3% for the year (flat over the last 11w) and wet sales are up 2.0% for the year (down 1.8% in the last 11w)
- Rooms and machine income were both up by more than 10%
- The group has not been discounting and margins have improved
- Marston's has completed complete 27 new-build pub restaurants in the financial year and confirms that it will open at least 25 in FY15
- Marston's says 'we expect to continue to develop our Destination estate at a similar rate…with at least 25 sites planned for completion in the 2015 financial year.

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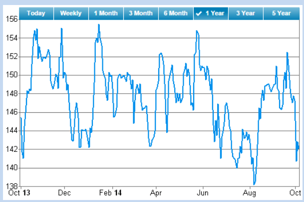

Market Cap: £807m
12m range 138p 158p

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Taverns:

- Within Taverns, Managed & Franchised, LfL sales are up by 2.1% in the full year but are down by around 1% over the last 11 weeks
- Trading from mid-August to early-September was slow on the back of the much cooler weather

Leased:

- The group's leased units are up by 3% in LfL EBITDA terms
- This represents a robust performance with sales holding up well as the 3% is in line with performance to w41

Brewing:

- Own brand beer volumes are up level for the year as a whole after a softer Q4
- Sales had been up 1% in the first 41w of the year
- Standard ale sales were slower and there was some discounting of standard product over the period of the World Cup
- Group margins are in line with last year and recent sales trends are shown below:
- **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
FY 09/10	+1.7	-3.7	+4.5
FY 10/11	+2.9	+0.6	+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 LfL sales %	Leased LfL EBITDA %	Beer Company Volumes %
H1 12/13	n/c*	'down'		+12.0
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	+3.0	Slightly lower
To w41 2013/14	+4.1	+3.0	+3.0	+1.0
FY13/14	+3.1	+2.1	+3.0	
Last 11w	-0.3	-1.0	+3.0	In line

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

Debt, Cash Flow & Other:

- The group says capital spending plans remain on track

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Summary & Conclusion:

- The group reiterates that trading is broadly in line with expectations. Some slightly high forecasts, those for above £85m this year, may need to be pared back
- Overall, group CEO Ralph Findlay comments 'we have made steady progress by consistently implementing our returns-focused strategy including an accelerated new-build programme'
- Mr Findlay goes on to say that the group is meeting its targets for disposals and conversions to franchise and adds 'we remain on track to complete the majority of this disposal and conversion activity by the end of financial year 2015, creating a pub estate appropriate to meet the needs of our customers in the long-term."

Langton Comment: In line with reports from Greene King, M&B and the Peach Tracker, Marston's has reported that trading slowed in August.

Fortunately, it has picked up since the end of the first week of September and, though higher forecasts for the current year may need to be brought down a little, the cooler summer weather has not materially impacted forecasts.

Tellingly, there is no suggestion that forecasts for FY15 need be adjusted, the new-build programme remains on track and the dividend yield for FY15 is now sitting at 5.0%.

Room, machine and food sales remain robust. Cash flow is good, margins are edging up a little and it is very unlikely that Marston's would make a takeover approach to Spirit at anything like the premium needed to secure the company.

Marston's new-build programme is an exercise in self-help and its geographic footprint means that the company has had little help from a buoyant London market.

The bulk of its performance, therefore, is home grown.

The group has disposed of bottom-end units (this has been dilutive) but growth is set to come through strongly in FY15 and beyond. Marston's shares trade on around 10.7x earnings for the year just started and shareholders are to be paid (a rising) 5.0% yield whilst the quality of earnings is improved.

Confidence is returning and the outlook is bright. Tough summer comps have not derailed Marston's story and, though there is likely to be some edging back of forecasts today, the group's strongly asset-backed shares offer good value.

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