21 Jan 2015

JD WETHERSPOON (JDW): 829p
Q2 Update: Conference Call:

Group remains cautious re short term outlook...'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	79.4	47.4	17.5	12.04	1.5
2015 (E)	84.0	51.5	16.1	12.40	1.5
2016 €	93.0	57.8	14.3	12.94	1.6

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

Q2 Update: Conference Call:

Following its Q2 trading update earlier this morning, JD Wetherspoon hosted a conference call for analysts and our comments thereon are set out below:

Trading:

- LfLs are 'towards the lower end of our expectations'. Group blames tough comps & supermarket competition
- Pricing activity? Has 'been fairly quiet on that'. The group 'is a little more tactical these days'. Margin pressure is coming from supermarkets. The Jan promo is 'roughly the same as last year'. The promotions are 'at broadly similar prices'.
    - This hasn't gone quite as well as last year. Co not able to dis-aggregate this at present
    - Competitor pricing? No real change to trends. There may be some price-cutting going on out there
- Costs? Utilities are fixed 12-24mths out. Therefore not benefitting from lower prices & weather is a shade colder
    - Food & drink costs are broadly CPI
    - Stronger Sterling could help – but only over longer term
- Margin? Q2 must have been below 7%? Won't break this out – but arithmetically, this must be correct.
    - What's changed & what about the full year? Not a great deal of change, the co maintains, from Q1
    - Still guiding 7.2% to 7.8% for full year. Some costs are helpful, e.g. property & HO costs

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Market Cap: £982m
12m range 700p 880p

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  - This could be impacted if LfL growth slows further. The number above will hold if LfLs hold at c2%
  - Co reiterates that it focuses on volume, growth, etc. & margin is deemed to be an output

- Bar v food? Growth is driven by food sales. Machine sales are tied to wet sales.
- UK real wage growth? Not disaggregated at present
- Supermarkets? Co is uncertain whether anything fundamental (supermarkets etc.) has permanently changed. The off-trade has cut prices. Group is pencilling in 0% to 2% LfLs.
- Xmas? This hasn't been broken out specifically. It was 'higher than the number for the 12w period as a whole'.

Balance Sheet & Other:

- JDW plan to open 200 pubs over next 5yrs. No change here & should be evenly spread over the 5yrs.
- Opening programme this year must be H2 weighted? Yes, but this is not unusual. Best guess is 'middle of the 30-40 range'
- At what point will you rein back on openings & concentrate on core business? Co sees opportunity to open 1,600 in UK & Ireland. But it will be opportunistic about when these openings occur

Langton View: JDW works to its own agenda and has managed to upset (somewhat) both supporters and detractors alike.

On a positive note, the group has said that its full year margin guidance is unchanged. This implies a pickup, at least from Q2 levels. However the range, 7.2% - 7.8%, is rather wide.

Despite the above, there will be some defensive reductions in forecasts. This will clearly impact PER rating etc. and will not make JDW's shares appear any cheaper.

JDW's reiteration of its margin range holds 'if LfLs hold at c2%'. This is clearly an unknown at present but could be seen as relatively positive.

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