

Greggs

Trading update

Raising earnings expectations

An unscheduled trading upgrade confirms impressive stronger than anticipated sales growth in October and November, on the back of a robust Q3 and tough prior year comparatives. Cautiously factoring in slightly weaker Christmas trading as shoppers increasingly favour buying online, we raise our FY18e PBT by 6.4%. Our valuation increases to 1,516p.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	894.2	80.3	62.0	31.0	22.1	2.3
12/17	960.0	81.8	64.5	32.3	21.3	2.4
12/18e	1,020.0	86.5	68.1	33.6	20.2	2.4
12/19e	1,097.4	92.4	72.6	36.3	18.9	2.6

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Robust sales growth in October and November

Bucking the wider trend, Greggs has upgraded expectations for FY18 underlying pre-tax profit to be 'at least £86m' (Edison: £81.3m), following a stronger than anticipated eight weeks to 24 November. Over the period, leading on from a solid third quarter, total sales increased by 9.0% (Q318: 7.3%) and like-for-like sales in company-managed shops increased by 4.5% (Q318: 3.2%). Over the year to date, total and like-for-like sales have increased by 6.6% and 2.5%, respectively, against tough prior year comparatives, while operating costs have been well controlled.

Strategic plans continuing apace

The company is continuing to introducing innovative new product ranges and expand the brand into new dayparts, including breakfast. New store openings are targeting work- and leisure-related footfall as opposed to dwindling high-street trade, while the supply chain overhaul is creating solid foundations for growth.

Upgrading earnings forecasts

We upgrade our FY18e PBT by 6.4%. This cautiously assumes a slightly weaker Christmas trading performance compared with the prior year, due to the ongoing shift to online shopping affecting footfall. Our like-for-like sales growth assumptions are 3.3% in H218 and 2.4% across FY18. The company remains on track to open c 100 net new stores this year. In FY19e we raise our like-for-like sales assumption by 50bp to 2%, and our PBT forecast by 10.8%.

Valuation: Undemanding given earnings quality

Based on revised forecasts, our blended valuation increases to 1,516p, representing a 10% premium to the current share price. This implies a FY19e P/E multiple of 20.9x, which does not appear stretched given the quality of earnings and dividend yield prospects.

Retail

28 November 2018

Price 1,373.00p
Market cap £1,389m

Net cash (£m) at H118	43.5
Shares in issue	101.2m
Free float	100%
Code	GRG
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	20.9	33.0	1.9
Rel (local)	19.5	44.3	7.5
52-week high/low		1399.0p	942.0p

Business description

With over 1,900 shops, eight manufacturing and distribution centres and 22,000 employees, Greggs is the UK's leading 'food-on-the-go' retailer. It utilises vertical integration to offer differentiated products at competitive prices

Next event

FY18 preliminary results	7 March 2019
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Exhibit 1: Financial summary

	£m	2016	2017	2018e	2019e	2020e
Dec		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		894.2	960.0	1,020.0	1,097.4	1,168.0
Cost of Sales		(324.3)	(348.1)	(374.0)	(399.9)	(423.3)
Gross Profit		569.9	611.9	645.9	697.5	744.7
EBITDA		125.9	135.7	141.9	154.6	167.0
Operating Profit (before amort. and except.)		80.3	82.2	86.6	92.2	100.6
Intangible Amortisation		0.0	0.0	0.0	0.0	0.0
Exceptionals		(5.2)	(9.9)	(6.0)	(4.0)	(3.0)
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		75.2	72.3	80.7	88.2	97.6
Net Interest		(0.0)	(0.4)	(0.1)	0.2	0.2
Profit Before Tax (norm)		80.3	81.8	86.5	92.4	100.8
Profit Before Tax (FRS 3)		75.1	71.9	80.5	88.4	97.8
Tax		(18.1)	(16.9)	(17.9)	(19.4)	(20.4)
Profit After Tax (norm)		62.3	64.9	68.6	73.0	80.4
Profit After Tax (FRS 3)		58.0	56.9	63.7	69.8	78.0
Average Number of Shares Outstanding (m)		100.4	100.6	100.7	100.4	100.4
EPS - normalised (p)		62.0	64.5	68.1	72.6	80.0
EPS - (IFRS) (p)		57.7	56.5	63.3	69.5	77.7
Dividend per share (p)		31.0	32.3	33.6	36.3	40.0
Gross Margin (%)		63.7	63.7	63.3	63.6	63.8
EBITDA Margin (%)		14.1	14.1	13.9	14.1	14.3
Operating Margin (before GW and except.) (%)		9.0	8.6	8.5	8.4	8.6
BALANCE SHEET						
Fixed Assets		323.4	334.7	376.0	408.5	427.1
Intangible Assets		14.3	14.7	18.3	20.7	20.7
Tangible Assets		307.4	319.2	354.2	384.3	402.8
Investments		1.8	0.8	3.6	3.6	3.6
Current Assets		92.6	106.6	102.1	113.2	135.2
Stocks		15.9	18.7	19.8	21.2	23.6
Debtors		30.7	33.4	35.6	38.1	40.5
Cash		46.0	54.5	46.8	53.9	71.1
Other		0.0	0.0	0.0	0.0	0.0
Current Liabilities		(121.4)	(127.9)	(136.5)	(144.0)	(140.6)
Creditors		(121.4)	(127.9)	(136.5)	(144.0)	(140.6)
Short term borrowings		0.0	0.0	0.0	0.0	0.0
Long Term Liabilities		(29.9)	(14.0)	(8.1)	(7.0)	(6.6)
Long term borrowings		0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(29.9)	(14.0)	(8.1)	(7.0)	(6.6)
Net Assets		264.7	299.4	333.6	370.7	415.2
CASH FLOW						
Operating Cash Flow		133.8	134.5	140.0	155.7	157.9
Net Interest		0.1	0.2	(0.1)	0.2	0.2
Tax		(16.2)	(17.6)	(19.3)	(18.6)	(19.8)
Capex		(80.1)	(72.6)	(90.0)	(95.0)	(85.0)
Acquisitions/disposals		4.7	2.2	(4.1)	(1.0)	0.0
Financing		(8.3)	(6.0)	(1.2)	0.0	(0.0)
Dividends		(30.9)	(32.2)	(33.1)	(34.2)	(36.1)
Net Cash Flow		3.0	8.5	(7.7)	7.2	17.2
Opening net debt/(cash)		(42.9)	(46.0)	(54.5)	(46.8)	(53.9)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(46.0)	(54.5)	(46.8)	(53.9)	(71.1)

Source: Greggs, Edison Investment Research

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