5 Nov 2014

JD WETHERSPOON (JDW): 832p
Q1 Trading Update: 13w to 26 Oct 2014

Margins down, trading slower in October but hopes for 'satisfactory outcome for the year…'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	76.9	44.8	18.6	12.00	1.4
2014 (A)	78.4	48.6	17.1	12.00	1.4
2015 (E)	87.6	53.9	15.4	12.50	1.5

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

Q1 Update: 13w to 26 Oct 2014:

JD Wetherspoon has this morning updated on trading for the 13w to 26 October and our comments thereon are set out below:

Summary:

- JD Wetherspoon has reported LfL sales up by 6.3% in Q1 with total sales up by 11.3%
- It says 'sales were good through August and September, but like-for-like growth decreased in October.'
- Operating margins were 7.7% in Q1 v 8.3% in the same period last year and the group reports that it now expects FY margins of 7.2% to 7.8%

Trading:

- LfL sales were up by 5.5% in JD Wetherspoon's last full year (to 27 July) and were ahead by 6.3% in the first 6w of the current year
- Trading was clearly good in August and September but slowed last month.
- JDW says that hourly rates rose by 5% in October with utility costs up by 4%. These increases will impact margins
- JDW says that VAT changes will cost it around £2.5m per annum and says various tax treatments continue to penalise pubs
- The group's LfL sales have picked up in recent weeks and recent trends are shown below:

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Market Cap: £1,023m
12m range 680p 880p

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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

Balance Sheet & Other:

- JDW has opened two new pubs in Q1 and has 15 pubs under development: it expects to open around 30-40 pubs in the FY.
- The group has increased its debt facilities to £740 million and says ‘there have been no other significant changes in the Company's overall financial position’

Outlook:

- JDW rails against stealth taxes and the supermarkets and says ‘as a result of the slowdown in sales growth in October, combined with the cost increases referred to above, the Company is currently anticipating an operating margin in the range of 7.2-7.8% for the current financial year.’
- Overall, ‘the Company is aiming for a satisfactory outcome for the current financial year.’

Langton View: Q3 and Q4 last year presented reasonably easy comps but this strong performance has continued into August and September.

October, however, could be different and the group is now, once again, guiding down on margins.

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.

There will be some observers, however, who are of the view that margins (in some circumstances at least) are what you make them. This could be frustrating for supporters who have been told that margins are bottoming out more than once in the recent past. The group is raising barriers to entry by keeping its prices low and by paying attractive rates to its staff – but, whilst the costs are immediate, the benefits are not.

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Longer term, we are expecting to see the group open 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, though hardly cheap, its shares do not look unduly expensive at c15.4 earnings with a yield of 1.5%. Having said that, the group has once again managed to disappoint on margins and the shares could come under downward pressure today. Any material weakness may present a buying opportunity.

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