Langton Capital Limited

7 May 2014

JD WETHERSPOON (JDW): 851p
Q3 Trading update, period to 6 May 2014

Group continues to 'anticipate a reasonable outcome for the year as a whole…'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	65.2	46.8	18.2	12.00	1.4
2014 (E)	79.0	46.9	18.1	12.55	1.5
2015 (E)	90.0	54.5	15.6	13.05	1.5

**Normalised, Source:* Company & Broker Estimates

Trading Update: Q3 to 27 Apr 2014

JD Wetherspoon has this morning updated on Q3 trading, being the 13w period to 27 April and our comments thereon are set out below:

Trading:

- JD Wetherspoon has reported on trading for the thirteen weeks to 27 April saying that LfL sales increased by 6.2% with total sales up by 10.9%
- The group says that for the 39w to date, LfL sales are up by 5.6% and total sales are some 9.7% higher
- The company reports 'sales were good through February and March, but like-for-like growth decreased in April - and Easter was below last year.'
- This Easter comment is in line with the observation made by Coffer Peach last week and may be due to financial fatigue as customers had spent more during the mild winter.
- 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

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Market Cap: £1065m
12m range 598p 881p

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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
Q2 (first 12w)	+6.7
H1	+5.2
Q3	+6.2
39w to date	+5.6

Source: Company Reports

- The group has generated an operating margin of some 8.0%, down on the 8.15% reported for the first half year and the 8.2% reported for Q3 last year

- JDW reports that the full year margin should be in the range of 8.0% to 8.3%

Debt, Balance Sheet & Other:

- The group has opened 28 new pubs in the year to date and has disposed of three; it should open around 45 pubs this year and between 30 and 40 next

- JDW has bought back a little over 1m shares in recent weeks but says ‘there have been no other significant changes in the Company's overall financial position’

Outlook:

- JDW comments that ‘as previously indicated, the biggest dangers to the pub industry are the VAT and business rates disparity between supermarkets and pubs and the continuing imposition of stealth taxes’

- It reports ‘the Company welcomes the recent reduction in excise duty for beer’ but says ‘in general, we anticipate that taxation and input costs will continue to rise.’

- The group concludes that comps will get tougher and says ‘the Company retains an element of caution about the exact outcome for the final quarter, but anticipate a reasonable outcome for the year as a whole.’

Langton View: After a period of more difficult comparatives during its Q2, JD Wetherspoon was up against softer comps in its Q3 as it snowed last year and Spring 2013 as a whole was cold and uninviting.

However, they will be more challenging going forward and, though we believe that the Easter slowdown was industry-wide and not indicative of current trading, it is likely that LfL growth will slow.

And critics will once again point to JDW’s margin. It may be keeping its pubs in tip-top condition and it is certainly driving the top line but its margins are low and look likely to remain low.

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As with many features of the company however, this is what it is. JDW has said consistently that margins are what happen after you've done your job (which is driving sales) and shareholders should have taken that on board.

Longer term, the group is opening around 40 units per annum for the foreseeable future and it has shown itself willing to buy back shares.

It clearly considers that the latter offer good value. 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 18x falling to perhaps a little less than 16x next year with a yield of around 1.5%.

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. But they rarely are and we consider that they offer very solid value.

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