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MARSTONS (MARS): 134.5p FY Results – Year to 1 Oct 2016

Group says is 'a high quality pub & beer business continuing to deliver profit and returns growth...'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	91.5	12.9	10.4	7.0	5.2
2016 (A)	98.0	14.0	9.6	7.3	5.4
2017 (E)	103.0	14.3	9.4	7.6	5.7

Source: Company & Broker Estimates

FY Results – Analysts' Meeting:

Following the release of its numbers for the full year to 1 Oct 2016, Marston's hosted a meeting for analysts and our comments are set out below:

Trading & Strategy:

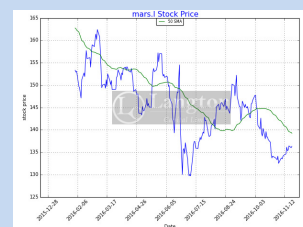
- Marston's pointed out that these were record results in terms of revenues & operating profits. LfL growth was c50:50 price & volume
- The offer continues to evolve. Marston's has more pizza kitchens, rotisserie chicken features & carveries than it had in the past
- Taverns are seeing the same trends as Premium & Destination and tenanted profits are growing.
 - Tenanted rents rose by c2% during the period
 - Only 'a handful' of tenants have asked for FoT terms
 - The impact of the Market Rent Only option for the industry as a whole 'might be less than had been anticipated'
 - Some 550 units are now franchised. The group would like to see all its Taverns fall under this model but there is no rush now
- The group has built >160 new pubs and it will continue to build c20 per annum for the foreseeable future
- Marston's will build 5-10 lodges p.a. and 3 Premium or Destination units (included within the 20 above)
- MARS now 'has control' (managed or franchised) of c85% of its units

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Market Cap: £771m
12m range 130p 176p

- Accommodation will feature going forward. The group intends, over an unspecified period, to move from 953 rooms to nearer 4,000.
 - This will put upward pressure on margins. Particularly as retailing rooms is brought in-house & the % sold through Booking.com, Tripadvisor etc. falls
- The group will build larger lodges where appropriate, taking up to 60 rooms vs the current 40
- Beer had an 'outstanding year' & now 'dominates some areas of a fragmented PBA market'. The Pedigree revamp has been received well

Market, Economy & Trading Environment:

- Marston's believes that capacity increases are beginning to abate. It suggests that business rate increases next year could accelerate this slowdown
- There has been no discernible Brexit impact to date
- Prices are 'beginning to edge higher'. There is some discounting but, even taking this into account, prices are moving up
- Re costs, MARS is largely protected for FY17 and it has contracted for between 50% and 2/3 of its F&B costs for FY18
- The timing of Xmas Day this year is OK but last year 'was perfect'. Also the weather last year was benign. Comps will be tough-ish as MARS LfLs were +3% for Q1 last year.

Balance Sheet, Cash Flow & Debt:

- Fixed charge cover rose from 6.0x to 6.1x. This includes the impact of sale & leasebacks, leasehold properties etc. Debt to EBITDA declined from 5.1x to 4.8x

Langton Comment: Marston's has reassured that trading is in line and it has underscored the fact that it has several projects (new build, lodges, move to franchised, new-model beers etc.) underway that should feed through to the bottom line over time.

Costs will rise a little but MARS is largely sheltered this year and next. Competitor new capacity could be less of an issue going forward. The pricing environment is such that MARS should be able to take a little price.

Current year numbers may be tweaked down a little to account for the £1.4m (non-cash) of pension interest that will be charged to the P&L this year. Otherwise, they are secure. On a single digit PER and yielding 5.7%, MARS' shares look to offer very good value.

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