

Greggs

Continuation of strong trading in FY23

Greggs' strong sales performance in the first 19 weeks of the year is in line with management's expectations and therefore its profit expectations for the year are unchanged, as are our forecasts. Greggs continues to benefit from underlying volume growth despite the squeeze on household budgets and high industry-wide selling price inflation, which is testament to its ongoing product innovation and initiatives to drive growth. Our discounted cash flow (DCF)-based valuation of £30.50/share is unchanged.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/21	1,229.7	145.6	114.3	97.0	24.1	3.5
12/22	1,512.8	148.3	117.5	59.0	23.5	2.1
12/23e	1,710.8	161.2	119.1	59.6	23.1	2.2
12/24e	1,902.9	183.1	131.7	65.9	20.9	2.4
12/25e	2,122.5	202.6	145.8	72.9	18.9	2.6

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

Volume and price driving revenue growth

Following the strong start to FY23, with year-on-year, like-for-like revenue growth in company-managed stores of 18.8% in the first nine weeks of the year, growth moderated a tad in the next 10 weeks, to 15.7%, due to a slightly stronger comparative. Total revenue for the 19 weeks to 13 May grew by 23% y-o-y to £609m, from £495m. The moderation in like-for-like growth is in line with management's expectations and will continue through FY23 as Greggs annualises its series of price increases made in FY22. The growth rates include average selling price inflation of 12%, and pleasing volume growth as footfall and transaction numbers have increased. Management believes that competitors have been acting rationally on price increases, with some of the food-on-the-go specialists playing catch-up on prices of late. A net 37 new stores have been opened so far in the year, of the anticipated 150 new stores for the year.

FY23 forecasts unchanged

There is no change to management's profit expectations for the year, which includes no change to guidance for underlying cost inflation of 9–10%, albeit the drivers have changed a little. Energy price inflation will be more favourable than originally anticipated, but this is offset by higher inflation on some food inputs. Energy prices are fixed through to September 2023, and food and packaging has average forward cover of four to five months. Our [profit estimates](#) for FY23 are unchanged so our outlook for more consistent profit delivery in FY23–25 than in FY22 continues.

Valuation: Steady progress

The share price has made steady progress, which is broadly in line with the wider market's return. Greggs' FY23 P/E multiple of 23.1x is justifiably higher than its long-term average between FY13–19 of 17.1x given its growth prospects and higher profitability. With no changes to our profit estimates, our DCF-based valuation is unchanged at £30.50/share.

19-week trading update

Retail

17 May 2023

Price 2,756p
Market cap £2,814m

Net cash (£m) at 31 December 2022 (excluding IFRS 16 liabilities) 191.6

Shares in issue 102.1m

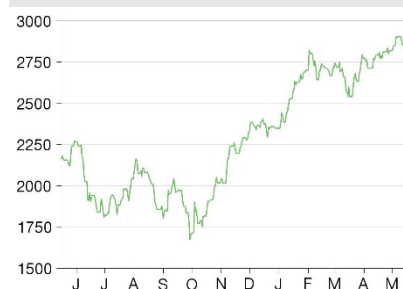
Free float 100%

Code GRG

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (1.4) 0.8 27.4

Rel (local) (0.2) 4.5 24.3

52-week high/low 2,904p 1,673p

Business description

With 2,365 shops and 12 manufacturing and distribution centres, Greggs is the leading UK 'food-on-the-go' retailer. It uses vertical integration to offer differentiated products at competitive prices. Its ambition is to grow revenue to £2.4bn by FY26.

Next events

H123 results 1 August 2023

Q323 trading update 3 October 2023

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Exhibit 1: Financial summary

	£m	2020	2021	2022	2023e	2024e	2025e
Year-end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		811.3	1,229.7	1,512.8	1,710.8	1,902.9	2,122.5
Cost of Sales		(299.6)	(447.7)	(574.5)	(655.7)	(732.5)	(820.3)
Gross Profit		511.7	782.0	938.3	1,055.1	1,170.4	1,302.1
EBITDA		115.4	259.0	269.9	305.0	351.9	394.1
Operating profit (before amort. and excepts.)		(6.2)	153.2	154.4	168.9	191.3	211.2
Intangible Amortisation		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		(0.8)	0.0	0.0	0.0	0.0	0.0
Operating Profit		(7.0)	153.2	154.4	168.9	191.3	211.2
Net Interest		(6.7)	(7.6)	(6.1)	(7.7)	(8.2)	(8.5)
Profit Before Tax (norm)		(12.9)	145.6	148.3	161.2	183.1	202.6
Profit Before Tax (FRS 3)		(13.7)	145.6	148.3	161.2	183.1	202.6
Tax		0.7	(28.1)	(28.0)	(38.7)	(47.6)	(52.7)
Profit After Tax (norm)		(12.2)	117.5	120.3	122.5	135.5	149.9
Profit After Tax (FRS 3)		(13.0)	117.5	120.3	122.5	135.5	149.9
Average Number of Shares Outstanding (m)		101.0	101.5	101.5	102.0	102.0	102.0
EPS - normalised fully diluted (p)		(12.1)	114.3	117.5	119.1	131.7	145.8
EPS - (IFRS) (p)		(12.9)	115.7	118.5	120.1	132.8	147.0
Dividend per share (p)		0.0	97.0	59.0	59.6	65.9	72.9
Gross Margin (%)		63.1	63.6	62.0	61.7	61.5	61.3
EBITDA Margin (%)		14.2	21.1	17.8	17.8	18.5	18.6
Operating Margin (before GW and except.) (%)		(0.8)	12.5	10.2	9.9	10.1	9.9
BALANCE SHEET							
Fixed Assets		631.0	622.3	685.1	819.5	952.2	1,045.5
Intangible Assets		15.6	14.9	13.5	22.0	28.5	33.4
Tangible Assets		345.3	343.8	390.0	501.0	612.3	685.7
Right-of-Use Assets		270.1	263.6	281.6	296.5	311.4	326.4
Other		0.0	0.0	0.0	0.0	0.0	0.0
Current Assets		98.7	266.1	283.0	259.4	242.7	276.4
Stocks		22.5	27.9	40.6	46.3	51.8	58.0
Debtors		39.4	37.6	50.2	56.8	63.1	70.4
Cash		36.8	198.6	191.6	155.7	127.2	147.4
Other		0.0	2.0	0.6	0.6	0.6	0.6
Current Liabilities		(144.1)	(206.9)	(244.1)	(273.8)	(302.0)	(333.9)
Creditors		(91.1)	(153.4)	(191.7)	(218.8)	(244.4)	(273.7)
Leases		(48.6)	(49.3)	(48.8)	(51.4)	(54.0)	(56.6)
Short term borrowings		0.0	0.0	0.0	0.0	0.0	0.0
Other		(4.4)	(4.2)	(3.6)	(3.6)	(3.6)	(3.6)
Long Term Liabilities		(264.0)	(252.3)	(284.3)	(296.6)	(309.0)	(321.3)
Long term borrowings		0.0	0.0	0.0	0.0	0.0	0.0
Leases		(243.1)	(233.9)	(252.5)	(264.8)	(277.2)	(289.5)
Other long term liabilities		(20.9)	(18.4)	(31.8)	(31.8)	(31.8)	(31.8)
Net Assets		321.6	429.2	439.7	508.6	584.0	666.7
CASH FLOW							
Operating Cash Flow		61.6	312.1	272.3	323.8	369.8	413.9
Net Interest		(6.7)	(7.4)	(6.1)	(7.7)	(8.2)	(8.5)
Tax		(10.7)	(19.2)	(13.3)	(38.7)	(47.6)	(52.7)
Capex		(59.8)	(54.0)	(102.4)	(200.0)	(220.0)	(200.0)
Acquisitions/disposals		0.0	0.0	0.0	0.0	0.0	0.0
Equity financing		3.7	4.6	3.1	3.1	3.1	3.1
Dividends		0.0	(15.3)	(98.5)	(60.7)	(67.2)	(74.4)
Borrowings and lease liabilities		(42.1)	(49.0)	(52.7)	(55.6)	(58.4)	(61.2)
Other		(0.5)	(10.0)	(9.4)	0.0	0.0	(0.0)
Net Cash Flow		(54.5)	161.8	(7.0)	(35.9)	(28.6)	20.2
Opening cash		91.3	36.8	198.6	191.6	155.7	127.2
Other		0.0	0.0	0.0	0.0	0.0	0.0
Closing cash		36.8	198.6	191.6	155.7	127.2	147.4
Closing net debt/(cash)		(36.8)	(198.6)	(191.6)	(155.7)	(127.2)	(147.4)
Closing net debt/(cash) including leases		254.9	84.6	109.7	160.5	204.0	198.7

Source: Greggs, Edison Investment Research

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