

Greggs

Q221 trading update

Rate of recovery continues to surprise

Greggs' Q221 trading has surprised on the upside, with positive two-year like-for-like (lfl) sales growth continuing through the end of the period, having previously reported a return to growth earlier than expected. We upgrade our revenue forecasts for FY21, assuming a positive lfl outturn for the rest of the year, versus negative previously, leading to PBT upgrades for FY21 and FY22 of 18%. The strength of the recovery also leads us to increase our dividend forecast for FY21 by more than 150%. The P/E for FY22 of 22.4x is consistent with Greggs' average trading multiples before COVID-19, reflecting its medium-term growth outlook and shareholder returns, but below prior peak multiples.

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	28.8	0.5
12/20	811.3	(12.9)	(12.1)	0.0	N/A	N/A
12/21e	1,203.9	126.1	100.9	50.4	25.6	2.0
12/22e	1,307.9	140.4	115.1	57.6	22.4	2.3

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

Strong recovery continues at the end of Q221

Since the last update (to 8 May), trading has continued to be better than management anticipated, with lfl sales growth of +1 to +3% versus FY19 levels in company-managed stores. In the [prior trading update](#), management highlighted strong pent-up demand for retail, which helped footfall generally, and reduced competition produced positive lfl sales growth in the most recent four weeks. At that stage, management anticipated those two positive drivers would ease and a return to negative two-year lfl growth was likely, but Greggs' lfl trading remains positive.

FY21 PBT forecast upgraded by 18%

Our PBT forecast for FY21 and FY22 increases by 18% to reflect the better-than-expected end to H121, and we now assume lfl sales growth for H221 of +1% versus our prior assumption of -2%, and over 50% drop through to operating profit. Our FY21 revenue forecast of £1,204m is 3% higher than FY19's reported £1,168m and the PBT estimate is 10% higher. Given the strength of the recovery, we feel comfortable in reverting to pre-COVID-19 levels for the dividend pay-out ratio of 50% for FY21 and FY22, increasing our dividend per share forecast for FY21 by more than 150%.

Valuation: In line with non-COVID-affected multiples

The share price has traded in a relatively narrow range since the May 2021 trading update. On our upgraded forecasts, the P/E multiples for FY21 and FY22 are 25.6x and 22.4x, the latter compares with Greggs' average multiple in FY19 of 21.8x, and prior peak multiples through FY17–19 of 19.9–27.6x. Our assumption of a higher dividend per share for FY21 and FY22 produces a dividend yield for both years of 2% and 2.2% respectively.

Retail

28 June 2021

Price **2,583p**

Market cap **£2,613m**

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 3.1 19.5 58.2

Rel (local) 1.6 11.8 32.3

52-week high/low 2,618p 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	1,203.9	1,307.9
Cost of Sales	(373.5)	(412.2)	(299.6)	(428.6)	(460.5)
Gross Profit	655.9	755.7	511.7	775.2	847.3
EBITDA	145.7	231.9	115.4	246.9	263.0
Operating Profit (before amort. and except.)	89.8	120.7	(6.2)	132.6	146.9
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)	132.6	146.9
Net Interest	(0.0)	(6.5)	(6.7)	(6.5)	(6.5)
Profit Before Tax (norm)	89.8	114.2	(12.9)	126.1	140.4
Profit Before Tax (FRS 3)	82.6	108.3	(13.7)	126.1	140.4
Tax	(18.2)	(22.4)	0.7	(24.0)	(23.9)
Profit After Tax (norm)	71.6	91.8	(12.2)	102.1	116.6
Profit After Tax (FRS 3)	65.7	87.0	(13.0)	102.1	116.6
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)	100.9	115.1
EPS - (IFRS) (p)	65.3	86.3	(12.9)	100.9	115.1
Dividend per share (p)	35.7	11.9	0.0	50.4	57.6
Gross Margin (%)	63.7	64.7	63.1	64.4	64.8
EBITDA Margin (%)	14.2	19.9	14.2	20.5	20.1
Operating Margin (before GW and except.) (%)	8.7	10.3	(0.8)	11.0	11.2
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	193.7	241.8
Stocks	20.8	23.9	22.5	25.2	27.1
Debtors	31.6	27.1	39.4	33.0	35.8
Cash	88.2	91.3	36.8	135.5	178.9
Other	0.0	0.0	0.0	0.0	0.0
Current Liabilities	(145.1)	(208.7)	(144.1)	(193.9)	(204.4)
Creditors	(136.4)	(154.1)	(91.1)	(140.9)	(151.4)
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	379.7	446.0
CASH FLOW					
Operating Cash Flow	152.2	246.0	61.6	301.3	272.8
Net Interest	0.2	(6.3)	(5.9)	(6.3)	(6.1)
Tax	(16.1)	(20.3)	(10.7)	(24.0)	(23.9)
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	(51.1)	(58.3)
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)	98.7	43.3
Opening cash	(54.5)	(20.8)	(17.7)	(72.2)	26.5
Other	0.0	0.0	0.0	0.0	0.0
Closing cash	(20.8)	(17.7)	(72.2)	26.5	69.8
Closing net debt/(cash)	(88.2)	(91.3)	(36.8)	(135.5)	(178.9)
Closing net debt/(cash) including leases	(88.2)	184.4	254.9	156.2	112.8

Source: Greggs, Edison Investment Research

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