



14 May 2015

MARSTONS (MARS): 163p H1 Results: 26w to 4 Apr 2015

Group reports 'returns-focused strategy continuing to drive long-term shareholder value...'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	83.0	11.70	13.9	6.70	4.1
2015 (A)	91.8	12.65	12.9	7.05	4.3
2016 (E)	100.0	13.90	11.7	7.35	4.5

Source: Company & Broker Estimates

H1 Results: Analysts' Meeting:

Following the announcement of its H1 numbers to 4 April 2015, Marston's hosted a meeting for analysts and our comments are set out below:

Overall Trading Environment:

- MARS believes that there is 'more clarity' on the MRO and it believes the changes will have a 'minimal impact'
- The group has been on a 'journey' to take control of its assets (via the move to managed and franchised units). The aim was to have 85% of pubs in these categories, the group is currently at 76%
- MARS will move to around 1540 units in FY16. At that point, the churn of assets will essentially be complete
- The mix change is evident in the fact that average profits per pub rose by 17% in the last year. They are up 27% over the last 3yrs
- The cost outlook is relatively benign. Food, drink, utility costs should rise by between 2% and 3%. Wages will increase by 3%.
- Recent trading is ahead of that seen in H1

Destination & Premium:

- The group has got visibility on new builds out to FY18. But it cautions that more capacity is being put on in the market
- New build costs are rising. There is more competition per site and regulatory costs have increased
- The group will build more lodges. It will open 3 this year and perhaps 5 p.a. going forward.

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: £968m
12m range 137p 169p

- It will also open a number of Revere units & new Pitcher & Piano sites. These will largely be leasehold

Taverns:

- MARS will consider new-build taverns. It has one in mind at present. These will be less capital-intensive than Destination units. They will be c40% food rather than 60% plus at new-build Destination outlets
- Within Taverns, franchised LfLs are around 1pp ahead of managed LfLs

Leased:

- All indicators here are now positive
- Only 'two to three' lessees have taken advantage of the group's free-of-tie offer over the last 5yrs or so
- Units moving to FoT have seen EBITDA for MARS rise slightly – but these units may not be comparable over the whole estate

Brewing:

- The opportunity for premium ale in the off-trade is interesting. This market is £0.5bn & could go to £1bn by 2020.
- MARS is number one in both premium bottled & premium cask ale

Assets, Debt, Balance Sheet:

- Debt is not a problem. It is serviceable at 6.4x EBITDA – but the group is still targeting 5x over time.
- No new builds have 'gone wrong'
- Units are still being sold 'at high single-digit' PERs – they are mostly now land plays

Summary, Conclusion, Beer Tie & Other:

- Marston's has confirmed that the macro-outlook is better than it has been for some time – but the group cautions that more capacity is being put on
- Overall, it has reassured that the churn of its assets is coming to a close and that earnings will feed through going forward

Langton Comment: Marston's has confirmed that trading continues to be in line with expectations. In the first few weeks of H2 the group faced tougher comps but these are now flat for the remainder of the period.

Clearly Whit Week (featuring a Bank Holiday, Half Term and pay week) will be important in determining whether the consumer is capable of putting his/her hand in his/her pocket.

Thereafter, comps are manageable and, should the weather be average, Marston's should be able to make further progress.

During FY16 and beyond, new-builds will continue to kick in and the dilutive impact of disposals will have worked its way through the system.

Hence growth should pick up and, with the group's shares trading on an undemanding 12.9x this year's earnings falling to 11.7x in FY16, there is material upside.

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

mark.brumby@langtoncapital.co.uk

This message (and files contained herein) may contain confidential or proprietary information and is intended solely for the use of the individual or organisation to whom it is addressed. If you are not the addressee you should not disseminate, distribute or copy this email or any part thereof. Further, please notify the author immediately by telephone or by replying to this email and then delete all copies of the correspondence from your system. We apologise for any inconvenience that this may have caused. This information is a financial promotion for the purpose of the European Markets in Financial Instruments Directive (MiFID) and FSA's Rules. It has not been prepared in accordance with the legal requirements designed to promote the independence or objectivity of investment research. This document is not based upon detailed analysis by Langton Capital of any market, issuer or security named herein and does not constitute formal research or a research recommendation, either expressly or otherwise. It is not investment advice and does not take into account the investment objectives and policies, financial position or portfolio composition of any recipient. This document should not be relied upon as authoritative or taken in substitution for the exercise of your own commercial judgment. Whilst Langton Capital has taken steps to control the spread of viruses on its systems, it cannot guarantee that this email and any files transmitted with it are virus free. No liability is accepted for any errors, omissions, interceptions, corrupted email, lost communications or late delivery arising as a result of receiving this message via the Internet or for any virus that may be contained in it. Recipients should review independently and / or obtain independent professional advice and draw their conclusions therefrom should decide to undertake transactions with third parties. Langton Capital or its employees may have positions in securities mentioned herein. We reserve the right to monitor email messages passing through our network. Langton Capital Limited is authorised and regulated by the Financial Conduct Authority. Langton Capital Limited is registered in England number 07112949.

Mark.brumby@langtoncapital.co.uk

Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389