

Greggs

Trading update

Recovering better than expected

Greggs' trading update indicates a strong rebound in trading since the re-opening of non-essential retail in April 2021, with positive like-for-like (LFL) sales growth versus FY19, which is earlier than we had expected. This is significant as it has been achieved despite not operating at full potential (ie reduced SKUs, shorter opening hours and other social distancing measures) and competition has been more limited, though both will normalise in coming months. With strong cost controls, including temporary benefits, the board believes that FY21 profits could be around 2019 levels in the absence of further restrictions. We upgrade our FY21 PBT forecasts by 64%, due to a less pessimistic LFL sales assumption.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/19	1,167.9	114.2	89.7	11.9	27.3	1.9
12/20	811.3	(12.9)	(12.1)	0.0	N/A	N/A
12/21e	1,166.0	106.5	85.2	20.0	28.7	0.8
12/22e	1,266.7	119.2	97.8	39.1	25.0	1.6

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

Positive two-year LFL growth earlier than expected

In the eight weeks to 8 May, Greggs' two-year LFL sales declined by 3.9%. Significantly, the decline includes positive growth since non-essential retail was allowed to re-open from 12 April, representing a major improvement from the 23.3% decline for the first 10 weeks of FY21. Sales benefitted from the post-lockdown pent-up demand that drove footfall to the high street, and much of Greggs' competition not re-opening to trade, yet. As these normalise, Greggs expects two-year LFL growth is likely to revert to 'negative' for the remainder of FY21, albeit much less negatively than previously expected. FY21's profitability is helped by temporary (£20m, including business rates relief and VAT changes) or semi-permanent (£10m, overhead reductions and logistics) cost savings, the former will restrain profit growth in FY22. Delivery at 8.2% of company managed sales in the recent eight weeks is a slight decline from 9.6% (first 10 weeks), as might be expected given greater consumer mobility, but importantly, management believes this is mostly incremental growth, implying greater medium-term earnings capacity than previously.

FY21: PBT upgraded by 64%

We upgrade our PBT forecast for FY21 by 64% to £106.5m, which includes a less negative two-year LFL decline assumption of 2% for the remainder of FY21 versus a 15% decline previously. The resulting clean PBT of £106.5m compares with FY19's £114.2m. We have upgraded our FY22 PBT estimate by 15% to £119.2m.

Valuation: Share price near all-time high

The share price has performed well and is near its all-time high. The EV/sales multiple of 2.1x and P/E multiple of 28.7x are broadly in line with prior non-COVID-affected peak multiples of 2.1x and 27.6x reached in FY19.

Retail

11 May 2021

Price 2,449p
Market cap £2,484m

Net debt (£m) at 2 January 2021 (ex IFRS 16 liabilities) 36.8

Shares in issue 101.4m

Free float 100%

Code GRG

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 4.6 11.2 47.5

Rel (local) 1.1 1.5 18.6

52-week high/low 2,581p 1,119p

Business description

With 2,101 shops, and eight 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.

Next events

H121 results 3 August 2021

Q321 results 5 October 2021

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Exhibit 1: Financial summary

£m	2018	2019	2020	2021e	2022e
Year-end December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	1,029.3	1,167.9	811.3	1,166.0	1,266.7
Cost of Sales	(373.5)	(412.2)	(299.6)	(416.8)	(447.7)
Gross Profit	655.9	755.7	511.7	749.2	819.0
EBITDA	145.7	231.9	115.4	227.4	241.8
Operating Profit (before amort. and except.)	89.8	120.7	(6.2)	113.0	125.7
Intangible Amortisation	0.0	0.0	0.0	0.0	0.0
Exceptionals	(7.2)	(5.9)	(0.8)	0.0	0.0
Operating Profit	82.6	114.8	(7.0)	113.0	125.7
Net Interest	(0.0)	(6.5)	(6.7)	(6.5)	(6.5)
Profit Before Tax (norm)	89.8	114.2	(12.9)	106.5	119.2
Profit Before Tax (FRS 3)	82.6	108.3	(13.7)	106.5	119.2
Tax	(18.2)	(22.4)	0.7	(20.2)	(20.3)
Profit After Tax (norm)	71.6	91.8	(12.2)	86.3	99.0
Profit After Tax (FRS 3)	65.7	87.0	(13.0)	86.3	99.0
Average Number of Shares Outstanding (m)	100.7	100.8	101.0	101.2	101.2
EPS - normalised fully diluted (p)	70.3	89.7	(12.1)	85.2	97.8
EPS - (IFRS) (p)	65.3	86.3	(12.9)	85.2	97.8
Dividend per share (p)	35.7	11.9	0.0	20.0	39.1
Gross Margin (%)	63.7	64.7	63.1	64.3	64.7
EBITDA Margin (%)	14.2	19.9	14.2	19.5	19.1
Operating Margin (before GW and except.) (%)	8.7	10.3	(0.8)	9.7	9.9
BALANCE SHEET					
Fixed Assets	347.5	646.5	631.0	641.6	670.4
Intangible Assets	16.9	16.8	15.6	14.9	14.3
Tangible Assets	330.5	353.7	345.3	356.6	386.0
Right-of-Use Assets	0.0	272.7	270.1	270.1	270.1
Other	0.2	3.3	0.0	0.0	0.0
Current Assets	140.6	142.3	98.7	204.9	253.7
Stocks	20.8	23.9	22.5	24.5	26.3
Debtors	31.6	27.1	39.4	31.9	34.7
Cash	88.2	91.3	36.8	148.4	192.7
Other	0.0	0.0	0.0	0.0	0.0
Current Liabilities	(145.1)	(208.7)	(144.1)	(190.0)	(200.2)
Creditors	(136.4)	(154.1)	(91.1)	(137.0)	(147.2)
Leases	0.0	(48.8)	(48.6)	(48.6)	(48.6)
Short term borrowings	0.0	0.0	0.0	0.0	0.0
Other	(8.7)	(5.8)	(4.4)	(4.4)	(4.4)
Long Term Liabilities	(13.8)	(233.3)	(264.0)	(261.7)	(261.7)
Long term borrowings	0.0	0.0	0.0	0.0	0.0
Leases	0.0	(226.9)	(243.1)	(243.1)	(243.1)
Other long term liabilities	(13.8)	(6.4)	(20.9)	(18.6)	(18.6)
Net Assets	329.2	346.8	321.6	394.7	462.2
CASH FLOW					
Operating Cash Flow	152.2	246.0	61.6	279.6	251.4
Net Interest	0.2	(6.3)	(5.9)	(6.3)	(6.1)
Tax	(16.1)	(20.3)	(10.7)	(20.2)	(20.3)
Capex	(64.9)	(87.7)	(59.8)	(73.0)	(93.0)
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Equity financing	5.3	4.9	3.7	3.7	3.7
Dividends	(33.1)	(72.1)	0.0	(20.3)	(39.6)
Borrowings	0.0	0.0	0.0	0.0	0.0
Other	(9.9)	(61.4)	(43.4)	(51.9)	(51.9)
Net Cash Flow	33.7	3.1	(54.5)	111.6	44.3
Opening cash	(54.5)	(20.8)	(17.7)	(72.2)	39.4
Other	0.0	0.0	0.0	0.0	0.0
Closing cash	(20.8)	(17.7)	(72.2)	39.4	83.6
Closing net debt/(cash)	(88.2)	(91.3)	(36.8)	(148.4)	(192.7)
Closing net debt/(cash) including leases	(88.2)	184.4	254.9	143.3	99.0

Source: Company accounts, Edison Investment Research

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