Langton Capital Limited

22 Jan 2014

JD WETHERSPOON (JDW): 789p
Trading update, H1 to 26 Jan 2014

Group still 'targeting a reasonable outcome for the current financial year…'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	65.2	46.8	16.9	12.00	1.5
2014 (E)	80.0	47.9	16.5	12.70	1.6
2015 (E)	90.5	55.2	14.3	13.15	1.7

**Normalised, Source:* Company & Broker Estimates

Trading Update: Q2 (and H1) to 26 Jan 2014

JD Wetherspoon has this morning updated on trading for its Q2 and H1 being the as yet unfinished 26w to 26 January and our comments thereon are set out below:

- JD Wetherspoon has reported that LfL sales rose by 6.7% in the first 12w of Q2 (after 3.7% in Q1 and against growth of 7.1% for the same quarter last year) and that total sales rose by 10.6%
- For the 25w to 19 Jan, LfL sales are now running up by 5.2% with total sales, including new openings, now some 9.0% ahead
- Operating margins are down by around 20bps to 8.1% 'due primarily to increased investment in a number of areas' such as personnel and IT
- The group expects an operating margin 'in the region of 8.1% to 8.3% for this financial year' and recent LfL sales trends are shown below:

Tab.1. Recent Sales Trends:

Financial Period	LfL Sales (%)
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

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Market Cap: £991m
12m range 498p 830p

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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
Q2 (first 12w)	+6.7
H1 (first 25w)	+5.2

Source: Company Reports

- JDW has opened 18 pubs so far this financial year, it has 11 under development and should open between 40 and 50 over the year as a whole
- There have been 'no significant changes in the Company's overall financial position' though the group has bought back 411k shares and fixed some of its debt at slightly lower rates
- Re the outlook, JDW says that taxation remains an issue with the gap between supermarkets and pubs continuing to widen
- The group concludes 'assuming reasonable sales growth, the company is targeting a reasonable outcome for the current financial year'

Langton View: JD Wetherspoon was up against tough comps in its Q2 but has nonetheless turned in a very strong sales performance.

Certainly this would appear to have put a little pressure on margins but, overall, the outcome has been broadly in line with expectations; perhaps better on the sales line and a little less good with regard to margin.

Supporters of the share will point out that some of the margin increase is due to discretionary spending (some labour costs and IT) whilst detractors may point out that it is this that is driving sales and that profits are being sacrificed for volume.

And both arguments carry some water. What is relatively certain is that JDW is keeping the pressure on its competitors whilst at the same time continuing to lobby government for fairer tax treatment and perhaps some acknowledgement that the pub fulfils a social function that is absent with the supermarkets where their product may be consumed on a park bench.

There would appear to be no implied change to guidance and around 48p in earnings is expected for the current year. This suggests that the group's shares, which rose strongly in the six months to August last year before moving sideways since, are trading on a current year PER of around 16.5x falling to perhaps 14.3x next year.

The shares stood at around 500p in March last year and have risen by around 50% since suggesting that JDW may not be cheap.

Some profit taking is likely from time to time but, operationally, the group's pricing is increasing barriers to entry and cementing its footprint. The operator remains well-positioned in what remains a tight consumer environment and further outperformance is likely over the medium term.

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