

18 June 2013

Leisure: Whitbread (WTB): 2925p Q1 IMS to 20 May – Conference Call

Following its Q1 trading update this morning, Whitbread hosted a conference call and Q&A for analysts and our comments are set out below:

- Overall:
 1. Group has performed well but cautions that LfLs will move around due to a number of factors this year and last
 2. These include the Jubilee, the Olympics and the Paralympics last year as well as poor summer weather and cold weather this year
 3. The group has built upon existing good momentum
- Hotels:
 1. Are the UK's regions finally picking up? Group is hopeful but 'we are lapping weak trading last year' and it is 'too early to be calling a trend'
 2. Trends here are hard to read in the regions as Travelodge was having a very tough time of it a year ago
 3. Group suggests that occupancy is sensitive (on the upside) to rate changes
 4. The weather had a limited impact and the group would not split out the impact of the double-Bank Holiday last year
 5. Forward bookings 'are where we would want them to be'
 6. The pipeline is c10,000 rooms
- Restaurants:
 1. These were impacted by the cold weather but there has been a 'substantial' upturn
 2. So what is the underlying trend? Says it is 'too early' to call a trend
 3. Inflation? Food is +3% to +4%, labour is c2% to 3%. Group then focusses on productivity and passing the rise on
- Costa:
 1. Continues to perform very strongly and was aided by the cold weather as 'linger time' out of the snow increased
 2. Spend/head is 'broadly flat' – so revenue growth has come from volume; group is 'clearly the leading coffee shop'
 3. Cold weather 'could have helped by up to 2% in LfL terms'
 4. Costa Express has increased target openings;
 1. Is still focused on key areas such as supermarkets and petrol stations
 2. Reluctant to expand on 'next areas' such as hospitals, schools and overseas
 3. Machines are 'substantially ahead of plan'
 5. China is 'a bit softer' but LfLs are 'high single digits'
 6. LfLs in Poland (VAT inspired) are down – group has around 120 units
 1. Profitability will be down due to the necessary infrastructure
 7. Closures overseas have been where franchises have matured – e.g. Bulgaria & Montenegro – these closures will not impact profitability

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[Langton Capital Limited](#)
Suite 415, No.1 Alie
Street, London
E1 8DE - 020 7702 3389

8. Aiming for 6 stores in H2 in Paris – but by FY it will be too early to read the performance

Langcap view: Whitbread has reassured that it is trading in line with expectations but has cautioned that LfL trends will be difficult to read for some time due to 'events' and the weather both last year and this.

Meanwhile, the group continues to deliver. Premier Inn may have seen some signs of life in the regions (but with the caveat that these are early days taken on board) and Costa continues to perform very strongly.

An element of this is in the price and the group should earn around £390m in the year to end-February 2014. This implies earnings of around 166p with perhaps a dividend of 62.5p. The group's shares therefore trade on a PER of around 17.6x and offer a yield of 2.1%.

This suggests that the group's shares are expensive when compared with those of its peers but, given the relative certainty with which Whitbread continues to deliver, its shares remain attractive.

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

mark.brumby@langtoncapital.co.uk

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