Greggs

COVID-19 trading update

24 March 2020

Price 1,455p
Market cap £1,472m

Net cash (£m) at 31 December 2019 91.3
Shares in issue 101.2
Free float 99.6%
Code GREG
Primary exchange LSE
Secondary exchange N/A

Share price performance

Business description
With 2,050 shops, eight manufacturing and distribution centres and over 25,000 employees, Greggs is the leading "food-on-the-go" retailer. It uses vertical integration to offer differentiated products at competitive prices.

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COVID-19 will have an uncertain but important impact on Greggs' profitability in FY20. The profit and cash flow impact of lost sales will be mitigated by internal initiatives and government support on operating costs (rates and employees). The strong balance sheet means that Greggs is well placed for tougher times. Our forecasts are now under review and we are planning to publish a note to update them shortly.

Greggs is temporarily closing the shop estate for trading from the end of business on Tuesday 24 March, following a downturn in sales: l-f-l sales fell by 9.9% in the last week. Given the uncertainty on how long shops will be closed, management believes that making profit progress in FY20 versus FY19 will not be possible.

Greggs exhibits modest seasonality: in FY19, H2 represented c 53% of revenue and gross profit, and c 60% of clean operating profit. In FY19, an average week represented £22.5m of revenue, £14.5m of gross profit, and £2.3m of operating profit. Therefore, average weekly total operating costs were £20.2m, including depreciation of c £2m. As the estate is closed, sales are lost and not deferred, but some costs are deferred, eg baked goods are flash frozen immediately after production for in-store baking. Management estimates that with the estate closed, its weekly cash outgoings are £5m after relief for business rates and the staff cost support from the government. This only includes rent paid monthly in advance, with additional quarterly rents, due in June, of £11m per quarter, at which stage the company will seek monthly payments if the disruption continues.

Greggs is a financially strong company with no debt: it will have net cash of £60m by 27 March. Management plans to save cash by changing investment plans (saving £45m in FY20) and not paying the final dividend for FY19, and stopping the share purchase programme by the Employee Benefit Trust (combined saving of £40m). Greggs may apply for support from the Covid Corporate Financing Facility.

Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
--- | --- | --- | --- | --- | --- | --- |
12/18 | 1,029.3 | 89.8 | 70.3 | 35.7 | 20.7 | 2.5 |
12/19 | 1,167.9 | 114.2 | 89.7 | 11.9 | 16.2 | 0.8 |

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