26 Nov 2015

MARSTONS (MARS): 159.5p
FY Results – Analysts' Meeting

Group says has made 'good progress in 2015' and its 'pub estate transformation [is] well-advanced'…

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	83.0	11.70	13.6	6.70	4.2
2015 (A)	91.5	12.90	12.4	7.00	4.4
2016 (E)	99.0	13.75	11.6	7.35	4.6

Source: Company & Broker Estimates

Full Year Results – Analysts' Meeting:

Following the announcement of its full year numbers for the 52wks to 3 October earlier this morning, Marston's hosted a meeting for analysts and our comments are set out below:

Financial Results:

- Group average EBITDA per pub is up to £100k. This is +15% in 2015 and +40% over two years
- Reiterates it is beating the market on LfL sales but is raising margins
- Profits have risen against a £4m disposal headwind and £2m pension hit
- Rents are rising across leased units (+2.5% in FY15)
- Beer had a strong year, innovation continues. Some 80% of beer is now sold outside the group + 70% of beer sold is premium product
- Cost outlook is benign, 1.5% to 2% except for labour, which could rise by c4%
- The group would not be drawn on 8wk FY16 LfL sales saying that the next 5wks are much more important.

Cash flow, balance sheet, new openings, debt etc.:

- Property revaluation has led to a £54m net estate uplift
- Group is comfortable with debt levels but ratios will improve as profits come in, capex falls & dividend growth (slightly) lags EPS

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Market Cap: £918m
12m range 139p 174p

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Marston's strategic issues:

- MARS' key areas are 1) new build, 2) exploiting its broad range of offer types, 3) the move to controlling units (via franchise, new build) and 4) continued (though now modest) disposals
- Anecdotally MARS is now confident enough to commission a new-build franchise unit and it mentioned one in Hull that turns over c£25k per week. Destination & Premium pubs now contribute >50% profits
- New build costs have perhaps edged up by perhaps £100k to £200k per site. The group has visibility on c100% of the 20 planned for FY16 and some visibility on the following 2yrs
- Both MAB and GNK are less active in the new build market
- Other areas. Regarding accommodation, MARS now operates some 800 rooms. Thwaites has been integrated well. It is building 5 lodges FY16 vs 3 in FY15.
- In FY16, capex will fall a little and Leased will complete virtually all of its disposals
- NLW. MARS points out that only the move to 920p was 'new news' as far as it was concerned. This will cost c£2m p.a. The reduction in Corporation Tax, however, will save £1m.
- The group may be in the market 'for another Thwaites'. It has the distribution to make the most of further purchases
- The group is working on 'The Pub of the Future' & may share its findings (further food, enthusing a younger market etc.) via a CM Day next year
- Re Market Rent Only leases, the group has offered FoT rents for a number of years. It has not had much take-up and it does not expect a short term change

Industry-wide strategic issues:

- Supply of pubs & casual dining outlets in some 'hotspots' is becoming a problem. MARS is operating in less pressured areas
    - M&B commented on Tuesday that the market for new entrants was frothy. It said it was in part reminiscent of 1999-2000 (a period that did not end well re specific co failures, industry margins etc.)
    - MARS turned down the opportunity to operate in West Quay Southampton but did open in Knutsford
- National Living Wage & apprenticeship levies will impact all players – see above for Marston's comments
- The consumer outlook is generally positive but pricing power is weak. Some operators will attempt to pass on some of the NLW costs in FY16

Langton Comment: Marston's has reassured that it is now through the period of dilution caused by the disposal of its bottom-end units and that it should now be in a position to deliver double-digit growth going forward.

The numbers speak for themselves in that MARS has reported industry-beating LfL sales whilst increasing its margins.

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In future, we should expect more of the same. The group will push new build & continue to reshape its portfolio of pubs via selected disposals and the occasional transfer of units from one business model to another.

And the beer business seems to be moving from strength to strength. The group sells 80% of its product to third parties, 70% of which is premium ale. It has around 3,500 free trade customers and perhaps 8,000 national accounts.

We believe that current year forecasts (of around 13.75p in earnings with a dividend of c7.35p) are secure. At this level, the group's shares are therefore trading on a PER of <12x and offer a yield of 4.5%. We would suggest that this fails to fully value the group's expansionary prospects and represents an attractive entry-level for would-be holders.

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