Langton
Capital Limited

22 May 2014

MITCHELLS & BUTLERS (MAB): 421p
H1 Results: 28w to 12 Apr 2014

Group reports '…return to food volume growth underpins successful first half'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	150.0	34.9	12.0	Nil	Nil
2014 (E)	192.0	36.3	11.6	2.0	0.5
2015 (E)	209.5	39.7	10.6	6.3	1.5

Source: *Company & Broker Estimates*

H1 Results, 28w to 12 Apr 2014:

Mitchells & Butlers has this morning reported H1 numbers for the 28w to 12 April and our comments are set out below:

Trading result:

- Mitchells & Butlers has reported that revenues for the 28w first half rose by 2.5% to £1.016bn and that LfL sales were up by 1.1%
- Operating profit for the first half is up by 2.1% at £147m and PBT is level at £68m (2013: £68m)
- The operating margin has been maintained at 14.5%
- The group reports adjusted EPS of 14.6p (up 1.4%) and, as expected, there is no interim dividend
- Group cash flow is £43m.
- M&B focuses on its 'turnaround in volume performance' and points out that it is in LfL food growth (+0.2% in H1 this year against a decline of 4.7% in 2013)
- Drink volumes are 'stabilising'; this H1 they are down by 0.3% whilst in H1 last year they fell by 6.0%
- LfL sales have slowed a little in Q2 (they were up by 2.0% at w17) and recent trends are shown below:

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Market Cap: £1.7bn
12m range 360p 490p

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- **Tab.1. Mitchells & Butlers LfL Sales Trends:**

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
FY 12/13	+0.4
First 8w of 13/14	+0.1
Implied next 7w of 13/14	+4.7
First 17w of 13/14	+2.0
H1	+1.1

Source: Company Reports

Cash Flow, Balance Sheet Trading & Other:

- Net debt is £1.7bn or some 4.1x annualised EBITDA
- The group opened 11 new sites in H1 (considerably fewer than the much-smaller JD Wetherspoon, Restaurant Group, Marston's etc.)
- M&B reports that it has reached an agreement with its pension trustees re 2013 valuations; the deficit has increased to £572m and annual contributions will increase from £40m p.a. to £45m p.a.

Conclusion, Summary, Current Trading:

- CEO Alistair Darby comments 'we are pleased with our trading performance in this first half, particularly the turnaround in volumes'
- He goes on to say 'we have made good progress against our key priorities, and continued to position Mitchells & Butlers for sustainable long-term future growth.'
- Re current trading, the company comments 'our business transformation is gaining momentum. Through our clearly laid-out strategy, we are well-placed to take advantage of the economic recovery across the UK.'
- Regarding the medium term outlook, the group says' we are encouraged by the economic recovery that is developing across the UK'
- The group concludes 'we have a clear strategy for the long term development of the business (and) we are confident that we will make further progress against our key performance indicators and that we are well positioned for profitable future growth.

Langton Comment: Despite something of a rally yesterday, M&B's shares have slipped considerably since hitting their recent highs of around 490p towards the end of Q1 this year.

The recent underperformance has been partly because, with most operators out-performing the Peach Tracker, there had to be some underperformers and, as M&B is the largest contributor to the survey, that honour fell to them.

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Hence the 1.1% H1 performance, with a significant London estate thrown into the mix, is not a good number. It compares with the 5.7% reported (Destination & Premium) by Marston's last week (for the same H1) and the +6.2% reported on 7 May for JD Wetherspoon for its Q3.

In addition, M&B's share register is dominated by Joe Lewis and Irish investors Messrs McManus and Magnier, it pays no dividend, its opening programme is much less significant than that of its smaller competitors and it has the look of an industry leader that is there to be shot at.

That being said, the operator is well-run and, though it may lack a bit of pizzazz, it is hard to put one's finger on just what it should be doing differently.

In addition, the group has assets to die for. And it is deliverable by its two largest shareholders to an ambitious bidder, should the investors named above tire of their shareholdings and there are therefore considerable upside risks.

But you pays your money and you takes your choice. The group is trading on only 10.6x next year's earnings. It is cheap on that basis but growth has been elusive and its share register remains an issue. Value may not come out in the same way or as quickly as it perhaps could in other circumstances.

Whilst acknowledging the latent strength of M&B's business, we would still be tempted to look for value elsewhere.

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