Langton Capital Limited

18 May 2016

MARSTONS (MARS): 150p
H1 Results – 26wks to 2 Apr 2016

Group reports it has generated 'profit & cash flow growth from [its] high quality pubs & beer business…'

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 – 26wks to 2 Apr 2016:

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

Overall Results:

- Marston's reports underlying revenue +11% at £428.7m. Underlying profit before tax is 11.8% higher at £33.1m.
- Underlying EPS is +11.9% at 4.7p per share and Marston's will pay a 2.6p dividend for H1 (up 4%), which is 1.8x covered by earnings
- LfL sales at the group's Premium & Destination outlets are up by 3%. Similarly, Managed & Franchised LfL sales are 3% higher than H1 last year (against a market up by perhaps 1%)
- Managed margins are up around 10bps. They may be flat for the full year as a result of the NMW. This is not new news.
- LfL EBITDA across the company's leased estate is running 3% ahead of last year and own brewed beer sales, including the Thwaites (April 2015) acquisition, are up by more than 10%
- Average EBITDA from leased pubs, including the impact of selling bottom end units, is up 13% in 2016 and has risen by 44% since 2012
- Recent sales trends are shown below:

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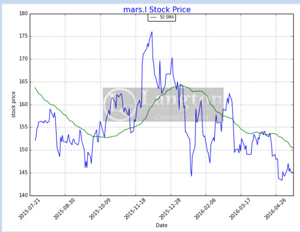

Market Cap: £905m
12m range 143p 176p

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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			
H1 13/14	+5.7	+3.8	+3.0	Slightly lower
FY13/14	+3.1	+2.1	+3.0	
H1 (26w) FY14/15	+1.5	+1.4	+4	+4.0
FY14/15	+1.8	+2.0	+4.0	+5.0
Last 11wks of 14/15	+2.2	+3.1	Not given	Not given
First 16w of 15/16	+3.0	+2.7	+3.0	+21.0*
H1 15/16	+3.0	+3.0	+3%	>10% higher

Source: Company Reports, m/f = managed & franchised, *distorted by April 2015 Thwaites purchase

Debt, cash-flow, capex etc.:

- Cash flow is up by £23.1m to £81.3m and debt, including the Thwaites acquisition, is £1.273bn, broadly in line with last year.
- Debt to EBITDA is now around 5.0x, down from nearer 5.4x a year ago
- Fixed charge cover, which levels the playing field in terms of the ownership or non-ownership of property, is 2.6x, up from 2.4x last year.
- On this measure, Marston's cover is in line with cover at GNK, MAB and RTN.
- The group's new-build programme continues apace. Marston's opened 7 pubs in H1 and should open at least 20 during the full year. It opened 3 lodges in H1 (including a first under the franchised model) and will open 5 for the year as a whole

Conclusion:

- CEO Ralph Findlay reports 'we are encouraged by our first half performance and are on track to meet our expectations for the year.'
- He continues 'in pubs, we have driven our growth by the organic development of pub-restaurants and franchise-style pubs, and more recently through investment in lodges and premium bars, widening our appeal. In Brewing, we had an excellent first half year and achieved good growth through our industry-leading brands and service.'
- Re current trading, the company says 'after the first few weeks of the second half year, performance remains in line with expectations.'
- Marston's adds 'despite more challenging comparatives in the second half year, we remain confident of achieving our targets for the full financial year and are on track to complete the new-build and lodge expansion plans outlined below.'
- As mentioned, comps in H2 will be a little tougher, suggesting that +3% may be difficult to maintain. An outturn of perhaps 2% in H2 would lead to a very-acceptable 2.5% for the year as a whole
- The impact of the MRO should be limited for MARS as only around 14% of EBITDA comes from its leased units

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Langton Comment: Trading for Marston's picked up noticeably towards the middle of last year and this momentum has continued throughout H1 2016.

Comps will become a little more challenging in H2 and the NMW will put some pressure on margins but Marston's continues to outperform both its market and the majority of its competitors.

The winners and losers in respect of sales (JDW & MARS vs RTN and perhaps MAB) are beginning to make themselves plain with the former comfortably beating the Peach Tracker on a regular basis and the latter underperforming.

This is not achieved without effort and, amongst the first as it was to dispose of tail end units, to identify new build as an area of growth and to embrace franchises and everyday low pricing, Marston's has worked hard over a number of years to achieve its current position.

Marston's now has a smaller number of pubs overall but it has improved the quality of its estate markedly. It has transformed its business over recent years and it is now beginning to reap the benefits. Its tail has gone and its c140 new-build pubs are trading strongly.

It is adding its own units at an attractive EBITDA multiple of under 6x and the return on capital on these freehold units remains between 13% and 15% depending on location.

We continue to believe that well-located units selling customers what they want to buy at a price they are prepared to pay, will perform well.

Though not immune to moves in the wider economy, Marston's is in control of its own destiny. It has repositioned its estate and controls trading at the majority of its units.

The group's shares offer good value. Marston's is growing EPS and cutting its debt. Its shares trade on around 11x current year earnings and offer a 4.9% yield. We see estimates as unlikely to change in the near term but the quality of earnings continues to improve. We believe that Marston's is capable of delivering double-digit EPS growth into the medium term and see its shares as offering extremely good value.

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