26 Nov 2013

MITCHELLS & BUTLERS (MAB): 391p
FY Numbers for the 52w to 28 Sept 2013

Group reports 'a strong financial performance & business transformation on track' but LfLs only +0.1% in 8w FY13/14'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2012 (A)	83.0	30.5	12.8	Nil	Nil
2013 (E)	184.0	34.9	11.2	Nil	Nil
2014 (E)	191.8	35.9	10.9	3.7	0.9

Source: *Company & Broker Estimates*

Full Year Numbers to 28 Sep 2013:

Mitchells & Butlers has this morning reported its full year results for the 52 weeks to 28 September and our comments are set out below:

Trading:

- Mitchells & Butlers has full year numbers for the 52w to 28 September saying that it has turned in a 'strong financial performance'
- However, LfL sales in the year under review are up only 0.4% and sales in the first 8 weeks of FY14 are +0.1%
- The group generated revenues of £1.895bn, up by 2.2% on last year and profit before exceptionals and tax of £184.0m against £166.0m last year
- EPS is up by 17.1% at 34.9p and, although a minority of observers had expected a resumption of the dividend, no pay-out has been announced
- The board says it is 'mindful of the attraction of the resumption of dividend payments' and that it will continue to monitor cash flow with that in mind
- These figures have slightly beaten estimates and, but for the sluggish start to FY13/14, forecasts could have been upgraded slightly
- When the group last updated (51w to 21 Sept), LfLs were running up by 0.4% with the 9w to that date down by 1.0%
- Sales in the first 8 weeks of FY13/14 are up by 0.1% and recent trends are shown below:
- **Tab.1. Mitchells & Butlers LfL Sales Trends:**

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Market Cap: £1.6bn
12m range 298p 460p

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Period	LfL sales (%)
FY 08/09	+1.6
FY 09/10	+2.8
FY 10/11	+2.6
H1 11/12	+2.7
FY 11/12	+2.1
H1 12/13	+0.3
Q3 12/13	+1.6
9w to 21 Sep 13	-1.0
FY 12/13	+0.4
First 8w of 13/14	+0.1

Source: Company Reports

- The group says that operating margins have increased by 50bps to 16.5% and that it has made 'good progress in all priority areas'
- M&B has opened 16 new sites during the period and says it has a pipeline of sites stretching into FY14 and beyond
- Net debt has fallen to £1.759bn or some 4.2x EBITDA, down from 4.5x in FY11/12
- CEO Alistair Darby concludes 'we have worked hard this year to deliver our transformation plan' and says 'I am confident that our continued emphasis on developing our people, focusing on our brands and delivering great service for our guests will result in a better business and produce sustainable value for shareholders in the future.'
- The group does say, however, 'we are cautious about the strength of the economic recovery over the next year and expect ongoing variation by geography and consumer group.'

Langton Comment: M&B's shares trade on a relatively modest rating and they have been attracting some investment attention as a result. However, trading at M&B has been soggy for some time and LfL sales, though still running in positive territory, are now growing more slowly than at any point since the dark days of the recession and this has prompted a degree of head-scratching. Indeed +0.1% in FY14 is barely visible.

Because M&B has 45% of its revenues in London and the South East and, as such, one would imagine that its LfL sales should be growing at somewhere between the national average quoted by the Peach Tracker (of around 1.5% to 2% or so) and the 5% to 7% being reported by Young & Co and Fuller, Smith & Turner in London.

This is not being delivered (as yet) and the reason is unclear. M&B does not appear to be suffering from a lack of capex. It has a pension deficit, to be sure (this will weigh on the dividend decision making process) but its units are well-invested on the whole suggesting that it may not have the 'low-hanging fruit' that some of its competitors (Spirit and now Enterprise, perhaps even Punch – though the last two are tenanted operators) are able to target and that its growth rate is relatively low as a result.

M&B is slated to earn around 36p in FY14 and its shares therefore trade on a multiple of around 11x earnings. The potential for a dividend is as yet unclear (this will be a focus of attention at the group's 9.30am meeting) and the group's share register remains skewed in that Joe Lewis's Piedmont and the Elpida vehicle of Irish racing magnates JP McManus and John Magnier own a little under 50% of the group's equity.

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As such, it is understandable why M&B is attracting investors' attention but the group, at some point, will need to deliver. We remain somewhat put off by the lack of progress (at least in terms of sales growth) to date and believe that the 'non-normalised' share register along with the lack of a dividend will weigh on valuation for the time being.

Although M&B has the potential to perform strongly, it needs to actually do so. The group will brief analysts at 9.30am.

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