



10 Mar 2017

## JD WETHERSPOON (JDW): 957p H1 Numbers: 26wks to 22 Jan 2017:

*Company guides up slightly up on margin but cautions that LfL sales are set to slow...*

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2016 (A)	76.0	48.3	19.8	12.0	1.3
2017 (E)	84.5	55.0	17.4	12.0	1.3
2018 (E)	86.0	57.0	16.8	12.0	1.3

\*Normalised, Source: Company & Broker Estimates

### H1 Results – Analysts’ Meeting:

Following the release of its H1 numbers this morning, JD Wetherspoon hosted a meeting for analysts and our comments thereon are set out below:

#### Headline Numbers:

- JD Wetherspoon points out that its H1 numbers are better than last year (and a little better than expected) partly because of the disposal of underperforming pubs, lower interest charges and a muted impact from higher statutory wage minima (as the group had already raised wages)
- Cost increases in the period were ‘modest’. This will be more marked in H2 and FY18.
- JDW believes that it faces in the region of £24m of incremental costs. These result from government action and comprise NLW, business rates changes, energy levies, apprenticeship levies and excise duty changes.
- Not included above are commodity price increases, utility price rises and the like.
- The group says that it will need LfL growth ‘slightly ahead of inflation’ in order to stand still in terms of profits.
- On the ground, JDW continues to perform well.
  - Staff retention numbers, cleanliness scores, customer awareness stats etc. are all looking positive
  - The group is launching a ‘from table’ ordering app this week
  - Repairs are undertaken on a pre-emptive basis. Costs here are up on last year

Find us at:



Recent News Here:

- Today's email
- Recent emails
- A day in the life...
- Who we are, what we do...
- Upcoming news-flow
- Recent company updates
- Thematic pieces
- LinkedIn profile



Market Cap: £1,067m  
12m range 663p 989p

### Trading outlook:

- Current LfLs are running at +2.7%. This is likely to moderate. The group expects perhaps 1% to 2% for the rest of the year.
- Comps will then get tougher.
- The group is cautious for H2 and FY18.
- Operating margin for the year 'should be between 7% and 7.5%'

### Balance Sheet, Debt & Outlook:

- JDW has undertaken a number of freehold reversions. Some 54% of the estate is now freehold
- This positively impacts the P&L given that rental costs are about 6% and finance costs are perhaps half that number
- The group has c1,000 hotel rooms
- Reinvestment capital spending has been stepped up. It will run at c£60m p.a. this year and next
- The group opened two units H1 and shut 22. For the full year it will open 'between 10 and 15 units'. The same will be the case in FY18. There are no further planned closures

**Langton View:** JDW has sounded a note of caution for the rest of this financial year and for FY18.

However, we would suggest that it is very well-positioned to prosper (if only relative to its competitors) given its brand recognition and value offer.

The group has said that there may be room for c1,200 to 1,500 JDW outlets in the country. At an opening rate of c10-15 p.a., this should keep the company busy for the next half century or so.

Margins are edging up. This despite heavy repairs costs & other actions.

Overall, whilst JDW's shares are not 'cheap' per se, the group is an excellent operator of the assets that it already has – and it will buy more. It now owns freehold more than half of its estate and more cash, over the years, is likely to be channeled in this direction.

The group will not be immune should the economy (and particularly consumer spending) slow. But JDW is best in class and, if its shares weaken further, then will become very attractive.

**Contact – Mark Brumby - +44(0)20 7702 3389**

[mark.brumby@langtoncapital.co.uk](mailto:mark.brumby@langtoncapital.co.uk)

This message (and files contained herein) may contain confidential or proprietary information and is intended solely for the use of the individual or organisation to whom it is addressed. If you are not the addressee you should not disseminate, distribute or copy this email or any part thereof. Further, please notify the author immediately by telephone or by replying to this email and then delete all copies of the correspondence from your system. We apologise for any inconvenience that this may have caused. This information is a financial promotion for the purpose of the European Markets in Financial Instruments Directive (MiFID) and FSA's Rules. It has not been prepared in accordance with the legal requirements designed to promote the independence or objectivity of investment research. This document is not based upon detailed analysis by Langton Capital of any market, issuer or security named herein and does not constitute formal research or a research recommendation, either expressly or otherwise. It is not investment advice and does not take into account the investment objectives and policies, financial position or portfolio composition of any recipient. This document should not be relied upon as authoritative or taken in substitution for the exercise of your own commercial judgment. Whilst Langton Capital has taken steps to control the spread of viruses on its systems, it cannot guarantee that this email and any files transmitted with it are virus free. No liability is accepted for any errors, omissions, interceptions, corrupted email, lost communications or late delivery arising as a result of receiving this message via the Internet or for any virus that may be contained in it. Recipients should review independently and / or obtain independent professional advice and draw their conclusions therefrom should decide to undertake transactions with third parties. Langton Capital or its employees may have positions in securities mentioned herein. We reserve the right to monitor email messages passing through our network. Langton Capital Limited is authorised and regulated by the Financial Conduct Authority. Langton Capital Limited is registered in England number 07112949.

[Mark.brumby@langtoncapital.co.uk](mailto:Mark.brumby@langtoncapital.co.uk)

Suite 415, No1 Alie Street, London, E1 8DE  
020 7702 3389