20 January 2016

JD WETHERSPOON (JDW): 674.5p
Q2 update – 12w to 17 January 2016:

Says 'profits for this year are likely to be towards the lower end of analysts' expectations…'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	78.3	48.6	13.9	12.0	1.8
2016 (E)	78.3	47.0	14.4	12.2	1.8
2017 (E)	77.2	48.1	14.0	12.4	1.8

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

Q2 Update - 12w to 17 January 2016:

JD Wetherspoon has this morning updated on trading for the 12w to 17 January 2016 and our comments thereon are set out below:

Trading:

- LfL sales in Q2 are up by 3.3% with total sales including the impact of new openings up by 6.3%
- In H1 to date (the first 25wks), like-for-like sales increased by 2.8% and total sales increased by 6.1%.
- The group says 'we expect the operating margin (before any exceptional items) for the half year ending 24 January 2016 to be around 6.3%, 1.1% lower than the same period last year.'
- It says 'the margin reflects the increases in the starting rates for hourly paid staff in October 2014 and August 2015, which totalled approximately 13%.'
- Recent sales 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

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Market Cap: £891.5m
12m range 674p 819p

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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
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
13wks to 26 April	+1.7
39wks to 26 April	+3.6
11wks to 12 July	+2.9
Full year 2014/15	+3.3
6w 2015/16	+1.4
Q1	+2.4
Q2	+3.3
25wks to 17 Jan	+2.8

Source: Company Reports

Balance Sheet, Debt & Outlook:

- The group reports that it has opened 5 new pubs since the start of the financial year and has sold 2.
- It says 'we intend to open 10 to 15 pubs in the current financial year.'
- Re finances, JDW comments 'the Company remains in a sound financial position.'
- It says 'net debt at the end of this financial year is currently expected to be slightly above the 26 July 2015 total of £601.1million.

Conclusion:

- Chairman Tim Martin reports 'like-for-like sales have improved in the second quarter so far' but he adds 'owever, as indicated in our November trading update, increased labour costs will be an important factor in the outcome for this financial year.'
- He concludes 'our current view is profits for this year are likely to be towards the lower end of analysts' expectations.'

Langton View: JD Wetherspoon has released a less-downbeat-than-usual statement.

LfLs have improved, which somewhat supports our view that Restaurant Group may be an outlier on the downside & Xmas was not at all bad.

However, and this is JDW so it was always likely that there would be a 'however', the group has somewhat upset the otherwise not-negative tone of its statement by saying that forecasts would be toward the bottom end of the current range.

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We would suggest that the scaled-back rate of new openings (it was c15 in November and is 10-15 now) may be behind this as current trading looks to be reasonable. We will hear more from the pub companies next week when Marston's updates on its Q1 and Greene King produces its December Tracker. M&B also hosts its AGM on 28th.

As recently as 11 Sept, the group said 'we continue to anticipate a trading performance similar to, or slightly above, that achieved in the last financial year.' It knew at the time that it was putting wages up and LfL sales have improved yet guidance has now moved towards a bottom-end-of-the-range outturn.

Consensus forecasts, which may edge down a fraction, now put the group on around 14x current year earnings with a yield of just under 2%. This is relatively cheap given the rating on which the group's shares have traded in recent years.

Given that the group has always maintained that it can use its cash flow to either pay a dividend, buy back shares or open new pubs, if the third of these is coming down, it will be interesting to see what happens to the other two. The group is due to report H1 numbers on 11 March.

We would suggest that any material weakness should present a buying opportunity. Indeed, as alluded above, the company itself is likely to see it that way. The group is a superlative operator, it has focused on accommodation, drink, food, further day-parts, coffee and a host of other growth areas and, though we acknowledge that this has to come through at the bottom line in order to justify our recommendation, we remain supportive of its shares.

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