4 November 2015

JD WETHERSPOON (JDW): 776p
Q1 update – 13w to 25 October 2015:

Says profits for the current year likely to be below those of last…

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	77.8	48.6	16.0	12.0	1.5
2016 (E)	78.3	47.0	16.5	12.1	1.6
2017 (E)	79.6	50.0	15.5	12.3	1.6

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

Q1 Update - 13w to 25 October 2015:

Following its Q1 update earlier this morning, JD Wetherspoon hosted a conference call for analysts and our comments thereon are set out below:

Trading:

- Questions, not surprisingly, focused on margins. The group reiterated that the recent increase in wages was the main factor leading to reduced margins. Other costs have not really risen. Group reiterated that margin is an output rather than an input.

- Is the margin trend downwards, will the FY margin be below the Q1 margin? Analysts were told that they can see when wages rose & can do their own calculations thereon.

- Did staff receive two pay-rises in the year to end-Q1? Rose in October last year (5%) and then Aug (8%) this year. To some extent, therefore, margins should level off.

- What wage inflation are you expecting in FY16? Don't focus on this but think it will be between 5% and 8%

- How will you mitigate rising costs? It's 'fine balance'. Group doesn't want to reduce service levels. There is 'very little room for manoeuvre on prices.

- Group is pleased on current LfLs but can't say whether this will continue into Q2 and beyond.

- Xmas bookings, any trends? Not really.

Balance Sheet, Debt & Outlook:

- The group 'is considering further disposals'. These could/should happen both this financial year and next.

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Market Cap: £924m
12m range 692p 835p

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- What ‘type’ of pubs are you looking to sell? Tend to be ‘pubs that the group has outgrown’. There may be a small number of pubs where there is some cannibalisation
- Net debt ‘will be slightly higher’ but this is not factoring in freehold disposals which, if achieved, would push debt lower.
- Why are you cutting back on new openings? Group is ‘pragmatic’ and has other uses for its cash. The pubs that the group actually has opened have been performing well. JDW has been buying in freeholds where it is the lessee, etc.

Langton View: JD Wetherspoon has remained true to form – and take that how you may. The group has ‘done a Wetherspoon’ in that sales are good but margins, once more, are lower.

The group expects wages to rise by between 5% and 8% next year (to July 2016) suggesting that margins are unlikely to rise markedly in the near term. Indeed the group reiterated its view (and the view of other operators) that this was not a market in which it could raise prices.

Numbers are likely to edge back and, as expected, the group’s shares have opened lower.

With that in mind, we would not be surprised to see the group buying back its own shares. It mentioned that it had ‘other uses’ for its cash and, alongside buying in freeholds, reducing the number of shares in circulation may also be a corporate goal.

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