4 May 2016

JD WETHERSPOON (JDW): 679p
Q3 Trading Update – 13w to 24 April 2016:

Says 'we are still aiming for a reasonable outcome for the financial year' and 'trading has continued at approximately the same levels reported on 11 March…'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	78.3	48.6	14.0	12.0	1.8
2016 (E)	72.0	44.2	15.4	12.2	1.8
2017 (E)	75.0	47.5	14.3	12.3	1.8

**Normalised, Source:* Company & Broker Estimates

Q3 Update – 13w to 24 April 2016:

JD Wetherspoon has this morning updated on trading for the period comprising the 13wks to 24 April 2016 and our comments thereon are set out below:

Trading:

- The group last updated on 11 March when it reported H1 numbers to 24 January and commented on trading for the first 6wks of H2, being the period to 6 March
- Hence today's new trading news comprises the period between 6 March and 24 April, which included Easter in both 2015 and 2016
- JDW reports that sales for the 13w to 24 April increased by 3.8%, 'in line with the most recent 6 week period reported in our interim results.'
- It says 'total sales increased by 5.5%.'
- JDW adds that 'year to date like-for-like sales have increased by 3.2% and total sales have increased by 5.9%.'
- The company reports that 'the operating margin in the 13 weeks to 24 April 2016 was 6.4%, compared with 7.5% in the same 13 weeks last year.' It says that 'the margin reflects the increases in the starting rates for hourly paid staff in August 2015, which totalled approximately 8%.'
- Perhaps of more relevance than a comparison with margins a year ago, the 6.4% margin compares favourably with the 6.3%reported for the first half of the year (25w to 24 Jan).
- Recent sales trends are shown below:

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

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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
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 15	+1.7
39wks to 26 April 15	+3.6
11wks to 12 July 15	+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
13w to 24 April 16	+3.8
FY15/16 to date	+3.2

Source: Company Reports

Balance Sheet, Debt & Outlook:

- The group reports that it has opened 8 new pubs since the start of the financial year and has closed 19, of which 8 have been sold.
- It says ‘we expect to open 16 new pubs in this financial year. There will be around £5m of exceptional non-cash losses in this financial year, associated with the disposal programme.’
- Re the group’s finances, JDW reports ‘the Company remains in a sound financial position.’ It adds ‘net debt at the end of this financial year is currently expected to be around £650m.’
- JDW reminds investors that it has spent some £37.3m on buying back its shares in the current financial year to date

Conclusion:

- Chairman Tim Martin reports that ‘sales during the quarter have continued at approximately the same levels reported on 11 March 2016 in our interim statement.’

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- He says 'we are still aiming for a reasonable outcome for the financial year, before the impact of the previously announced £3.8m property gain realised in the first 6 months.'

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 and margin numbers.

The group, in a very short statement, has reiterated that the market remains highly competitive.

JDW has been buying shares back and, at £37.3m and counting in the year to date, it has been more active, at least in ££ terms, than in any year since 2007.

Hence, with the cost of debt so low, EPS numbers will be helped by the buyback, despite more sluggish sales growth.

JDW's shares spiked down to around 610p earlier in the year before rallying to around 700p. They are currently 679p at which level they trade on around 15.4x this year's numbers falling to c14.3x next.

The group's shares yield 1.8% and, as this is a premier operator, we would continue to suggest that any material weakness should present a buying opportunity.

Indeed, the company itself sees it that way. We would suggest that 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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