Langton Capital Limited

6 May 2015

JD WETHERSPOON (JDW): 736p
Q3 Update: Analysts' Conference Call:

Margins a shade better, outlook clearly tougher, 0% to 2% LfLs is the new norm…

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	79.4	47.4	15.5	12.04	1.6
2015 (E)	77.9	48.2	15.3	12.21	1.7
2016 (E)	86.0	54.0	13.6	12.64	1.7

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

Q3 Trading Update: 13w to 26 April 2015:

Following its update on Q3 trading, JD Wetherspoon hosted a conference call for analysts and our comments thereon are set out below:

Trading:

- Costs? NMW will rise by 3%. Repair costs have been rising 'and will stay a little ahead of inflation'
- LfLs 'to remain below 2%?' John Hutson says the group will 'work hard' but it sees itself as between 0% and 2% 'for the moment'.
- The group can't really break out how much of the LfL growth came from coffees & breakfasts
- Margins are up a shade in Q3. This was 'all beneath gross'. Gross margin therefore little changed but costs a little lower. Group reminds listeners it is still 0.5% below last year
- Split LfLs between volume & price? Group 'doesn't really break this out'. It's a mixture but 'there's not much volume & not much price'.
- Group has flexible staff hours. Allocates broadly fixed hours. Abolition of zero-hour contracts would probably not impact the company

Balance Sheet & Other:

- Why are new openings at low end? Group has other uses for its cash.
- Is this 26 pubs net? There is no definitive list of pubs for sale. Some of the 4 disposals are airport sites.
- There are still a trickle of freeholds that are being bought in. It removes uncertainty. This will continue.

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Market Cap: £917m
12m range 700p 850p

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Langton View: JD Wetherspoon has highlighted the fact that trading is a little tougher.

This fits in with our belief that, whilst large ticket sales are benefiting from some catch-up spending (on cars, furniture & the like) this is not the case with smaller ticket 'affordable treats'.

Sainsbury has said that it believes spending will lag by perhaps 9mths to a year (they said this 3mths ago) and that may well be correct.

If so, then spending across the pubs & restaurant space should pick up towards the end of the calendar year and JDW is in a good position to benefit from any upturn.

The group has indicated that it is likely to buy back more shares ('we have other uses for our cash') and we believe that it is right to do so.

The shares offer good value. As we wrote earlier, JDW is a superlative operator and, given the recent slide in its share price, it is becoming rather cheap. Numbers for July 2015 will shortly be historic meaning that the group's shares will soon be trading on a current year multiple of 13.6x with a 1.7% yield.

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