Langton Capital Limited

13 March 2015

JD WETHERSPOON (JDW): 808p
H1 Results: 26w to 25 Jan 2015:

Says outcome 'reasonable' but 'profit under pressure from…increased supermarket competition…'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	79.4	47.4	17.0	12.04	1.5
2015 (E)	79.0	48.6	16.6	12.37	1.5
2016 €	88.1	54.7	14.8	12.83	1.6

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

H1 Results: 26w to 25 Jan 2015:

JD Wetherspoon has this morning reported H1 numbers and our comments thereon are set out below:

Trading:

- LfL sales growth came in at 4.5% for H1 as a whole
- Total sales were £744.4m (+9.0%), operating profit was down 1.1% at £55.1m and PBT was down 0.9% at £37.5m
- Diluted EPS is 22.6p (up 2.3% on fewer shares in issue) and the interm dividend has been held tat 4.0p. 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

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Market Cap: £994m
12m range 700p 880p

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Q3	+6.2
Full year 2013/14	+5.5
First 6w 2014/15	+6.3
Q1	+6.3
Q2 (12w)	+2.8
H1	+4.5
First 6wks H2	+1.6

Source: Company Reports

- Current trading has seen LfL sales slow with sales in the first 6wks of H2 up by 1.6% on a same-unit basis

- Net interest was covered 3.1x (2014: 3.1x) by operating profits. Profits were under a little pressure as a result of higher in-pub staff bonuses and the group once again highlights the dangers as they see them posed by high and rising taxation

Balance Sheet & Other:

- JDW says that net borrowings were up by £40.6m at £597.2m as a result of lower profits, new openings and share buy backs

- Debt was 3.38x EBITDA

- JDW has opened 12 new pubs in H1 and has closed three. It says 'we expect to open approximately 30 pubs in this financial year' and adds 'this is at the lower end of expectations, owing mainly to a slower-than-anticipated rate of regulatory approvals.'

Company Comment & Outlook:

- Chairman Tim Martin says 'the first half of the financial year resulted in a reasonable sales performance and free cash flow, although our profit was under pressure from areas which included increased competition from supermarkets and increased pay and bonuses for pub staff.'

- He says taxes are a threat and comments that growth has slowed further, to a LfL figure of 1.6%, in the first six weeks of H2

- On the trading front, he points out that JDW 'has successfully established a strong coffee and breakfast trade in recent years, selling approximately 50m Lavazza coffees and teas per annum and about 24m breakfasts'

- Coffee prices are getting keener. Lavazza coffee will be cut in price to 99p between 8am and 2pm at around 880 pubs – with free refills – and 'more competitive prices for breakfasts'. Mr Martin says 'our aim is to triple coffee and breakfast sales over the next 18 months.'

- He goes on to say that, next Wednesday, 'we are introducing several drinks offers'. These will include pints of Magners Cider at £1.99

- This won't do a great deal for margins but Mr Martin concludes 'we expect a reasonable outcome for the full financial year'

Langton View: JD Wetherspoon performed strongly in Q1 but, with tougher comps kicking in, this slowed a little in Q2 outside the key Xmas days and H2 growth has slowed further

Lower LfL sales will prove to be a drag on margin. So will the reduced prices for coffees, drinks and breakfasts but JDW says that the outcome for the year will be 'reasonable'

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We have little doubt that JDW will be outperforming its competitors – and particularly those without access to the funds to invest – and longer term, it should draw clear from the pack.

But in the short term, of course, it could be accused of kicking off another price war and there will be some concern as to margins.

JDW is a superlative operator and, though hardly cheap, its shares do not look unduly expensive at c16.6x this year's earnings with a yield of 1.5%. Having said that, and this is not the first time that we have commented along these lines, the group has once again managed to worry on margins and the shares could come under some downward pressure today.

Any material weakness, however, may present a buying opportunity. We would certainly not be surprised to see the company putting its money where its mouth is and buying back more of its own shares.

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