

Greggs

Trading update

On a roll - unscheduled vegan-driven upgrade

After only seven weeks, Greggs' vegan sausage roll has already led us to an upgrade, our third in two months. With its smart approach to social media, the company is succeeding in disrupting out-of-date perceptions, which appears to be bringing new customers into the stores. While multiples are optically high, we believe there may be further upgrade potential.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	894.2	80.3	62.0	31.0	25.8	1.9
12/17	960.0	81.8	64.5	32.3	24.8	2.0
12/18e	1,029.3	89.2	70.2	34.7	22.8	2.2
12/19e	1,120.8	102.8	80.8	40.5	19.8	2.5

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

Vegan sausage roll powers outperformance

Trading in the first seven weeks was exceptionally strong, with like-for-like sales growth of 9.6% (FY18: 2.9%) and total sales up 14.1% (FY18: 6.2%). Demand was led by Greggs' newly launched vegan sausage roll, but extended to the regular sausage roll, along with other savoury products. We infer that the launch publicity succeeded in its aims of bringing new customers into the stores. Greggs is working to verify this and will give more detail at full-year results in two weeks' time. Early supply problems given the scale of demand for the vegan sausage roll have now been resolved, with more than 80% of stores now being supplied.

Smart social media disrupting entrenched image

The social media launch publicity included a YouTube video simulating an Apple launch as well as a trial 'tasting' by Piers Morgan, which attracted wide attention. Smart social media publicity like this has a serious underlying purpose of disrupting entrenched assumptions about Greggs' brand, and bringing new customers into its stores, which have been transformed into food-on-the-go outlets over the past six years, with a food offer including healthy ranges as well as traditional products.

Forecasts: 8% upgrade

The exceptional growth to date also benefited from last year's extreme weather, and has pulled back slightly in February. However, it should still leave the first half materially ahead of expectations, while FY18 I-f-I comps strengthen through the year: Q1: 1.2%; Q2: 1.8%; Q3: 3.2%; Q4: 5.2%. On our assumption of 6% H1 I-f-I growth, we upgrade our FY19 PBT and EPS forecast by 8%. We still assume H2 like-for-like growth of only 1%, leaving potential for further upside if this proves to be over-conservative.

Valuation: Discounts modest assumptions

Greggs' shares trade close to our DCF valuation of 1,692p, which assumes revenue growth beyond FY20 of 6% fading to 2% and a perpetuity EBITDA margin of 15.7% (2020e:14.9%). As with forecasts, there is upgrade potential. Our peer comparison would suggest 1,523p. However, this includes some indebted companies, which is not the case for Greggs, where we now forecast FY18 net cash of £49m.

Retail

19 February 2019

Price 1,602p

Market cap £1,621m

Net cash (£m) at 30 June 2018 43.5

Shares in issue 101.2m

Free float 100%

Code GRG

Primary exchange LSE

Share price performance



% 1m 3m 12m

Abs 17.3 33.8 24.3

Rel (local) 12.6 34.6 28.0

52-week high/low 1,606p 942p

Business description

With over 1,950 retail outlets, eight manufacturing and distribution centres and 22,000 employees, Greggs is the UK's leading 'food-on-the-go' retailer. It uses vertical integration to offer differentiated products at competitive prices.

Next events

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	1,029.3	1,120.8	1,192.9
Cost of Sales		(324.3)	(348.1)	(375.2)	(406.2)	(429.9)
Gross Profit		569.9	611.9	654.1	714.6	762.9
EBITDA		125.9	135.7	144.6	165.1	178.2
Operating Profit (before amort. and except.)		80.3	82.2	89.3	102.6	111.8
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	83.3	98.6	108.8
Net Interest		(0.0)	(0.4)	(0.1)	0.2	0.2
Profit Before Tax (norm)		80.3	81.8	89.2	102.8	112.0
Profit Before Tax (FRS 3)		75.1	71.9	83.2	98.8	109.0
Tax		(18.1)	(16.9)	(18.4)	(21.6)	(22.7)
Profit After Tax (norm)		62.3	64.9	70.7	81.2	89.3
Profit After Tax (FRS 3)		58.0	56.9	65.8	78.0	87.0
Average Number of Shares Outstanding (m)		100.4	100.6	100.7	100.4	100.4
EPS - normalised (p)		62.0	64.5	70.2	80.8	88.9
EPS - (IFRS) (p)		57.7	56.5	65.3	77.7	86.6
Dividend per share (p)		31.0	32.3	34.7	40.5	44.5
Gross Margin (%)		63.7	63.7	63.5	63.8	64.0
EBITDA Margin (%)		14.1	14.1	14.0	14.7	14.9
Operating Margin (before GW and except.) (%)		9.0	8.6	8.7	9.2	9.4
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	104.9	124.9	155.7
Stocks		15.9	18.7	19.9	21.5	24.0
Debtors		30.7	33.4	36.2	38.9	41.4
Cash		46.0	54.5	48.8	64.5	90.4
Other		0.0	0.0	0.0	0.0	0.0
Current Liabilities		(121.4)	(127.9)	(137.2)	(146.0)	(142.7)
Creditors		(121.4)	(127.9)	(137.2)	(146.0)	(142.7)
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	335.6	380.5	433.6
CASH FLOW						
Operating Cash Flow		133.8	134.5	142.7	167.8	170.0
Net Interest		0.1	0.2	(0.1)	0.2	0.2
Tax		(16.2)	(17.6)	(19.9)	(20.8)	(22.1)
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)	(35.6)	(37.3)
Net Cash Flow		3.0	8.5	(5.7)	15.7	25.9
Opening net debt/(cash)		(42.9)	(46.0)	(54.5)	(48.8)	(64.5)
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)	(48.8)	(64.5)	(90.4)

Source: Greggs accounts, Edison Investment Research

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