

23 October 2012

## Leisure: Whitbread (WTB): 2280p H1 Results: Analysts' Meeting

Following that release of its H1 numbers earlier this morning, Whitbread hosted a meeting for analysts and our comments are set out below:

- Trading – Overall: This was a 'pretty tough' trading environment but the group remains 'firmly on track to hit its milestones'
- Trading – Premier Inn:
  1. Some 82% of bookings are online, online bookings increased by 22% H1 on H1; the group's website had 36m hits in H1
  2. The group will 'build its presence in London'; it has 7.7k London rooms now and post pipeline build-out it will have 11.3k
  3. Post the Olympics, the group is 'waiting for London to establish its new trajectory'
  4. Travelodge will take time to recover & other competitors are also finding the going tough
  5. Premier has taken 'perhaps 5 or 6 units' from Travelodge's pipeline
  6. Overseas performance has been 'solid' and the group is progressing its 'asset light' model
  7. Some 11 memorandums of understanding (not all of which will lead to contracts) have been signed with potential partners
- Trading – Restaurants:
  1. These benefited from the move on Half Term from H2 into H1
  2. 'Value meals' now comprise 40% of all sales; the estate is outperforming the Peach Tracker and 75% to 80% of sales are food
  3. Food costs will rise by c5% this year
  4. The presence of a pub restaurant makes hotels between 50 and 80 rooms viable
  5. 45% of rooms are on a WTB restaurant site and 15% are co-located with a 3<sup>rd</sup> party restaurant; Whitbread is 'not very likely' to attempt to buy these sites
- Trading – Costa Coffee:
  1. The subsidiary's performance has been 'outstanding'
  2. Costa Express is 'well ahead of plan' at 1,986 machines
  3. EMEI sales have bounced in Middle East but Eastern Europe is a little slower
  4. Investments overseas are running at an annual £10m or less
  5. Costs in China (re build) are c£125k or ½ those of the UK
  6. Re de-merger, 'Costa is doing very well within Whitbread' (and no further comment)
- Capital Spending – The group utilize £188m of cash flow on capital spending in H1, some £111m of which was expansionary
- Debt and Financing Issues:
  1. Debt is not a concern.
  2. Another sale-and-leaseback is likely this financial year

**Langcap view:** Whitbread has demonstrated that it has a robust business model but it has not given numbers for the seven weeks or more of H2 that it has currently traded.

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This, alongside comments suggesting that growth is moderating may lead to small downgrades (or at least the absence of upgrades) and this has maybe encouraged some holders to take profits and for some non-holders to step back.

Whitbread remains very high quality company. It is asset-backed and has options overseas. But its shares are not cheap either in comparison to other leisure companies or to its own historic valuation and a degree of profit-taking is perhaps in order.

However historically, sell-offs in Whitbread's shares have been brief affairs with would-be holders keen to acquire the shares at lower levels and, overall, the outlook for the group remains good.

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