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

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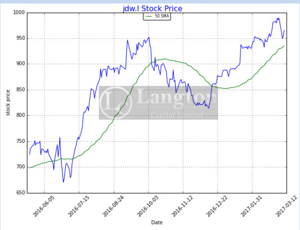

Market Cap: £1,067m
12m range 663p 989p

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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.

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