

Greggs

Q419 trading update

‘A very strong finish to a spectacular year’

Greggs finished 2019 with accelerating revenue growth. It continues to benefit from increasing customer growth as the brand strengthens and it takes share in the ‘food-on-the-go’ market. With increased cost pressures, management remains confident of mitigating these through ongoing business efficiencies and select price increases, where possible, and some one-off benefits. Our forecasts, which are at the high end of consensus, are broadly unchanged. Our DCF-based valuation is 2,096p.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	960.0	81.8	63.5	32.3	38.0	1.3
12/18	1,029.3	89.8	70.3	35.7	34.3	1.5
12/19e	1,171.6	112.7	87.7	46.4	27.5	1.9
12/20e	1,251.2	119.1	94.4	50.2	25.5	2.1

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

Q4 revenue growth accelerated again

The trading update for Q419 indicated an acceleration in revenue growth through the period against comparatives that became tougher. The reported I-f-I revenue growth for Q419 of 8.7%, in company-managed stores, follows 8.3% for the first six weeks of the quarter, and is against a comparative of 5.2% in Q418. The drivers of growth continue to be increased numbers of customers who are attracted to the stores given the product innovations and increased convenience. To celebrate the very strong growth, management has announced a one-off bonus for staff of £7m, c £300 per employee. Given the strong FY19 revenue performance, management expects FY19 underlying profit to be slightly higher than previous expectations.

Outlook for FY20

As expected, management highlights the cost headwinds from the National Living Wage increase from 1 April 2020 and the cost of pork, which has risen significantly and has been a headwind through H219. The National Living Wage increase of 6.2%, mainly for store staff, represents total staff cost inflation of c 4.5% in FY20 versus c 4% in a typical year. Further guidance on the outlook for pork inflation will be given at the preliminary results in March as the market is volatile, making it difficult to fix prices. The company is operating with price visibility of roughly three months versus 4-6 months typically. Management remains confident of mitigating cost inflation through business efficiencies and selective price inflation, as in previous years, as well as c £10m of benefits from costs for initiatives in FY19, including the £7m bonus above, that will not recur or will start to contribute revenue.

Valuation: Forecasts and valuation unchanged

Our profit forecasts for FY19 and FY20, at the high end of consensus, remain broadly unchanged. For FY19, the revenue uplift from the better revenue performance in Q4 is offset by the new bonus. For FY20, we lower our gross margin assumption by 40bp to a decline of 30bp y-o-y, offset by the higher revenue and cost mitigation. Our DCF-based valuation of 2,096p is broadly unchanged.

Retail

8 January 2020

Price 2,411p
Market cap £2,439m

Net cash (£m) at 30 June 2019	85.9
Shares in issue	101.2m
Free float	99.6%
Code	GRG
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	14.8	32.9	77.4
Rel (local)	9.7	24.7	57.2
52-week high/low	2,476p	1,367p	

Business description

With 2,050 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

Preliminary results	3 March 2020
Trading update	12 May 2020

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Exhibit 1: Financial summary

£m	2017	2018	2019e	2020e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	960.0	1,029.3	1,171.6	1,251.2
Cost of Sales	(348.1)	(373.4)	(414.6)	(447.0)
Gross Profit	611.9	655.9	756.9	804.2
EBITDA	135.7	145.7	231.5	244.3
Operating Profit (before amort. and except.)	82.2	89.8	119.5	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	112.5	124.8
Net Interest	(0.4)	(0.0)	(6.8)	(7.9)
Profit Before Tax (norm)	81.8	89.8	112.7	119.1
Profit Before Tax (FRS 3)	71.9	82.6	105.7	116.9
Tax	(16.9)	(18.2)	(23.0)	(22.6)
Profit After Tax (norm)	64.9	71.6	89.7	96.5
Profit After Tax (FRS 3)	56.9	65.7	84.0	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	87.7	94.4
EPS - (IFRS) (p)	56.5	65.3	83.4	96.1
Dividend per share (p)	32.3	35.7	46.4	50.2
Gross Margin (%)	63.7	63.7	64.6	64.3
EBITDA Margin (%)	14.1	14.2	19.8	19.5
Operating Margin (before GW and except.) (%)	8.6	8.7	10.2	10.1
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	126.0	143.2
Stocks	18.7	20.8	23.0	25.5
Debtors	33.4	31.6	38.5	42.8
Cash	54.5	88.2	64.4	74.8
Other	0.0	0.0	0.0	0.0
Current Liabilities	(127.9)	(145.1)	(203.4)	(207.8)
Creditors	(127.9)	(145.1)	(203.4)	(207.8)
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	346.5	384.2
CASH FLOW				
Operating Cash Flow	134.5	152.2	170.0	179.6
Net Interest	0.2	0.2	0.0	0.0
Tax	(17.6)	(16.1)	(21.7)	(30.9)
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)	(50.3)
Net Cash Flow	8.5	33.7	(23.8)	10.4
Opening net debt/(cash)	(46.0)	(54.5)	(88.2)	(64.4)
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)	(64.4)	(74.8)

Source: Company accounts, Edison Investment Research

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