Langton Capital Limited

12 Sept 2014

JD WETHERSPOON (JDW): 762p
Full Year Results: 52w to 27 July 2014

Group says it is 'pleased with another year of progress…'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	76.9	44.8	17.0	12.00	1.6
2014 (A)	79.4	47.0	16.2	12.00	1.6
2015 (E)	87.2	53.8	14.2	13.00	1.7

**Normalised, Source:* Company & Broker Estimates, 2015 upgrades likely

Full Year Numbers: 52w to 27 July 2014:

JD Wetherspoon has this morning reports 52w and full year numbers to 27 July 2014 and our comments thereon are set out below:

Summary:

- JD Wetherspoon has reported sales some 10% higher at £1.41bn. Operating profit is up by 3.8% at £115.6m and PBT is £79.2m against £76.9m last year

- Aided by buy-backs, EPS is some 47.0p against 44.8p in 2013 and the 12.0p full year dividend is unchanged on last year. Free cash flow per share is up to 74.1p from 51.8p last year

Trading:

- LfL sales rose by 5.5% for the year under review (and are up by 6.3% in the 6w to 7 September

- The group reports that food sales rose by 12.0% LfL and wet sales rose by 2.7% - later food sales in the evening will have helped here

- The margin for the year decreased to 8.2%, up slightly on the 8.1% that the group had generated over most of the year

- The decrease is 'mainly as a result of increases in staff costs and repairs', measures that should improve the quality of the business going forward

- Chairman Tim Martin repeats his view that 'the biggest danger to the pub industry is the VAT disparity between supermarkets and pubs.'

- He says that 'Wetherspoon, along with many pub and restaurant companies, is supporting Jacques Borel's VAT Club on Tax Equality Day (Wednesday 24 September 2014) to publicise this inequality.'

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Market Cap: £937m
12m range 680p 880p

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- The group's LfL sales have picked up in recent weeks and recent 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
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
Full year 2013/14	+5.5
First 6w 2014/15	+6.3

Source: Company Reports

Debt, Balance Sheet & Capital Spending:

- The group has opened 46 new pubs in the year to date and has closed five taking the total estate to 927 pubs at the year end

- Average development cost was £1.64m v £1.55m last year 'as we continue to increase expenditure on kitchens, customer areas and beer gardens'

- Total net debt at year end was £556.6m, up from £474.2m last year, driven by pub openings, the purchase of reversionary freeholds and the £24.6m purchase of shares (2.4% of outstanding shares)

- Debt to EBITDA at year end was 3.21 times (2013: 2.88 times) and the group had £138.1m of unused facilities as at end-July

Outlook:

- Current trading is clearly good and the group says 'the company is aiming for a reasonable outcome in the current financial year'

- The group adds 'the biggest danger to the pub industry, as indicated above, is the VAT disparity between supermarkets and pubs' and it has previously said that the late night levy could add £4k per pub to costs

Langton View: Q3 and Q4 presented reasonably easy comps given the snow last winter but the warm weather (July) will have had little impact on JDW and the World Cup was a small negative.

The new news comprises trading in the last two weeks of the year and the first six weeks of 2014/15 – and this has clearly been good.

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Whilst rounding errors could explain it, the margin has moved up from 8.1% at w50 to 8.2% at w52 and comments on the likely margin for 2014/15 will be keenly sought.

As mentioned previously, 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 is a superlative operator and, with 2014 now in the bag, attention may move to 2015 and JDW's shares do not look unduly expensive at c14x earnings with a yield of 1.7%.

The fact that JDW chose to hold its dividend rather than raise it this year will have come as a slight surprise to some (and the group will be questioned on its decision at its meeting) but we would suggest that a slightly higher rate of openings and perhaps more share buybacks are likely as a result.

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