

# Greggs

Q4 trading statement

An exceptionally strong end to the year

Greggs, the leading food-on-the-go retailer, has continued an impressive upwards trend in like-for-like (lfl) owned-store sales growth across Q4, and in the final five weeks of FY18e. The company is successfully drawing new customers into its stores with strategic product launches and efforts to reduce queues and improve product availability. We upgrade both our FY18 and FY19 PBT forecasts for the second time in six weeks, by 3%.

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	21.2	2.4
12/18e	1,029.3	89.2	70.2	34.7	19.5	2.5
12/19e	1,107.4	95.2	74.9	37.5	18.3	2.7

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

## Lfl sales continued to strengthen across Q4

Q418 company-managed store lfl sales rose by 5.2%, implying growth of approximately 6.3% over the final five weeks compared with a reported increase of 4.5% over the first eight weeks of the quarter. This follows a solid Q318 increase of 3.2% and marks the 21<sup>st</sup> consecutive quarter of lfl sales growth for the company; an enviable record in the current climate. Although travel and work-related locations generally delivered the highest lfl sales growth, the strong performance was broad based, a testament to the ongoing transformation of the brand.

## Leveraging the brand

Although Greggs does not invest in above-the-line advertising, it does use social media marketing and is very successful in generating waves of positive publicity around innovative new products to draw new customers into the stores – the recently launched vegan sausage roll to complement ‘Veganuary’ being an example. New IT systems, implemented in 2017, are starting to deliver marked improvements in replenishment and the speed at which customers are served.

## A further upgrade to earnings forecasts

We upgrade both our FY18 and FY19 PBT by 3% to £89.2m and £95.2m, respectively. In FY19 we conservatively forecast 2% lfl sales growth, with a stronger H1 vs H2 against softer comparatives (assuming no repeat of the extreme weather patterns that dominated the first half of 2018), and 5.6% growth from new stores.

## Valuation: Supported by quality of earnings and yield

As a result of the sector de-rating, our blended DCF and peer-group valuation remains broadly unchanged at 1,517p. This implies an FY19e P/E multiple of 20.3x, which does not appear stretched given the quality of earnings and dividend yield.

Retail

9 January 2019

**Price** 1,367p  
**Market cap** £1,383m

Net cash (£m) at 30 June 2018	43.5
Shares in issue	101.2m
Free float	100%
Code	GREG
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	1.1	35.9	0.5
Rel (local)	(0.2)	43.9	13.2
52-week high/low	1395.0p	942.0p	

### Business description

With 1,953 shops, 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

FY18 preliminary results 7 March 2019

### Analysts

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**Exhibit 1: Financial summary**

December	£m	IFRS	IFRS	IFRS	IFRS	IFRS
		2016	2017	2018e	2019e	2020e
<b>PROFIT &amp; LOSS</b>						
Revenue		894.2	960.0	1,029.3	1,107.4	1,178.7
Cost of Sales		(324.3)	(348.1)	(375.2)	(401.4)	(424.8)
Gross Profit		569.9	611.9	654.1	706.1	753.9
EBITDA		125.9	135.7	144.6	157.4	170.1
Operating Profit (before amort. and except.)		80.3	82.2	89.3	95.0	103.6
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	83.3	91.0	100.6
Net Interest		(0.0)	(0.4)	(0.1)	0.2	0.2
Profit Before Tax (norm)		80.3	81.8	89.2	95.2	103.8
Profit Before Tax (FRS 3)		75.1	71.9	83.2	91.2	100.8
Tax		(18.1)	(16.9)	(18.4)	(20.0)	(21.0)
Profit After Tax (norm)		62.3	64.9	70.7	75.2	82.8
Profit After Tax (FRS 3)		58.0	56.9	65.8	72.0	80.4
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	74.9	82.5
EPS - (IFRS) (p)		57.7	56.5	65.3	71.7	80.1
Dividend per share (p)		31.0	32.3	34.7	37.5	41.3
Gross Margin (%)		63.7	63.7	63.5	63.8	64.0
EBITDA Margin (%)		14.1	14.1	14.0	14.2	14.4
Operating Margin (before GW and except.) (%)		9.0	8.6	8.7	8.6	8.8
<b>BALANCE SHEET</b>						
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	116.5	140.8
Stocks		15.9	18.7	19.9	21.3	23.7
Debtors		30.7	33.4	36.2	38.4	40.9
Cash		46.0	54.5	48.8	56.8	76.2
Other		0.0	0.0	0.0	0.0	0.0
Current Liabilities		(121.4)	(127.9)	(137.2)	(144.4)	(141.1)
Creditors		(121.4)	(127.9)	(137.2)	(144.4)	(141.1)
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	373.5	420.3
<b>CASH FLOW</b>						
Operating Cash Flow		133.8	134.5	142.7	158.5	161.0
Net Interest		0.1	0.2	(0.1)	0.2	0.2
Tax		(16.2)	(17.6)	(19.9)	(19.2)	(20.4)
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)	(36.3)
Net Cash Flow		3.0	8.5	(5.7)	8.0	19.5
Opening net debt/(cash)		(42.9)	(46.0)	(54.5)	(48.8)	(56.8)
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)	(56.8)	(76.2)

Source: Company data, Edison Investment Research

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