



9 July 2014

JD WETHERSPOON (JDW): 760p Q3 Trading update, period to 10 July 2014

Group 'remains confident of a reasonable outcome in the current financial year...'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	65.2	46.8	16.2	12.00	1.6
2014 (E)	78.3	46.9	16.2	12.50	1.6
2015 (E)	89.0	54.5	13.9	13.00	1.7

*Normalised, Source: Company & Broker Estimates

Trading Update: Q4 to 6 July 2014

JD Wetherspoon has this morning updated on Q4 trading, being the 10w to 6 July and our comments thereon are set out below:

Trading:

- JD Wetherspoon has reported on trading for the ten weeks to 6 July saying that LfL sales increased by 4.9% and total sales were up by 10.3%
- LfL sales for the 49w to date are up by 5.4% and total sales are some 9.8% higher; the group says 'sales have been slightly weaker during the World Cup'
- As at week 39, LfL sales had been up by 5.6% and total sales were some 9.7% higher
- The group says it expects FY15 margins to be between 7.7% and 8.1% and recent LfL sales trends are shown below:

Tab.1. Recent Sales Trends:

Financial Period	LfL Sales (%)
Full year 2008/09	+1.2
Full year 2009/10	+0.1
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

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Market Cap: £941m
12m range 655p 881p

H1	+6.9
Q3	+6.3
Full year 2012/13	+5.3
Q1	+3.7
Q2 (first 12w)	+6.7
H1	+5.2
Q3	+6.2
Q4 (10w)	+4.9
Y-to-D (49w)	+5.4

Source: Company Reports

- The operating margin in the 10w under review was 8.1%, 'in line with the 8.1% year to date...and the full year is now expected to be around this level'

Debt, Balance Sheet & Other:

- The group has opened 40 new pubs in the year to date and has closed five; it should open around 45 pubs this year and between 30 and 40 next (no change to estimates)
- JDW has bought back 2.28m shares at a cost of £18.5m in the financial year 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 says the Late Night Levy will add costs of up to £4,000 per annum for some pubs and JDW will reduce its opening hours in affected areas
- It says this is 'a retrograde step for pubs' and will play into the hands of supermarkets
- Whilst there are no comments (save for the margin comment above) on FY15, re FY14, the group says 'although sales have slowed in recent weeks, the company remains confident of a reasonable outcome in the current financial year'

Langton View: Q3 and Q4 presented reasonably easy comps given the snow last winter and the derived c1.1% growth experienced in Q4 2013.

As anticipated, the World Cup has been a small negative and comps will now 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. The 7.7% to 8.1% guidance for FY15 is new (and at the low end of estimates / hopes).

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.

JDW has continued to buy back its shares (at prices from 860p downwards) and clearly considers that they offer good value. A little under 47p in earnings is expected for the current year. This suggests that the group's shares trade on around 16x this year's earnings and 14x 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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