Langton Capital Limited

24 Nov 2015

MITCHELLS & BUTLERS (MAB): 349p
FY update – 52wks to 26 September 2015:

Group says it has seen strong earnings & resumes dividend with a 5p final payment…

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:

Mitchells & Butlers has this morning reported results for the 52wks trading to 26 September and further comments are set out below:

Trading:

- Total sales for the year were up by 6.6% at £2.1bn. Adjusted operating profit was up by 4.8% at £328m with PBT of £126m (2014: £123m0
- Adjusted EPS is 35.7p (up 9.5%) and a final dividend per share of 5p is being recommended
- The dividend is higher than many had expected though the pace at which the group intended to move to a 'normalised' level of payment has been the topic of some debate
- The group reports that LfL sales were +0.8% in the year (not a surprise as the group had reported to w50)
- M&B says that 'sales in the first eight weeks of the year have been soft, with total sales down by 1.3% and like-for-like sales down by 1.6% reflecting an increasingly competitive market' and recent 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

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

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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
FY 13/14	+0.6
8w 14/15	+2.4
17w 14/15	+1.7
H1 14/15	+1.7
First 43wks	+1.3
FY 14/15	+0.8
First 8wks 15/16	-1.6

Source: Company Reports

CEO Phil Urban's business review:

- New CEO Phil Urban reports 'the environment in which we operate remains competitive and dynamic.'
- He says 'new supply into the market has been widely reported, consumer trends are evolving and becoming ever more demanding, and we are facing a dramatically changing cost landscape with the introduction of the National Living Wage next year.'
- He goes on to say 'such challenges are not new to the industry or the group, and we will respond with energy and urgency to each.'
- He adds 'the impact of technology is ubiquitous. Consumers are increasingly digitally connected in all aspects of life, with implications for how we communicate with and serve them.'
- The NLW will impact the wider industry and MAB says its approach will be 'rounded'. CEO Urban reports MAB will look at efficiencies and the opportunity to increase guest spend per head.

Business review conclusions:

- MAB will 'build a more balanced business' meaning that it needs to sharpen and target its brands 'in a dynamic market.'
- Specifically the group mentions Miller & Carter saying it is 'a successful premium brand with only 36 sites but the potential for many more.'
- Harvester, it says, 'is susceptible to new competitors due to its size and positioning' and could be in need of more investment
- The group needs to 'instil a more commercial culture' 'with a focus on driving profitable sales day in and day out.'
- CEO Urban says, however, that the group will not drive sales at the expense of profitability
- The group says it will 'increase the pace of execution and innovation' and will approach the need for change 'urgently'

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Langton Comment: Re current trading, the group says 'sales in the first eight weeks of the year have been soft, with total sales down by 1.3% and like-for-like sales down by 1.6%, reflecting an increasingly competitive market.'

It says 'as we face these challenges we have a clear set of priorities going forward' and adds 'we are continuing with our strategy whilst retaining a flexible approach across our extensive portfolio of pubs and restaurants, seeking sustained and balanced profit growth rather than purely the pursuit of sales.'

Despite slower trading in FY16 to date, with the important Christmas period to come, the group concludes 'through this we are confident we can deliver strong shareholder returns.'

New CEO Phil Urban will present to analysts at 8.15am. He and his fellow directors will need to convince a wider audience that, post the Alistair Darby era when many of the initiatives outlined would appear to have been attempted, the group can drive change in the areas where that change is most needed.

The reintroduction of the dividend may help though there will be some observers who will suggest that it has been dragged from a Board that last paid out to shareholders in 2008.

In order to secure this year's numbers (of around 38p in earnings) the group will have to convince that it has the tools with which to engineer something of a turnaround. If numbers are justified, then M&B is trading on a PER of around 9x this year's earnings with perhaps a 2% to 3% yield – depending on guidance given at this morning's meeting.

The group's share register is still skewed (Elpida and Joe Lewis own c50%) and, though M&B has some excellent sites with the potential, perhaps, to regain some of their previous lustre, many would-be shareholders may look for value elsewhere.

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