

Greggs

Trading update

Accelerating sales growth

Greggs' trading update for the first six weeks of Q419 highlights an improvement in sales growth. Like-for-like (l-f-l) sales growth of 8.3% follows 7.4% in Q319 and is against a tougher comparative, allaying fears about Greggs' sales momentum. We upgrade our l-f-l sales forecast for FY19 by 70bp to 8.6% growth, which feeds through to PBT forecasts increasing by 4.6% in FY19 and 2.8% in FY20. Our DCF-based valuation increases to 2,091p.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	960.0	81.8	63.5	32.3	32.5	1.6
12/18	1,029.3	89.8	70.3	35.7	29.4	1.7
12/19e	1,164.7	112.9	87.9	46.5	23.5	2.3
12/20e	1,244.6	119.1	94.4	50.2	21.9	2.4

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

Trading update for start of Q419: Accelerating growth

Greggs has reported a trading update for the start of Q419 covering the first six weeks to 9 November 2019, highlighting improved sales growth. Total sales growth was 12.4% and l-f-l sales growth in the company-managed stores was 8.3%. This was against an l-f-l comparative in Q418 of 4.0%, giving a two-year growth rate of c 12.6% (compound), an acceleration from the two-year growth rate in Q319 of c 10.8% (compound of Q319 l-f-l growth of 7.4% on a comparative in Q318 of 3.2%). Year to date, total sales growth is 13.4% and l-f-l sales growth is 9.2%. The company continues to benefit from increased footfall, as consumers are attracted to the new product introductions. Operating costs were described as 'well controlled'.

Forecasts: FY19 PBT upgraded by c 5%

We have upgraded our assumptions for FY19 to take account of the improved sales growth so far in Q419. We now assume l-f-l sales growth of 8.6% for FY19 versus 7.9% previously. Following l-f-l growth of 10.5% in H119 and 7.4% in Q319, we assume growth for Q419 of c 6%, a slowdown from the 8.3% reported so far. In Q418, Greggs' l-f-l growth was 5.2%, therefore the comparatives become stronger for the rest of Q419. We make no changes to our gross margin and operating cost assumptions. For FY20, our forecasts are based on 2% l-f-l sales growth, but now we moderate our expected improvement in gross margin in H220 to increase by 20bp from 50bp previously given the pork price inflation may continue. Our PBT forecasts for FY19 and FY20 increase by 4.6% and 2.8% respectively.

Valuation: DCF-based valuation increased to 2,091p

The shares have underperformed the stock market over the last three months, given a lack of upgrades (following four consecutive upgrades) and concerns about how the company would trade against tougher comparatives in H219, which has been robust. On our new forecasts, the P/E is 23.5x for FY19 and 21.9x for FY20. Our DCF-based valuation increases to 2,091p from 2,028p, which was updated at the interim results.

Retail

12 November 2019

Price **2,064p**
Market cap **£2,078m**

Net cash (£m) at 30 June 2019	85.9
Shares in issue	100.7m
Free float	100%
Code	GRG
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	13.4	(3.2)	72.6
Rel (local)	12.0	(5.1)	66.5
52-week high/low	2,476.00p		1,183.00p

Business description

With 2,009 shops, eight manufacturing and distribution centres and 23,000 employees, Greggs is the leading 'food-on-the-go' retailer. It uses vertical integration to offer differentiated products at competitive prices.

Next events

Q419 trading update	8 January 2020
FY19 Preliminary results	3 March 2020

Analysts

Russell Pointon	+44 (0)20 3077 5757
Sara Welford	+44 (0)20 3077 5700

consumer@edisongroup.com

[Edison profile page](#)

**Greggs is a research client of
Edison Investment Research
Limited**

Exhibit 1: Financial summary

Year-end December, £m	2017	2018	2019e	2020e
	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	960.0	1,029.3	1,164.7	1,244.6
Cost of Sales	(348.1)	(373.4)	(412.2)	(439.7)
Gross Profit	611.9	655.9	752.5	804.9
EBITDA	135.7	145.7	231.7	244.4
Operating Profit (before amort. and except.)	82.2	89.8	119.7	127.0
Intangible Amortisation	0.0	0.0	0.0	0.0
Exceptionals	(9.9)	(7.2)	(7.0)	(2.2)
Other	0.0	0.0	0.0	0.0
Operating Profit	72.3	82.6	112.7	124.8
Net Interest	(0.4)	(0.0)	(6.8)	(7.9)
Profit Before Tax (norm)	81.8	89.8	112.9	119.1
Profit Before Tax (FRS 3)	71.9	82.6	105.9	116.9
Tax	(16.9)	(18.2)	(23.0)	(22.6)
Profit After Tax (norm)	64.9	71.6	89.9	96.5
Profit After Tax (FRS 3)	56.9	65.7	84.2	96.8
Average Number of Shares Outstanding (m)	100.6	100.7	100.7	100.8
EPS - normalised fully diluted (p)	63.5	70.3	87.9	94.4
EPS - (IFRS) (p)	56.5	65.3	83.6	96.1
Dividend per share (p)	32.3	35.7	46.5	50.2
Gross Margin (%)	63.7	63.7	64.6	64.7
EBITDA Margin (%)	14.1	14.2	19.9	19.6
Operating Margin (before GW and except.) (%)	8.6	8.7	10.3	10.2
BALANCE SHEET				
Fixed Assets	334.7	347.5	661.6	706.1
Intangible Assets	14.7	16.9	18.1	18.7
Tangible Assets	319.2	330.5	643.4	687.2
Investments	0.8	0.2	0.2	0.2
Current Assets	106.6	140.6	125.4	141.0
Stocks	18.7	20.8	22.9	25.1
Debtors	33.4	31.6	38.3	42.6
Cash	54.5	88.2	64.2	73.2
Other	0.0	0.0	0.0	0.0
Current Liabilities	(127.9)	(145.1)	(202.6)	(205.6)
Creditors	(127.9)	(145.1)	(202.6)	(205.6)
Short term borrowings	0.0	0.0	0.0	0.0
Long Term Liabilities	(14.0)	(13.8)	(237.8)	(257.3)
Long term borrowings	0.0	0.0	0.0	0.0
Other long term liabilities	(14.0)	(13.8)	(237.8)	(257.3)
Net Assets	299.4	329.2	346.6	384.2
CASH FLOW				
Operating Cash Flow	134.5	152.2	169.8	178.5
Net Interest	0.2	0.2	0.0	0.0
Tax	(17.6)	(16.1)	(21.7)	(31.0)
Capex	(72.6)	(66.6)	(100.0)	(88.0)
Acquisitions/disposals	2.2	1.7	0.0	0.0
Financing	(6.0)	(4.7)	0.0	0.0
Dividends	(32.2)	(33.1)	(72.1)	(50.4)
Net Cash Flow	8.5	33.7	(24.0)	9.1
Opening net debt/(cash)	(46.0)	(54.5)	(88.2)	(64.2)
HP finance leases initiated	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Closing net debt/(cash)	(54.5)	(88.2)	(64.2)	(73.2)

Source: Company accounts, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by Greggs and prepared and issued by Edison, in consideration of a fee payable by Greggs. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia