



18 June 2013

Leisure: Whitbread (WTB): 2925p Q1 Trading to 20 May 2013

Whitbread has this morning released the trading statement that will accompany its AGM later today and our comments are set out below:

- Whitbread has this morning updated on Q1 trading for the 13 weeks to 20 May 2013 saying that LfL sales across the group as a whole increased by 3.1% and that total sales were up by 13.8%
- LfL sales increased by 2.7% at Premier Inn and were up by 8.0% at Costa
- Restaurants were flat (0.0% and impacted by the cold weather in March) and the total hotel and restaurant division lifted LfL sales by 1.7%
- CEO Andy Harrison reports 'Whitbread had a good start to the new financial year...in line with our plan' and details are shown below:

| | Premier Inn LfL % sales | Pub restaurants LfL % sales | Costa Coffee LfL % sales |
|-------------------------------|----------------------------|--------------------------------|-----------------------------|
| H1 (09/10) | -7.5 | +1.8 | +2.5 |
| H1 (to 2 Sept) | +10.1 | +4.2 | +8.5 |
| FY 10/11 | +8.6 | +3.3 | +7.8 |
| Q1 (11/12) | +3.0 | -1.4 | +4.0 |
| Q2 w24 (11/12) | +7.1 | -1.6 | +9.7 |
| Q3 | +2.6 | +1.1 | +3.8 |
| Q4* | -0.9 | +2.2 | +6.2 |
| FY (11/12) | +3.2 | -0.2 | +5.5 |
| Q1 (12/13) | +4.3 | +2.1 | +8.4 |
| Q2 (11w to 18 Aug) | +3.2 | +4.9 | +5.7 |
| Q3 | +2.5 | +1.9 | +7.1 |
| 11w to 14 Feb | +2.9 | +0.2 | +5.5 |
| FY (12/13) | +3.1 | | +6.8 |
| Current trading (at 20 April) | 'positive momentum' | 'hit by cold weather' | 'helped by cold weather' |
| Q1 (13/14) | +2.7 | +0.0 | +8.0 |

Source: Whitbread.

- **Premier Inn** – Premier Inn 'maintained its positive momentum' with total sales up by 12.7% against strong comps in London
 - 1 The group says this growth was in line with the mid-market with LfL REVPAR up by 1.0%
 - 2 Occupancy was up by 0.9% and rate was some 0.2% higher
 - 3 In London, REVPAR was down by 1.8% (better than the market, which was down by 3.8%) 'against a strong market this time last year due to the preparations for the Olympics'
 - 4 LfL REVPAR was some 2.1% higher in the regions
 - 5 The group opened some 794 rooms in the quarter and should achieve around 4,000 for the full year

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- **Restaurants** – These were impacted by cold weather in March but the group says these saw an ‘improved performance in recent weeks, after a tough start to the quarter’
- **Costa** – Costa ‘has continued to perform well, benefitting from the cold weather’
 - 1 Total system sales were up by 23.1% and franchise sales were up by 21.6% at £111.8m
 - 2 Costa Enterprises, which includes Costa Express, delivered system sales of £67.1m (up 32.6%) and there are now 2,924 Costa Express machines in operation
 - 3 The group opened 39 net new stores in the UK in Q1
 - 4 International system sales were up yb 21.3% at £63.3m (up 13.2% in EMEI and up by 54.3% in Costa Asia)
 - 5 Costa opened 21 new stores overseas including 18 in China, where it now has 271 stores
 - 6 The group should open around 300 new Costa stores in the full year and is targeting 750 new Costa Express machines
- **Trading overall** – The group says ‘we see no change to market conditions’ but reassures ‘our plans for profitable organic growth are well established’
- **Balance sheet** – Whitbread comments that ‘the strong financial position of the group remains unchanged’

Langcap view: Whitbread has once again reassured that trading remains in line with management expectations. Q1 has shown continued double digit growth, despite the period being impacted by cold weather (negative for restaurants but positive for Costa) and challenging comps in the London hotel market.

The group’s shares have risen strongly over recent months. They have more than doubled since they approached £14 in Q3 2011 and they have not fallen materially during the recent stock market sell-off.

This is testament to the solidity of the group’s earnings and the strength of its balance sheet but it does mean that, on an earnings basis, Whitbread’s shares are no longer cheap – particularly when compared with the group’s asset-backed, leisure sector peers.

However, that is to perhaps miss the point. Whitbread has overseas potential in both Premier Inn and Costa and growth may not, therefore, be constrained in the same way that it is with several other operators.

To some extent, therefore, Whitbread may be compared to much larger companies such as SAB or Diageo or even consumer majors such as Unilever and Reckitt Benckiser in that it serves a number of consumer geographies and has potentially exciting prospects in a number of emerging markets.

This does perhaps leave the group’s relatively highly-rated shares vulnerable to the occasional setback but, as Whitbread continues to expand its overseas presence, this may be a risk that holders remain prepared to take.

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%.

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