Langton Capital Limited

13 March 2014

JD WETHERSPOON (JDW): 829p
H1 results (26w) to 26 Jan 2014

Group turns in a "good sales performance and reasonable growth in profits & free cash flow…"

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	65.2	46.8	17.7	12.00	1.4
2014 (E)	79.0	46.7	17.8	12.60	1.5
2015 (E)	90.0	54.4	15.2	13.05	1.6

**Normalised, Source:* Company & Broker Estimates

Trading Update: H1 results to 26 Jan 2014

JD Wetherspoon has this morning reported H1 numbers for the 26w to 26 January and our comments thereon are set out below:

Trading:

- JD Wetherspoon has reported H1 numbers saying that total revenues increased by 9.1% and that LfL sales, as previously reported, were up by 5.2%
- The group has generated an operating profit of £55.7m (2013: £52.1m) and pre-exceptional PBT of £37.8m (2013: £34.8m)
- EPS (pre-exceptional costs) is 22.1p, up 10.5% on last year's 20.0p and an unchanged H1 dividend of 4.0p is being proposed
- LfL sales were +5.2% in the period under review and are some 6.7% higher in the first six weeks of H2 (to 9 March) 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

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Market Cap: £991m
12m range 505p 805p

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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
Q2 (first 12w)	+6.7
H1	+5.2
First 6w of H2	+6.7

Source: Company Reports

- The group has generated an operating margin of some 8.15% (pre-announced in January) against a margin of 8.32% last year and chairman Tim Martin says that H2 comps will be more difficult
- The group does not give details but at the time of its Q2 update on 22 January, it said that it expects an operating margin 'in the region of 8.1% to 8.3% for this financial year'
- He comments that tax and input price increases will continue to be an issue in H2 but says 'the company continues to expect to achieve a reasonable outcome in the current financial year and has a solid platform for future growth'
- The group highlights high levels of taxation as an issue for the company and points out that it payed (or at least collected) some £294.8m in taxes for the government in the first half
- The company continues to call for reduced taxation and is an active member of the Jacques Borel VAT Club

Debt, Balance Sheet & Other:

- The group opened 19 new pubs during the period to take the group to 905 units. It expects to open between 40 and 50 in the full year
- Bank debt had risen to £499.6m by H1 end compared with some £474.2m at the group's last year end – the net debt to EBITDA ratio was 2.93x

Langton View: JD Wetherspoon was up against tough comps in its Q2 but has nonetheless (as flagged at its Q2 trading update) turned in a very strong sales performance. The group had already reported on the first 25w of the trading period (LfLs up 5.2%) so the new news is the +6.7% LfL sales growth that the group has achieved in the first six weeks of H2.

This will have been helped by relatively better weather (though wet) and the group goes on to say that comps in its H2 will be tougher. The weather was good over the summer and JDW's own performance was much better.

Margins have suffered as a result of spending on repairs and staff and an 'investment' in low prices but the fact that food inflation is at its lowest level for many years and the National Minimum Wage has been set at 3.0% should help the company to rebuild these over the medium term.

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Furthermore, the group's provision of everyday low prices will keep the pressure on other operators and may even deter some new entrants from entering the high-street in the first place.

A little under 47p 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 for a period before their recent rally, are trading on a current year PER of around 17.8x falling to perhaps 15.2x next year with a yield of around 1.6%.

The shares stood at around 500p in March last year and have risen by more than 50% since which, though it may suggest that JDW's shares may no longer be cheap, is partly as a result of the group's extremely strong sales performance and the anticipation of more to come.

Some profit taking is likely from time to time. Indeed the group points out that comps in its H2 will be tougher and the PER is relatively high 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, both on the ground and, perhaps with a lag, of the share price, is likely over the medium term.

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