24 July 2014

MITCHELLS & BUTLERS (MAB): 377p
Q3 and Y-t-D Trading Update – 42w to 19 July 2014

Group reports '…despite the slowdown in the UK eating and drinking out market in May & June, we remain confident in our well-established strategy…'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	150.0	34.9	10.8	Nil	Nil
2014 (E)	190.7	36.2	10.4	1.6	0.4
2015 (E)	212.0	40.1	9.4	4.6	1.2

Source: *Company & Broker Estimates*

Q3 & YtD Trading Update, 42w to 19 July 2014:

Mitchells & Butlers has this morning updated on trading during its Q3 (and for its year to date), being for the 42w to 19 July and our comments are set out below:

Trading result:

- Mitchells & Butlers has reported that total sales in Q3 were up by 3.8% and it says that cumulative w42 growth is now 2.9%
- It says that sales volumes rose in q3 but revenues were flat 'as we held prices and saw a decrease in food spend per head.'
- The group says 'this reflected a weak eating and drinking out market in the UK during May and June'
- The World Cup 'exacerbated' this but 'in the last few weeks we have seen an improvement in demand, particularly for food, from these levels.'
- The group reports 'operating margins are slightly below last year.'
- Re Orchid, M&B says 'integration is progressing well and we remain confident that the acquisition will be immediately enhancing to adjusted earnings'
- Total LfL sales were 0.0% in the 14w to 19 July. This split as to 0.6% from food and minus 0.5% from drink
- Total LfL sales for the 42w to 19 July were up 0.7%. This was comprised of +0.8% in food and +0.6% in drink and further details are set out below:

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Market Cap: £1.6bn
12m range 374p 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
H1	+1.1
42w to 19 July	+0.7
14w to 19 July	+0.0

Source: Company Reports

Cash Flow, Balance Sheet Trading & Other:

- Net debt is up on the back of the Orchid acquisition. The group comments 'the substantial majority of this consideration was funded using existing cash resources in addition to putting in place unsecured facilities totalling £150 million, provided by existing lenders.'

- Re new openings, the group states 'in addition to the Orchid transaction we have opened 20 new sites and converted 8 sites so far this financial year.'

Conclusion, Summary, Current Trading:

- CEO Alistair Darby comments 'despite the slowdown in the UK eating and drinking out market during May and June, we remain confident in our well established strategy.'

- He says 'we have continued to achieve growth in food volumes, further improvements in staff turnover and strong Net Promoter Score - all key lead indicators of long term success.'

- Mr Darby concludes 'we remain focused on our strategic priorities and are well-placed for future success.'

Langton Comment: 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.

The group has been sacrificing some sales for volume and it does not mention margins in this morning's statement.

The group's London estate should have buoyed performance (see Fuller's today) but this does not appear to have moved the dial.

Dividends are not mentioned (this is only a trading update) and, with M&B's share register dominated by Joe Lewis and Irish investors Messrs McManus and Magnier, some investors may consider that M&B, despite the fact that it is becoming cheap, is not currently a share that they need to have.

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.

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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 9.4x 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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