Langton Capital Limited

11 March 2016

JD WETHERSPOON (JDW): 695p
H1 numbers – 26w to 24 January 2016:

Says H2 comps will be softer but 'the pub & restaurant market is highly competitive…'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	78.3	48.6	14.3	12.0	1.7
2016 (E)	78.3	47.0	14.8	12.2	1.8
2017 (E)	75.0	45.5	15.3	12.3	1.8

**Normalised, Source:* Company & Broker Estimates

H1 numbers – 26w to 24 January 2016:

JD Wetherspoon has this morning reported H1 numbers to 24 January 2016 and our comments thereon are set out below:

Trading:

- The group last updated on 20 Jan meaning that today's new news comprises the formal figures as well as comments on trading since end-January
- JDW reports that sales in H1 came in at £790m (2015: £744m). LfL sales for the H1 as a whole were up by 2.9%.
- The group reports operating profit of £49.4m (2015: £55.4m) with PBT of £36.0m against £37.5m last year
- EPS comes in at 19.1p against 22.9p and the dividend at the H1 stage is left unchanged at 4.0p
- 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
Full year 2011/12	+3.2

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Market Cap: £891.5m
12m range 609p 812p

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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
13wks to 26 April	+1.7
39wks to 26 April	+3.6
11wks to 12 July	+2.9
Full year 2014/15	+3.3
Q1	+2.4
Q2	+3.3
H1 2015/16	+2.9
First 6wks of H2	+3.7

Source: Company Reports

Trading comments:

- The group reports that LfL bar sales increased by 2.9% (2015: 1.5%), food by 2.9% (2015: 10.1%) and fruit/slot machines decreased by 2.9% (2015: increased by 1.1%). Like-for-like room sales at our hotels increased by 7.5% (2015: 11.8%).

- The operating margin was 6.3% (2015: 7.4%).

- Net interest was covered 3.1 times by profit before interest, tax and exceptional items (2015: 3.1 times).

Balance Sheet, Debt & Outlook:

- Net debt at the half-end was £626.1m, up £25.0m on the same time last year. Net debt to EBITDA stood at around 3.5x

- The group 5 new pubs and sold 2 during H1 to take the number of pubs open at the period end to 954.

- It says ‘we expect to open approximately 15 pubs in this financial year’ but adds ‘following a review of our estate, we have placed a number of pubs on the market and anticipate that some of these may be sold in the remainder of the financial year.’

Conclusion:

- Chairman Tim Martin reports that operational excellence remains key and says ‘93% of our pubs have obtained the maximum 5 rating under the FSA scheme.’

- He points out ‘we have now been recognised as one of 'Britain's Top Employers' in a Guardian publication for 14 consecutive years.’

- In addition ‘99% of our pubs have achieved approval from Cask Marque, a brewery-run scheme which encourages high standards in ale quality.’

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- As regards trading, Mr Martin reports ‘as previously highlighted, the biggest danger to the pub industry is the continuing tax disparity between supermarkets and pubs.’
- He says that he now believes ‘there is a growing realisation among politicians, the media and the public that pubs are overtaxed and that a level tax playing field will create more jobs and taxes for the country.’
- He concludes ‘sales comparisons in the second half of the financial year will be slightly more favourable, although further wage increases are due in April. As a number of companies have indicated, the pub and restaurant market is highly competitive, but we are aiming for a reasonable outcome for the financial year, before the impact of the property gain referred to above.’

Langton View: JD Wetherspoon has indicated that H2 should see easier comps and this fact, despite Chairman Tim Martin’s confirmation that trading in the pub & restaurant market is highly competitive, should underpin numbers.

JD Wetherspoon has once again bought back shares (earlier this week) for the first time in several weeks suggesting that it believes that they represent good value at these levels.

Arguably there is relatively little new in today’s statement. We knew the LfL sales, the margin had been commented upon and the slowing down in new openings was likewise public information.

The suggestion that H2 could be a little easier (alongside the news that Mr Martin favours leaving the EU) may be said to be new, but may not be price sensitive.

JDW’s shares are trading on a current year multiple of around 15x with a yield of 1.8%. Whilst not cheap, per se, this is relatively lowly valued by JDW’s own recent standards.

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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