9 July 2014

JD WETHERSPOON (JDW): 742p
Q3 Trading update, period to 10 July 2014

Group says that lower margins reflect its investment in the future; shares drop on the news…'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	65.2	46.8	15.9	12.00	1.6
2014 (E)	78.3	46.9	15.8	12.50	1.7
2015 (E)	89.0	54.5	13.6	13.00	1.8

**Normalised, Source:* Company & Broker Estimates

Q4 Trading Update – Analysts' Conference Call:

Following the trading update on its Q4 this morning, JD Wetherspoon hosted a conference call for analysts and our comments thereon are set out below:

Sales:

- Regional divide? JD Wetherspoon is not really seeing any material difference – it believes that its pricing model 'smooths out some of these differences'

Margins:

- The Group says the margin 'reflects the group's investment in its future'
- What's changed in the last 6w? Margin may be down but profits should still grow in line with sales. Group accepts a 20bp to 40bp dip in margins versus this year
- Group sees wage rises of 2.5% to 3% & food cost increases of around 3% - new openings will be dilutive (see below)
- Buying in leases (to become freeholds) is a slight benefit to operating margin – but less than 10bps
- Group reiterates margin is an output rather than an achievement in itself; group is thinking about the long term
- Group declines to give a figure for LfL sales that would hold margins at their current levels

Debt, Balance Sheet & Other:

- The group says debt will be up by £80m to £90m for the year

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Market Cap: £941m
12m range 655p 881p

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- New openings? These will have pre-opening costs. They will take 2yrs to mature in sales and 3yrs to mature in terms of profits – new pubs are therefore margin dilutive

Langton View: As expected, talk of the group's margin going forward dominated the conference call. Analysts were bemused, confused etc. and the shares have fallen as the market digests the news.

JDW has continued to buy back its shares (at prices from 860p downwards) and clearly considers that they offer good value.

The group said that profits could (should?) rise in line with sales next year suggesting that, though margins may be down, there may not be downgrades.

If this is the case, a little under 47p in earnings is expected for the current year. This suggests that the group's shares trade on a little less than 16x this year's earnings and 13.6x next (on a reduced, post-share-buy-back share base) and yield around 1.7%.

The shares stood at around 880p little more than three months ago and offer solid, verging on the good, value at these levels.

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