18 May 2016

MARSTONS (MARS): 150p
H1 Results – Analysts' Meeting:

Group reports a 'positive consumer outlook' & says it is 'avoiding oversupplied locations…'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	91.5	12.9	11.6	7.00	4.7
2016 (E)	99.3	13.7	10.9	7.34	4.9
2017 (E)	105.7	14.7	10.2	7.65	5.1

Source: Company & Broker Estimates

H1 Results – Analysts' Meeting:

Marston's has this morning reported H1 numbers for the 26 week period to 2 April 2016 and our comments are set out below:

The Market:

- The supply of new units is potentially a negative in certain 'hot-spots'
- However, for the most part the group does not compete in these areas and, even in areas of intense activity, it believes that the markets will slow a little (in terms of the scramble for property) next year.
- The consumer is OK. There is no discernible 'Brexit' impact but even moderate price rises need to be 'earned'
- Legislation and changing attitudes towards sugar, salt, fat etc. are now a feature of the market

Marston's Positioning:

- Within this market, Marston's believes that it can add value via:
    1. It's new build. Here it will open 20 pubs a year and 5 lodges.
    2. It's broad appeal. It is not faddy or overly-focused on one area of the market. The group has lodges, premium outlets, community pubs, a major beer business etc.
    3. The group now controls, either through management or franchise, most of its units.
    4. Accommodation will be an area of focus going forward. Marston's has around 850 rooms on 51 sites at present. LfL

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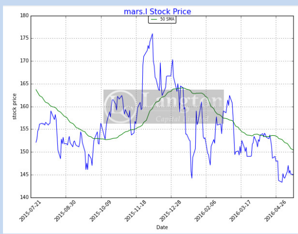

Market Cap: £905m
12m range 143p 176p

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sales here are up by 12%. MARS will look to open larger units (currently c40 beds).

- Detail re Marston's approach. The group has been busy on the ground. It has 200 new build pubs, over 100 rotisseries and or pizza ovens, it is pushing non-alcoholic drinks, it has learned from the casual diners, has reinvented the burger etc. etc. This represents good, solid management. There have been no quick fixes or sleights of hand.

- Behind the scenes, the EPOS system is being replaced and customer satisfaction scores have been increasing

- The group has led the way on franchising (2009) and new build (around the same date). Franchising arguably began as a defensive move but now it has moved on. Over 50 franchisees turn over >£10k per week and some do >£20k. The group is trialling a new-build franchised pub in the North East & has one franchised lodge

- The group is not pushing price. Some competitors are jacking list prices & then discounting

- The MRO is not a big deal for Marston's. Only c14% of EBIT comes from leased pubs. Relations are by and large good and smaller units, which could have been problematic, have been sold

The Financials:

- See earlier Flash Note for comment on LfL sales, margin, profits etc. H2 will be a shade more challenging. Comps are tougher & the NLW will impact margin.

- Key point to get across, perhaps, is that the earnings drag caused by the disposal of bottom-end units has ran its course

- Earnings growth should pick up and balance sheet and gearing metrics improve

- H2 is the bigger half and Debt/EBITDA, fixed charge cover etc. should all improve further by the end of the year

Langton Comment: Earnings growth has picked up and, though comps will be more challenging in H2, Marston's has reassured that trading remains in line with expectations.

The group, as much as consumer-facing companies can be, is the master of its own destiny and, with its new-builds contributing well, its breweries taking share and its estate of managed and franchised pubs performing strongly, forecasts are healthily underpinned.

Hence we believe that, trading at around 11x earnings and offering a yield of almost 5%, Marston's shares offer good value.

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