24 Nov 2016

MARSTONS (MARS): 136.5p
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	10.6	7.00	5.1
2016 (E)	98.3	13.7	10.0	7.34	5.4
2017 (E)	104.0	14.4	9.5	7.65	5.6

Source: Company & Broker Estimates

FY Results – Year to 1 Oct 2016:

Marston's has this morning reported results for its full year to 1 Oct 2016 and our comments are set out below:

Trading:

- Marston's has reported sales for the year +7% at £905.8m. Operating profits are +4% at £172.7m with PBT of £98.0m, in line with expectations
- EPS is 14.0p (up 9%) and the final dividend is +4.4% at 4.7p to make 7.3p for the year as a whole
- As previously reported, LfL sales at the group's Premium & Destination outlets are up by 2.3% for the full year period.
- This represents +1.8% in the last 10wks (tough comps last year) with food +1.7% and wet sales +2.3%. Margins are in line with last year.
- Taverns' LfL sales are up by 2.7% on the year. Sales are +2% in the last 10wks compared with a tough, +3% for the same period last year
- LfL EBITDA from leased pubs is +2% on last year
- Brewing volumes are +13% over the year (+8% or so over the last 10wks).
- Recent sales trends are shown below:

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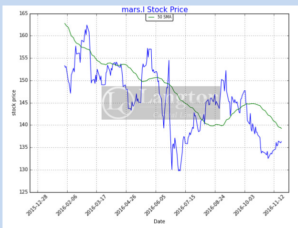

Market Cap: £783m
12m range 130p 176p

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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
FY 15/16	+2.3	+2.7	+2	+13
Last 10wks of 15/16	+1.8	+2.0	+2	+8
First 8wks of 16/17	In line	In line	In line	In line

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

Balance Sheet, Cash Flow & Debt:

- Debt to EBITDA has fallen by 0.3x to 4.8x
- Net debt at year end was £1,269m. The group says 'net debt includes £1,074m of long-term, structured finance with a stable repayment profile and no exposure to increases in interest rates, underpinned by an estate which is 97% freehold.'
- Marston's reports that its debt to EBITDA ratio 'is expected to reduce further over time.'
- Marston's has opened some 22 new pubs during the financial year just ended in addition to 6 lodges, taking the estate to over 950 rooms
- Marston's reports 'the new-build programme remains our key growth driver.'
- Since 2009, the group has opened over 150 new pub-restaurants 'generating consistently high levels of profitability and strong returns, thereby creating significant shareholder value.'
- The group says 'where possible, accommodation is added alongside a new pub-restaurant to generate additional income and enhance returns.' This is to remain a feature of the group's expansion going forward.
- It expects to open at least 20 more pubs in the current year with 5 to 10 lodges.
- Openings will be weighted to H2 of the year.

More on Trading, Conclusion:

- Marston's says that it has made an 'encouraging start to [the] new financial year'
- The group says 'trading in the current financial year is in line with our plans, our new site development is on track, and there have been no material changes to market conditions that would impact upon our expectations for the full year.'
- Re Brexit, the group says 'to date there has been no discernible change in the spending habits of our customers, and we have forward contracts in place for 2017 and much of 2018 which will mitigate the risk of higher input costs due to exchange rate fluctuation.'

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- Marston's adds 'we have planned for modest increases in business rates in 2017, but are protected from more significant increases by our low exposure on the high street and in city centres.'

- Overall, the group concludes 'we are well placed to continue our track record of growth and to make further progress against our key financial objectives.'

- CEO Ralph Findlay reports 'we have delivered another year of good growth across the business, with the outstanding performance of our beer company particularly encouraging.'

- He adds 'trading has been solid in the first few weeks of the new financial year and we have seen no discernible change to the trends experienced in 2016.'

- Mr Findlay adds re costs 'the majority of our major product cost lines are contracted for 2017 and well into 2018.'

- Marston's concludes 'we have a high quality pub and beer business which is displaying positive momentum and is consistently outperforming the market.' CEO Findlay adds 'we believe that, despite some continuing market headwinds, our expansion plans for new pub-restaurants, lodges and Revere bars will further enhance our ability to deliver attractive returns.'

Langton Comment: Marston's had previously reported that FY16 has closed out as expected. Summer weather was helpful but comps overall were tough. The group has now added that FY17 has been encouraging to date and results are in line with expectations.

We have suggested before that the winners and losers in respect of sales (JDW & MARS vs RTN and perhaps MAB, arguably GNK now) are beginning to make themselves plain with the former comfortably beating the Peach Tracker on a regular basis and the latter underperforming – at least until recently in the case of MAB.

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 several 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 >150 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 now trade on a single-digit multiple for the current financial year and offer a 5.6% yield.

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