Langton Capital Limited

13 July 2016

JD WETHERSPOON (JDW): 742.5p
Q4 Trading Update – 11w to 10 July 2016:

Says 'trade strengthened in recent weeks' but 'irresponsible doom-mongering…may lead to some kind of slowdown…'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	78.3	47.0	15.8	12.2	1.6
2016 (E)	70.0	44.0	16.9	12.2	1.6
2017 (E)	76.0	48.5	15.3	12.4	1.7

**Normalised, Source:* Company & Broker Estimates

Q4 Update – 11w to 10 July 2016:

JD Wetherspoon has this morning updated on trading for the period comprising the 11wks to 10 July 2016 and our comments thereon are set out below:

Trading:

- JD Wetherspoon has reported that LfL sales rose by 4.0% in the period under review (11wks to 10 July)
- The group last updated on 4 May when it reported Q3 sales +3.8%.
- Total sales for the 11wk period were up by 3.8%, reflecting the impact of disposals
- Sales to date (to 50wks) are up by 3.4% and LfL sales are up by 5.5% and 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
Q1 2012/13	+7.1
H1	+6.9
Q3	+6.3
Full year 2012/13	+5.3

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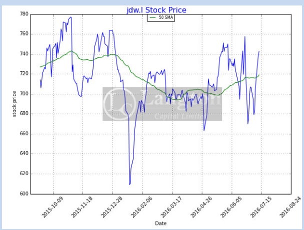

Market Cap: £844m
12m range 609p 777p

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Q1	+3.7
Q2 (first 12w)	+6.7
H1	+5.2
Q3	+6.2
Full year 2013/14	+5.5
Q1	+6.3
Q2 (12w)	+2.8
H1	+4.5
13wks to 26 April 15	+1.7
11wks to 12 July 15	+2.9
Full year 2014/15	+3.3
Q1	+2.4
Q2	+3.3
H1 2015/16	+2.9
13w to 24 April 16	+3.8
FY15/16 to date	+3.2
11w to 10 July 16	+4.0
Yr to date (50wks)	+3.4

Source: Company Reports

Trading update

- The group reports that 'the full-year operating margin before exceptional items and before a £3.8m gain on property is expected to be around 6.8%, compared to 7.4% last year'

Balance Sheet, Debt & Outlook:

- JDW reports that it 'has opened 13 new pubs since the start of the financial year, has sold 29 and has closed 11.'

- It says 'we expect to open 16 new pubs in this financial year.'

- JDW adds 'there will be around £13m of exceptional, non-cash losses in this financial year, which are mainly associated with pub disposals and closures.

- Re debt, etc., JDW reports 'the Company remains in a sound financial position. Net debt at the end of this financial year is currently expected to be around £670m.'

- JDW has bought back 5.7m shares, at a total cost of £39m, since the start of the financial year.

Conclusion:

- Chairman Tim Martin reports 'as most people will be aware, an unusual number of forecasts for the UK economy have been made in the run-up to, and the aftermath of, the referendum. Most of the forecasts from representatives of institutions which are normally responsible for financial stability were extremely negative.'

- He points to bearish comments from the IMF, The Bank of England and The Treasury as well as the CBI and a number of brokers and other companies

- Mr Martin also says 'the Chancellor of the Exchequer George Osborne repeatedly warned that mortgage and interest rates were likely to rise in the event of a leave vote and threatened an emergency budget to increase taxes and to reduce public expenditure.'

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- However, Mr Martin says ‘in my opinion, the above individuals and organisations are either dishonest, or they have a poor understanding of economics, since democracy and prosperity are closely linked and the EU is clearly undemocratic.’
- He says ‘by voting to restore democracy in the UK, I believe the UK's economic prospects will improve, although it is quite possible that the unprecedented and irresponsible doom-mongering, outlined above, may lead to some kind of slowdown.’
- The JDW chairman concludes ‘in spite of the dire warnings above, Wetherspoon trade strengthened slightly in recent weeks and we consequently anticipate a modestly improved outcome for this financial year.’
- However, he concludes ‘caution should be exercised in extrapolating current levels of sales growth for future years.’

Langton View: JD Wetherspoon has previously indicated that H2 should see easier comps and this appears to be being borne out by slightly better LfL sales.

Margins for the year are down, as expected.

The group has bought back 5.7m shares in the year but debt remains at reasonable levels. The group’s shares have been relatively strong and they now trade on around 17x current year’s earnings.

Chairman Tim Martin has pointed to ‘irresponsible doom-mongering’ as one of the greatest risks to the economy in the short term but says that JDW’s trading has improved.

The operator remains best-in-class at what it does but, if the UK does go into (or has already gone into) a recession, then trading could suffer.

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