

6 Nov 2013

## UK LEISURE: JD Wetherspoon (JDW): 712p Q1 Trading Update to 27 October 2013

Year to end-July	PBT (£m)	EPS * (p)	PER (x)	DPS (p)	Yi (p)
2012 (A)	58.9	41.3	17.2	12.00	
2013 (A)	57.1	46.8	15.2	12.00	
2014 (E)		48.9	14.6	12.65	

\*Normalised, Source: Company & Broker Estimates, Market Cap: £898m

### Trading Update: Q1 (13w) to 27 Oct 2013

JD Wetherspoon has this morning updated on trading for its Q1 being the 13w period to 27 October and our comments thereon are set out below:

- JD Wetherspoon has reported that LfL sales rose by 3.7% for the 13w to 27 October and that total sales rose by 7.6%
- The group reports that the operating margin was 8.3%, around 30bps lower than the same period last year
- It says 'the margin in the quarter is a possible indicator for this financial year, assuming we achieve reasonable sales growth'
- JDW opened eight new pubs in Q1 and has eight under development; it says 'we now anticipate opening 40 to 50 pubs in total this year'
- This is an increase on earlier estimates and is 'helped by our increased land bank and a number of recent acquisition'
- There have been 'no significant changes in the company's overall financial position' and the group says that it 'remains confident of a reasonable outcome for the current financial year'
- JDW reminds investors and observers that there is no level playing field with regard to the off-trade and uses the occasion of its Q1 update to call for a reduction in VAT
- The group last updated to w6 of the current financial year, saying that sales were running up by 3.6% against tougher comps.

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- Today's announcement suggests that trading remained in line with the first 6w and recent LfL sales trends are shown below:

**Tab.1. Recent Sales Trends:**

<b>Financial Period</b>	<b>LfL Sales (%)</b>
Full year 2008/09	+1.2
Q1 2009/10	+0.3
H1	+0.1
Q3	-0.8
Full year 2009/10	+0.1
Q1 2010/11	+1.6
Q2	+3.1
Q3	+2.4
Full year 2010/11	+2.1
Q1 2011/12	+1.1
H1	+2.1
Q3	+2.0
Full year 2011/12	+3.2
Q1 2012/13	+7.1
H1	+6.9
Q3	+6.3
Full year 2012/13	+5.3
First 6w 2013/14	+3.6
Q1	+3.7

Source: Company Reports

**Langton View:** JD Wetherspoon flagged up in September that comps had become more challenging into FY14 but 3.6% opr now 3.7% LfL growth remains enviable in a wider industry context.

There is no change to guidance and around 49p in earnings is expected for the current year. This suggests that the group's shares, which rose strongly in Q2 before trading water between 700p and 750p in Q3, are trading on a current year PER of around 14.6x. The shares stood at around 500p in March and have risen by around 50% since.

Hence JDW is hardly cheap and it offers only a modest dividend but it is clearly driving sales and, longer term, it may be doing the right thing by holding down prices in order to do so. The group is increasing barriers to entry and cementing its footprint but, over the shorter term, profits are likely to be sacrificed as a result and shareholders may decide to take some profit at these levels.

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