



18 October 2011

Leisure: Whitbread (WTB): 1618p H1 to 1 Sept 2011 – Analysts' Meeting

Following the announcement of its H1 results for the six months to 1 September this morning, Whitbread hosted a meeting for analysts at which the main points and questions to emerge are set out below:

- Trading – Premier Inn
 1. Online bookings now comprise 76% of total
 2. Corporate sales are up 13% and new CRM system introduced
 3. Premier Offers has morphed into Premier Savers
 4. Moving to dual pricing (as Travelodge has done for some time) i.e. Premier Flexible and Premier Savers – cancellable rooms are more expensive
 5. Saver bookings doubled in the year to this H1
 6. 55k rooms have been secured (i.e. 11k new rooms) & target of 65k (2015/16) remains in place. Some 60% of pipeline is in South
 7. Group is moving to 'regional clusters' from business types for reporting purposes; says this is 'more joined up'
 8. What's happened to visibility? Not answered directly. Trading is variable, distorted by weather etc.
 9. Comment on the Olympics? Have given some to the Olympic body. Have 3,000 rooms per day left and have set a limit of £199, which is selling well. But remember only 15 hotels will benefit out of 600. Impact will be modest.
 10. PI International will see less capital employed and returns rise. Some £30m pa will be spent.
 11. PI International does have significant but indirect benefits of being allied to the UK business. These are 'hard to quantify'
 12. PI International – when will you sign franchisees? It may 'be a while before they get 'asset light' capacity put on'
- Trading – Pub Restaurants:
 1. 'Trading has been disappointing' and 'the consumer is more cost conscious', particularly at the weekends
 2. Lower ticket offers have performed better
 3. Input cost inflation? Around 2% to 3% - although coffee prices have risen more significantly.
 4. How will offers impact margins? It's 'too early to say' but it won't push margins up
- Trading – Costa:
 1. Results have been 'outstanding'
 2. New products & store design have pushed sales
 3. 'Ahead of acquisition plan' re Coffee Nation
 4. When will China move to profit? Won't say as the current target is growth. Should be profitable in 'a couple of years'. Margins should ultimately be in line with those in the UK.
 5. Closures? Don't read too much into this; many were relocations. Also got out of some highly rented sites in Russia – from the high street towards shopping malls

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- Trading – Outlook:
 1. On track to hit 5yr targets & market expectations for 2011/12
 2. Growth will be funded from own resources
- Cash Flow – Described as ‘robust’. Dividend growth is substantial although H1’s increase is a rebasing
- Balance sheet: Premier Inn will add rooms over the next three years in the proportion of leasehold, 63% and freehold 37% - this should positively impact returns on capital
- The pension deficit has risen from £423m to £517m despite the £61m paid in during the year

Langcap view: Whitbread once again reassured. At Premier Inn, having introduced dynamic pricing a couple of year ago, the company is once again introducing something that Travelodge has done for some time in the form of dual pricing. This should allow the company ‘to capture cancellations’. The Olympics will only impact modestly. Restaurants are facing tough market conditions. Offers will weigh on margins but lower-ticket sales are holding up. Costa goes from strength to strength. Input inflation is an issue but, at 2% to 3%, this should not hold back profits materially. Overall, the shares, which trade at around 12.5x this year’s earnings, appear to offer good value.

Comment Continued – Restricted List Only - Bears may pick over a couple of comments. Premier Inn, heaven forbid, may look like a follower rather than a leader in that it has now adopted a couple of Travelodge’s ideas (and its online booking percentage is still running behind) and its offers, Premier Offers, Premier Savers, weekend-loyalty schemes etc. may look a bit cluttered but the group is getting there, one way or another.

Comment Continued – Restricted List Only – However, there is little doubt that Whitbread has a balance sheet that most other operators can only dream of (H1 interest cover was 16.3x) and has some genuinely interesting brands operating in markets, both in the UK and overseas, that are in secular growth. Hence we continue to believe that the group’s shares remain attractive.

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