24 Nov 2015

MITCHELLS & BUTLERS (MAB): 349p
FY Results – Analysts' Meeting:

Curate's Egg: Sluggish trading & work to do but dividend reinstated & sites to die for…

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	170.7	32.4	10.8	Nil	Nil
2015 (E)	183.0	34.7	10.1	0.2	0.1
2016 (E)	197.0	37.7	9.3	6.0	1.7

Source: *Company & Broker Estimates*

Full Year Numbers:

Following the release of its FY numbers this morning, Mitchells & Butlers hosted a meeting for analysts and our comments are set out below:

Trading:

- Chairman Bob Ivell described the year as one of 'soft sales but strong profits'
- He added that the reinstatement of the dividend represents a major step towards normalising the business
- October was good (mild weather, Rugby) but November was poor. To hit minus 1.6% for the 8wks, it must have been bad
- For the year, food sales (LfL) were +1.9% whilst wet sales were down by 0.4%. For the first 8wks of FY16, food was down 2.1% with wet sales some 1.2% lower
- The group made clear on a number of occasions that trading in Q4 FY15 and Q1 FY16 had been 'weak'
- Group would not be drawn on regional or brand performances specifically. Having said that, London has been strong

Major issues:

- The group highlighted the fact that new entrants are putting downward pressure on LfL numbers for incumbent operators
    - Making a virtue of a necessity perhaps but the group says that new entrants can create restaurant hubs/destinations etc.

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Market Cap: £1.5bn
12m range 311p 475p

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- A net c1,300 pubs and restaurants may have opened over the last 18mths – equivalent to one new M&B
- In addition Enterprise Inns would like to operate c800 managed sites and Punch Taverns also has managed pub aspirations
- The cost environment (at least before the NLW) is benign but this is just as well as material price increases will not stick
- The consumer is more demanding. Negative feedback is immediate. The group says this is not, if it ever was, a market in which mediocrity will succeed'
- The NLW 'could be the biggest game-changer of them all' (c.f. smoking ban etc.). It will impact margins but the group will target beneficiaries, create new customers

Dividend, balance sheet, business review:

- The group points out that the 5p (final) dividend should be around 2/3 of a pro-forma full year total. Hence a historic 7.5p dividend should be used in forecasting
- The dividend will be 'progressive' though the group has agreed with its pension trustees that it will not move ahead at a rate > EPS growth
    - Group accepts triennial review in March 16 will have an eye on the dividend but says that it is here to stay
- Debt is down from 4.5x EBITDA to 4.3x EBITDA
- The capital spending re Orchid is c50% complete. Sales uplifts are of the order of 30%.
- The group's brands are perhaps 'unbalanced'. MAB could do with a few fewer Harvesters and more Miller & Carters.
- Middle brands are suffering. The top and (more surprisingly) the bottom are OK. Group would like more Premium Country Pubs
- There are unlikely to be major disposals. The group did not comment on potential acquisitions.
- The group points out, rightly, that strategy cannot be nailed down, evolution is an endless task. MAB will 'test and learn' and make changes where they are required.

Langton Comment: So there's some good stuff and some bad stuff.

Trading is weak, new entrants are an issue, the group historically has been a bit sluggish in its reactions and the share register remains skewed.

On the positive side, the dividend is back, the group's new CEO outlined the options available to the group, MAB has sites to die for and its shares are chronically under-held by fund managers given the stakes owned by Joe Lewis and ELPIDA.

And the group has bought itself some time. Changes will be made but it will be a little while before their impact can be ascertained.

In the meantime, investors have at least a dividend to hang on to and the warm feeling that a 30% uplift in AWT at refurbished Orchid pubs brings with it.

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There is clearly work to do. MAB is there to be shot at. New entrants are a constant irritant. Some are extremely good and others are not. The latter may still be funded by crowd-funding and PE houses keen to get involved and there may be some lack of discrimination but each new pub, pub restaurant or restaurant thins the cake.

Overall, we recognise M&B's strengths but remain somewhat put off by its share structure. If would-be holders want to participate in companies controlled by a handful of individuals then they could do a lot worse than invest in M&B. however, for others amongst us, there remains a lot of choice elsewhere.

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