

# Greggs

## Positive outlook

Greggs' Q4 sales update demonstrates a robust performance in what has been a tough retail market. The company's self-help strategy shows that this is a business firmly in control of its own destiny. Management expects that the industry-wide cost pressures seen in 2017 will continue in 2018 although at lower levels. Greggs expects to deliver full year results in line with management expectations. A combination of strong trading momentum, easing margin pressures and continued self-help gives us confidence in our 2018 forecasts, which we leave unchanged.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	835.7	73.0	57.3	28.6	22.8	2.2
12/16	894.2	80.3	62.0	31.0	21.0	2.4
12/17e	959.4	80.8	63.6	32.8	20.5	2.5
12/18e	1,028.4	83.9	66.6	34.8	19.6	2.7

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

## Q4 trading: A strong end to the year

Greggs has traded well in Q4 with managed-store LFL sales up 3.0% against a tough prior year comparison base of 6.4%. In the year to December, total sales grew by 7.4% and LFL sales by 3.7%. The company has confirmed that it expects to meet management expectations for full year profits. Greggs' strong Q4 showing comes despite difficult market conditions; market data showed a decline in high street footfall in December of 3.5% reflecting a trend for increasing online Christmas shopping.

## Self-help

Greggs is well placed to maintain control of its own destiny. The company converted 132 stores to its 'bakery food-on-the-go' format, a further 7% of the portfolio. The new stock management system is bedding down well with the high stock levels seen earlier in the year from the ramp-up now beginning to ease. Investment continues in the supply chain to grow further capacity and bring in more automation in the company's plants. We believe that Greggs will be able to deliver significant costs savings beyond our forecast period, which should enhance margins rather than simply being used to maintain the company's competitive position.

## 2017 margins pressure to ease in 2018

Greggs is beginning to annualise higher levels of food and packaging costs following the roll-off of currency hedges at the end of 2016. Levels of inflation in these areas will ease through 2018. While labour cost inflation will remain a factor, the company is confident in solid margin growth in 2018.

## Valuation: No change

With management anticipating 2017 results in line with its previous expectations we retain our forecasts and our valuation of 1,226p per share.

## Q4 trading statement

Retail

16 January 2018

**Price** 1,305p  
**Market cap** £1,321m

Net cash (£m) at end June 2017	19.9
Shares in issue	101.2m
Free float	100%
Code	GRG
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(3.3)	1.2	33.5
Rel (local)	(6.9)	(1.8)	24.3
52-week high/low	1399.0p	964.5p	

### Business description

With over 1,800 shops, nine regional bakeries and 19,500 employees, Greggs is the UK's leading 'bakery food-on-the-go' retailer. It utilises vertical integration to offer differentiated products at competitive prices

### Next events

Full year results	27 February 2018
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### Analysts

Tom Gadsby	+44 (0)20 3077 5700
Paul Hickman	+44 (0)20 3681 2501

[consumer@edisongroup.com](mailto:consumer@edisongroup.com)

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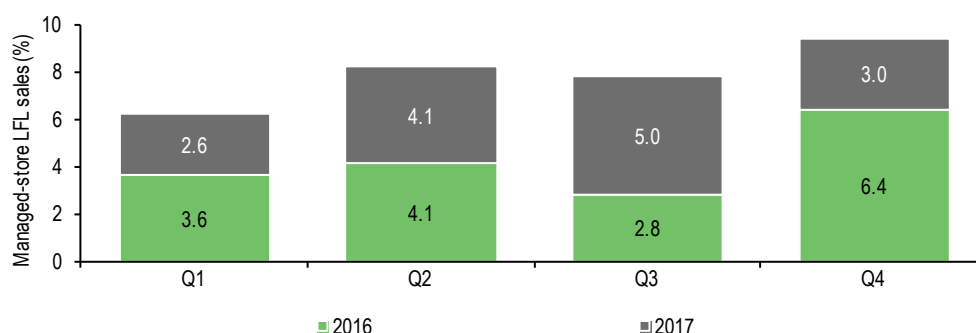
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## Q4 trading robust vs a tough comparison

### Sales performance improves on a two-year view

We note that Greggs has traded particularly well on a two-year view with solid growth of 3.0% on a tough comparison base of 6.4% in the prior year. This is encouraging, we believe, especially against the backdrop of a retail market that saw a 3.5% decline in footfall in December 2017. We expect this trend to continue as more Christmas shopping moves online, but we believe that Greggs is well placed to protect its market position through ongoing initiatives.

**Exhibit 1: Two-year LFL sales progression**



Source: Edison Investment Research, company data

### Estate development – improving prospects

The company opened 131 stores in the year and closed 41 for a net gain of 90 vs guidance of 100, although this is in the main a timing issue. Management has upgraded guidance on store numbers for 2018 from an additional 100 to 110-130, in part due to the timing of openings but also because of progress with one of its key partners, Euro Garages. We believe that the company has scope for some 2,500 stores in total and see the growth to maturity of new stores as an important driver of LFL sales growth.

**Exhibit 2: Financial summary**

	£m	2013	2014	2015	2016	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		762.4	806.1	835.7	894.2	959.4	1,028.4
Cost of Sales		(305.9)	(304.8)	(305.1)	(324.3)	(346.3)	(368.1)
Gross Profit		456.5	501.3	530.6	569.9	613.1	660.3
EBITDA		74.9	95.6	113.3	125.9	133.3	136.8
Operating Profit (before amort. and except.)		41.5	58.1	73.1	80.3	81.1	83.9
Intangible Amortisation		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		(8.1)	(8.5)	0.0	(5.2)	(9.5)	(6.6)
Other		0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit		33.4	49.6	73.1	75.2	71.6	77.3
Net Interest		(0.2)	0.2	(0.1)	(0.0)	(0.3)	0.0
Profit Before Tax (norm)		41.3	58.3	73.0	80.3	80.8	83.9
Profit Before Tax (FRS 3)		33.2	49.7	73.0	75.1	71.3	77.3
Tax		(10.3)	(14.0)	(15.4)	(18.1)	(17.0)	(17.0)
Profit After Tax (norm)		30.9	44.3	57.6	62.3	63.9	66.9
Profit After Tax (FRS 3)		24.2	37.6	57.6	58.0	56.2	61.6
Average Number of Shares Outstanding (m)		100.4	100.5	100.6	100.4	100.4	100.4
EPS - normalised (p)		30.8	44.0	57.3	62.0	63.6	66.6
EPS - normalised and fully diluted (p)		30.5	43.4	55.8	60.8	62.4	65.4
EPS - (IFRS) (p)		24.1	37.4	57.3	57.7	56.0	61.4
Dividend per share (p)		19.5	22.0	28.6	31.0	32.8	34.8
Gross Margin (%)		59.9	62.2	63.5	63.7	63.9	64.2
EBITDA Margin (%)		9.8	11.9	13.6	14.1	13.9	13.3
Operating Margin (before GW and except.) (%)		5.4	7.2	8.7	9.0	8.5	8.2
<b>BALANCE SHEET</b>							
Fixed Assets		268.9	267.4	298.2	323.4	349.1	366.2
Intangible Assets		1.0	4.7	10.2	14.3	14.6	18.1
Tangible Assets		267.8	262.7	284.2	307.4	332.7	346.3
Investments		0.1	0.0	3.8	1.8	1.8	1.8
Current Assets		65.0	101.5	86.0	92.6	87.7	105.7
Stocks		15.4	15.3	15.4	15.9	17.0	18.1
Debtors		25.0	26.1	27.6	30.7	30.6	32.8
Cash		21.6	43.6	42.9	46.0	40.1	54.9
Other		3.0	16.5	0.0	0.0	0.0	0.0
Current Liabilities		(80.7)	(102.1)	(106.0)	(121.4)	(119.9)	(125.2)
Creditors		(80.7)	(102.1)	(106.0)	(121.4)	(119.9)	(125.2)
Short term borrowings		0.0	0.0	0.0	0.0	0.0	0.0
Long Term Liabilities		(17.0)	(20.1)	(11.9)	(29.9)	(29.1)	(28.7)
Long term borrowings		0.0	0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(17.0)	(20.1)	(11.9)	(29.9)	(29.1)	(28.7)
Net Assets		236.2	246.7	266.3	264.7	287.8	317.9
<b>CASH FLOW</b>							
Operating Cash Flow		82.5	108.6	119.6	133.8	133.7	134.0
Net Interest		(0.0)	0.2	0.2	0.1	0.0	0.0
Tax		(13.2)	(11.5)	(15.9)	(16.2)	(19.5)	(15.7)
Capex		(48.6)	(48.3)	(71.8)	(80.1)	(83.7)	(70.0)
Acquisitions/disposals		0.2	(4.8)	18.1	4.7	2.4	0.0
Financing		0.9	(2.6)	(7.2)	(8.3)	(6.6)	0.0
Dividends		(19.6)	(19.6)	(43.7)	(30.9)	(32.1)	(33.5)
Net Cash Flow		2.2	22.0	(0.7)	3.0	(5.9)	14.8
Opening net debt/(cash)		(19.4)	(21.6)	(43.6)	(42.9)	(46.0)	(40.1)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	(0.0)	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(21.6)	(43.6)	(42.9)	(46.0)	(40.1)	(54.9)

Source: Greggs accounts, Edison Investment Research

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