



25 Sept 2014

MITCHELLS & BUTLERS (MAB): 384p Q4 + Y-t-D Trading Update – 51w to 20 Sept 2014

Group reports ‘...despite a difficult trading period in the last Quarter, the transformation of our business is well on track....’

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	150.0	34.9	11.0	Nil	Nil
2014 (E)	188.0	35.8	10.7	0.5	0.1
2015 (E)	212.0	40.4	9.5	3.0	0.8

Source: Company & Broker Estimates

Q4 Update Conference Call:

Following its trading update this morning, Mitchells & Butlers hosted a conference call for analysts and our comments are set out below:

Introduction:

- Group says it has concentrated on volume and on providing value for money service to its customers
- Around 10 sites will have been converted from Orchid to M&B formats by Christmas
- August weather was poor but September is better. The consumer has yet to see real wages rise

Trading:

- Price v volume? Food is in volume growth (better than H1) with spend flat or negative. Drink, volumes are down (but less than last year) with some small price increases.
- Discounting? Some pickup in the market after a wet August. Not significant. What are you doing? There are some targeted offers.
- Spend per head? Some of the dilution is coming from the growth of the breakfast (lower spend) business.
- Costs? Minimum wage is +3%. Food inflation ‘remarkably benign’.
- Margin drop? Three reasons. One, Orchid is dilutive re margin. Two, there are pre-opening costs and three, growth is volume rather than price driven. Says these should ‘dissipate over time’. Won’t get back to normal till say FY16.

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Market Cap: £1.6bn
12m range 374p 490p

Balance Sheet & Other:

- Additional sites; still aiming for 40? Says this 'will be tempered'. Won't ramp up to 40-50 per annum until the Orchid conversions have taken place. Likely to open 23 this year and c25 next.
- Some 96 of the 173 Orchid units will be converted over time

Conclusion, Summary, Current Trading:

- The conference call was short and to the point. Short term pain for longer term gain. The short term is fairly visible but the long term isn't.
- CEO Alistair Darby concludes 'our business is well on track...coupled with the successful integration of the Orchid estate, this gives us confidence in our future growth prospects.'

Langton Comment: M&B's shares have slipped over recent days. Yesterday was all about the fear that the group may enter the bidding for SPRT and today's fall is a little more of the same alongside perceived not-good trading.

This is understandable but there is something of a supermarket-type re-set going on here with M&B having to take a couple of steps backwards (like Tesco and Morrison) and with JD Wetherspoon playing the role of Aldi & Lidl.

We see this price re-set as necessary – but it is clearly not helpful to the bottom line over the short or indeed perhaps the medium term.

Overall, M&B's rating is not high & the group has assets to die for. However, we are somewhat put off by 1) the potential (or perceived need) for the group to bid for SPRT and also 2) by the shape of the group's share register.

Perversely #2 would be somewhat mitigated by #1 but we are where we are. The group's shares are not trading on a demanding rating (some 10.7x this year's earnings falling to around 9.5x 2015) but, in a sector containing a number of good companies, we will stick with JDW, MARS and SPRT for the time being.

Contact – Mark Brumby - +44(0)20 7702 3389

mark.brumby@langtoncapital.co.uk

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Mark.brumby@langtoncapital.co.uk

Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389