Langton Capital Limited

13 March 2014

JD WETHERSPOON (JDW): 810p
H1 results (26w) to 26 Jan 2014

Group reports +6.7% LfL in first 6w of H2 but reminds observers comps will get tougher…

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	65.2	46.8	17.4	12.00	1.5
2014 (E)	79.0	46.7	17.4	12.60	1.5
2015 (E)	90.0	54.4	14.9	13.05	1.6

**Normalised, Source:* Company & Broker Estimates

Trading Update: H1 Results – Analysts' Meeting:

Following the release of its H1 numbers this morning, JD Wetherspoon hosted a meeting for analysts and our comments thereon are set out below:

Trading:

- The average 3,500 sq.ft. JDW pub now takes £35,300 (incl. VAT) per week
- LfL sales (up 5.2%) were good but food was exceptionally good at plus 10.5%; the group says 4% for the full year should be achievable
- The group reiterated that H2 comps will be tough; H2 profit per pub as up 9.4% last year
- Margins (as always) were impacted by £26m of (partly discretionary) repairs and increased HO costs; group says cost c30bps of margin
- Costs: Groups sees little change, wet sales c2%, food & utilities c3%, rent outside London c0%. The 3% NMW increase is manageable

Debt, Balance Sheet & Cash Flow:

- Cash flow was flattered in H1 by the timing of payments around the period end; it nonetheless remains strong
- Group can spend cash-flow on dividend, buy-backs, debt reduction or capex and by historic standards, this is a big capex year
- New openings will cost c£90m this year with £55m of maintenance capex; the freehold mix is rising and this will lead to debt rising by around £75m.

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Market Cap: £991m
12m range 505p 805p

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- Maintenance capex has kept the standard of the group's pubs very high; e.g. CAMRA & Scores-on-the-Doors etc.

- There is no suggestion that debt is a problem, debt to EBITDA has remained virtually unchanged at 2.93x

Strategic, Outlook, Conclusion & Other:

- The group reminded observers that it is both the UK's most visited pub/casual diner and is the brand at which most respondents would like to eat (Peach BrandTrack)

- JDW believes that a move to 5% VAT would create 700k jobs

- Re the trading outlook, this remains good but comps are tougher; margin guidance remains 'between 8.1% and 8.3% for the year'

- The move to higher jackpots has historically helped machine sales 'by 5% to 10%'

- The group 'will continue to open between 30 and 50 units a year depending on opportunities'; there has been no discernible increase in competition for sites

- The group has no desire to swap sales for margin at the moment

- New pubs are still enhancing returns, i.e. they are better than the existing estate. They are 'not full' and capacity is not likely to hold back LfL sales for some time to come

Langton View: JD Wetherspoon has reassured that it believes the outturn for the year will be 'reasonable'.

But what does that mean? We would suggest that the group may well be guiding that it remains on track, over a 12 to 15 year period, to have open and operating some 1,500 pubs and that nothing it can foresee in the remainder of FY14 looks set to derail it from that path.

Of course there will be micro-interpretations. Openings may be above or below 45 this year or 35 next. Costs may edge up a percent or they may fall a percent and there may be some profit taking but, we would suggest, JDW remains on course to deliver and, should it succeed in virtually doubling sales organically over the next decade, the share should be bought on any set back and disposed of only at the margin and after any period of sustained (and inexplicable) outperformance.

At a little under 47p in earnings for the current year, the group's shares are trading on around 17x this year's earnings and perhaps 15x next. The yield is a relatively low 1.5% but the growth in earnings and the group's cash flow is attractive. We would suggest that, though some profit taking is likely from time to time, the group's shares remain attractive over the medium and longer term.

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