24 July 2013

Leisure:JD Wetherspoon (JDW): 668p
Q4 trading update: 11w to 14 July 2013

JD Wetherspoon has this morning updated on Q4 and full year trading and our comments and further details are set out below:

- JD Wetherspoon has this morning updated on Q4 trading for the 11w period to 14 July 2013 saying that LfL sales rose by 3.5% in the quarter and that total sales, including new openings, were some 6.2% higher
- The group calls this a 'better than expected performance' and says that 50w figures to date are up by 6.0% and total sales are +9.2%
- The group last updated on 8 May (Q3 trading) at which point LfL sales were up 6.3% (Q3) and were 6.7% higher for the 39w to end-Q3
- Sales have subsequently slowed a little as comps have toughened and recent LfL sales trends are shown below:

Financial period	LfL sales %
Full year 2008/09	+1.2
Q1 2009/10	+0.3
H1 2009/10	+0.1
Q3 2009/10	Minus 0.8
Full year 2009/10	+0.1
Q1 2010/11	+1.6
Q2	+3.1
Q3	+2.4
FY 2010/11	+2.1
Q1 2011/12	+1.1
Q2 (first 12w of)	+3.6
H1 2011/12	+2.1
Q3	+2.0
FY 2011/12	+3.2
Q1 2012/13	+7.1
Q2 2012/13 (11w to 13 Jan 13)	+8.0
H1 (26w to 27 Jan)	+6.9
Q3 2012/13	+6.3
39w 2012/13	+6.7
11w to 14 Jul 13	+3.5
50w to 14 Jul 13	+6.0

Source: JD Wetherspoon

- The figures suggest that JDW is continuing to favour sales over margin and that it may be increasing barriers to entry via cheaper pricing for its customers]
- However, operating margins are somewhat better; JDW reports that this came in at 9.5% for Q4 (was 8.5% in Q3, 8.3% in H1) and stands at 8.7% year to date
- JDW has opened 29 new pubs & closed three in 2012/13 to date; it expects to open c30 next financial year (up from c20-25 last guided)

Find us at:

Recent News Here:

- Today's email
- Recent emails
- A day in the life...
- Who we are, what we do...
- Upcoming news-flow
- Recent company updates
- Thematic pieces
- LinkedIn profile

Langton Capital Limited
Suite 415, No1 Alie St,
London, E1 8DE
020 7702 3389

- Re its finances, JDW says 'the Company remains in a sound financial position' though it will 'provide an update on any impairment and onerous lease provisions' at the full year
- JDW 'warmly welcomes' the 1p cut in beer duty but says that the late night levy, machine duty changes and business rates increases will hurt margins
- It calls once again for a reduction in VAT in the on-trade and says 'we are now on track to achieve a slightly better outcome…for the current financial year than previously anticipated'

Lancap view: JD Wetherspoon updated on Q3 trading on 8 May at which time it briefed on the impact of the second period of snow in March and reassured that this had relatively little impact on LfL sales. Since early May, the weather has been considerably better and, though LfL sales growth has slowed slightly, margins have improved.

JD Wetherspoon's shares have risen strongly recently. They stood at around 500p in March and are now above the levels reached before Mr Bernanke upset the markets with his QE will be moderated (at some point)' speech on 22 May.

Market estimates of around 42.5p of earnings for the current year may increase, to say 43p, and suggest that the group's shares trade on a multiple of some 15.5x this year's earnings (and perhaps 14.2x the 47p expected to be generated next year) at which point they can hardly be said to be cheap.

However, earnings momentum may now be upwards and the rating may have de-coupled from those of MARS, GNK and MAB. Furthermore, RTN's shares trade on an even more challenging 20.5x this year's earnings and 18.4x next.

However, the multiple at which JDW's shares traded stood at 12.3x earnings as recently as March and, despite the fact that JDW remains well-placed to prosper in an environment where consumer spending remains tight, some holders would have been tempted to take some profits at these levels were it not for the fact that earnings and margins may now be on an upward path.

Longer term, however, the group may be doing the right thing by holding down prices in order to drive sales. The group is increasing barriers to entry and cementing its footprint but, over the shorter term, profits are likely to suffer. The group will host a conference call at 8am.

Contact – Mark Brumby - +44(0)20 7702 3389

mark.brumby@langtoncapital.co.uk