13 March 2015

JD WETHERSPOON (JDW): 774p
H1 Results: FY15 – Analysts' Meeting:

Group expects 'reasonable' outcome for year…

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	79.4	47.4	16.3	12.04	1.6
2015 (E)	79.0	48.6	15.9	12.37	1.6
2016 €	88.1	54.7	14.1	12.83	1.7

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

H1 Results: Analysts' Meeting:

Following its H1 numbers, JD Wetherspoon this morning hosted a meeting for analysts & our comments thereon are set out below:

Overall Trading:

- LfL sales growth for the year split as to +10.1% food, +1.5% bar, +1.1% machines to give an overall +4.5%
- The group has seen no drink-drive-reduction impact in Scotland – units tend to be High Street & food-driven

Margin:

- Part of the margin decline is as a result of the move to more labour-intensive food sales
- Group estimates it can make a full year margin of between 7.2% and 7.8%. This implies a pickup from Q2 levels
- If the promos (see below) do well, the group will hit the top end of the range. If they don't perform in the short term, this will not happen
- Cost outlook is broadly benign. Group criticizes tax increases. Food ok, ditto drink. Utilities not too bad
- In the current environment 'it's a bit of a struggle to raise prices'

Impact of Price Reductions on Margin:

- Group will cut prices on breakfasts, coffee & some (youth-friendly) drinks next week. These will not be supplier-funded
- This is to drive breakfasts (potentially treble to c15% of revenues over an unspecified time period) & encourage younger visitors

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Market Cap: £956m
12m range 700p 880p

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- If this works, it will drive margin. If it takes a while to work (labour costs up ahead of possible sales increase), it will go the other way
- Group's best estimate is still that full year margins will be ahead of H1 margins (range 7.2% to 7.8% v 7.4% at H1)

New Openings:

- Reduction this year to c30 is a timing issue
- Recent new openings have performed well
- Target of 30-40 next year remains in place

Balance Sheet & Other:

- Debt increase largely due to freehold nature of recent openings
- Also buying in of freeholds where possible at end of leases. This makes sense whilst funding costs are below rental yields. This also gives the co more control over the unit. It will not go on forever
- Buybacks (if any) 'will be opportunistic' – ditto freehold purchases

Current Trading:

- JDW believes LfL sales will grow by between 0% and 2% in H2
- The 1.6% increase LfL over the last 6wks is low by JDW's standards
- However, it is up against tough comps and 0% inflation

Langton View: JD Wetherspoon has answers for most questions. And this is positive because, as a rule, it does not struggle to explain itself but rather has an inclination to do what it does.

That said, there is clearly some disappointment re numbers, opening programme, debt increases or whatever.

We continue to believe that JDW is a superlative operator and, on a PER of around 15.9x this year's earnings falling to 14.1x next, we see the shares as offering good value.

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