



25 Nov 2014

## MITCHELLS & BUTLERS (MAB): 349p Full Year Results: 52w to 27 Sept 2014

*Group reports that it has 'made significant progress...'*

| Year to end-Sep | PBT (£m) | EPS (p) | PER (x) | DPS (p) | Yield (%) |
|-----------------|----------|---------|---------|---------|-----------|
| 2013 (A)        | 150.0    | 34.9    | 10.0    | Nil     | Nil       |
| 2014 (E)        | 183.1    | 34.7    | 10.1    | Nil     | Nil       |
| 2015 (E)        | 206.5    | 39.5    | 8.8     | 3.0     | 0.9       |

Source: Company & Broker Estimates

### Full Year Numbers to 27 Sept 2014:

Mitchells & Butlers has this morning reported preliminary results for the year to 27 Sept and our comments are set out below:

#### Trading result:

- Mitchells & Butlers reports turnover up 4.0% at £1.97bn with LfL sales +0.6% in the year
- Operating profit is up 1.0% at £313m, PBT is £172m against £171m last year and EPS (pre-exceptional) is up 1.2% at 32.6p
- The group has not proposed a dividend; it says it 'remains mindful of the attraction of the resumption of dividend payments' and will keep the situation under review
- The group says it has seen 'strengthening food volume performance' with LfL food growth up 0.9% and LfL sales trends are shown below:

#### • 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 13/14       | +1.1          |
| 14w to 19 July | +0.0          |
| 9w to 20 Sept  | +0.1          |

Find us at:



Recent News Here:

- Today's email
- Recent emails
- A day in the life...
- Who we are, what we do...
- Upcoming news-flow
- Recent company updates
- Thematic pieces
- LinkedIn profile



Market Cap: £1.44bn  
12m range 330p 490p

|          |      |
|----------|------|
| FY 13/14 | +0.6 |
| 8w 14/15 | +2.4 |

Source: Company Reports

#### Cash Flow, Balance Sheet Trading & Other:

- M&B says restated £10m of its pension finance charge into normal trading
- It reports capital expenditure increased to £162m from £128m last year; net debt is £1.96bn (2013: £1.79bn), some 4.5x normalised EBITDA
- The group adds that its Remodel programme is 'generating strong returns' and CEO Alistair Darby says 'in the last year we have made significant progress, investing in the business for future growth.'
- He reports 'we completed the acquisition of Orchid, accelerated remodel and expansionary capex and have made a substantial investment in our systems.'
- Mr Darby adds 'the business is gathering momentum and we have made an encouraging start to the year. We expect to benefit further from these investments during this financial year.'

#### Conclusion, Summary, Current Trading:

- CEO Alistair Darby says that for the last 2yrs 'we have been committed to the fundamentals of our business plan.'
- He says 'remain confident that this is the right plan and will deliver sustainable profit growth and future shareholder value.'
- Mr Darby concludes: 'Whilst we continue to operate in a challenging and competitive market, we are making real progress and we have confidence in our future success.'

**Langton Comment:** Whilst currently off their lows, M&B's shares have performed relatively poorly this year, falling from around 490p in calendar Q1 to their current levels.

Growth has lagged the market and M&B, despite its handily-placed London estate, has been deemed to be underperforming its peer group.

The operator has been open and straight-forward, however, and has spotted a slowing in sales and maintained that market share growth could be the only way forward in the shorter term for a number of operators.

Hence the uptick to 2.4% in LfL sales growth for the first 8wks of the current year could and probably should be seen as a good sign. LfL sales were only up by 0.6% in the year currently under review and it did not look as though the exit-rate was markedly better than that for the year as a whole. Margins are not given for the 8wk period and some commentators have suggested that vouchering and discounts have made something of a comeback, particularly at the value-end of the market where Sizzling Pub and some other M&B brands operate.

Hence we could see the cloud under which M&B has been operating lift a little – but it will be necessary to hear at least something about margin before we can comment further on whether the current level of sales growth can be maintained at an acceptable level of profitability.

MAB will host a meeting for analysts at 9am and is likely to be questioned further on both current trading and its intentions with regard to a dividend.

We continue to maintain that the group has assets to die for. Ask Mr Lewis. And it is deliverable by its two largest shareholders to an ambitious bidder, should the major investors tire of their shareholdings. Whilst there is little likelihood of this happening in the near term (as the group digests Orchid), there remain considerable upside risks.

The group's shares are not trading on a demanding rating (less than 9x current year's earnings) but there is no guarantee that a dividend will be reinstated and the group's share register may be off-putting to some.

Whilst acknowledging the latent strength of M&B's business and accepting that its shares are now cheap, we do not see MAB as a share that you must have and we would still be tempted to look for value elsewhere.

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

[mark.brumby@langtoncapital.co.uk](mailto:mark.brumby@langtoncapital.co.uk)

*This message (and files contained herein) may contain confidential or proprietary information and is intended solely for the use of the individual or organisation to whom it is addressed. If you are not the addressee you should not disseminate, distribute or copy this email or any part thereof. Further, please notify the author immediately by telephone or by replying to this email and then delete all copies of the correspondence from your system. We apologise for any inconvenience that this may have caused. This information is a financial promotion for the purpose of the European Markets in Financial Instruments Directive (MiFID) and FSA's Rules. It has not been prepared in accordance with the legal requirements designed to promote the independence or objectivity of investment research. This document is not based upon detailed analysis by Langton Capital of any market, issuer or security named herein and does not constitute formal research or a research recommendation, either expressly or otherwise. It is not investment advice and does not take into account the investment objectives and policies, financial position or portfolio composition of any recipient. This document should not be relied upon as authoritative or taken in substitution for the exercise of your own commercial judgment. Whilst Langton Capital has taken steps to control the spread of viruses on its systems, it cannot guarantee that this email and any files transmitted with it are virus free. No liability is accepted for any errors, omissions, interceptions, corrupted email, lost communications or late delivery arising as a result of receiving this message via the Internet or for any virus that may be contained in it. Recipients should review independently and / or obtain independent professional advice and draw their conclusions there-from should decide to undertake transactions with third parties. Langton Capital or its employees may have positions in securities mentioned herein. We reserve the right to monitor email messages passing through our network. Langton Capital Limited is authorised and regulated by the Financial Conduct Authority. Langton Capital Limited is registered in England number 07112949.*

[Mark.brumby@langtoncapital.co.uk](mailto:Mark.brumby@langtoncapital.co.uk)

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