

10 Sept 2013

Leisure: Whitbread (WTB): 3216p Q2 Trading Update – Conference Call

Following its update on Q2 trading this morning, Whitbread hosted a conference call for analysts and our comments are set out below:

- General trading:
 1. Whitbread ‘has delivered another good trading performance’
 2. Both businesses are taking share but both were ‘impacted by cold spring and hot summer’
 3. Key is to maintain ‘profitable organic growth’
 4. Costs are up by 3% or so, meaning that 2% LfL growth is necessary to hold margins – business in first half has ‘clearly been under pressure’
- Premier Inn.
 1. Business has ‘returned to normal’ after the Olympics
 2. Trading in Q2 was ‘below the average for the industry’ but the latter was heavily influenced by Travelodge’s weak performance last year
 3. The summer was the low-point for performance from Travelodge (so comps will be easier)
 4. Extensions added around 0.7% over the 24 weeks
 5. Are you back to peak occupancy & what does this imply for pricing in H2? Occupancy is >90% in London. Still room to grow occupancy in provinces. Pricing trends unchanged.
 6. Did the weather help? Olympics were more of an issue; weather has to be extreme to have an impact.
 7. No decisions made on Germany yet
 8. There are ‘stark differences’ between London and the provinces, London is very, very strong – but at least comps in the provinces are now soft
 9. In Provinces, ‘consumer has less money in his pocket than at this time last year’ – the provincial market is ‘about flat’
 10. Openings are likely to be H2 weighted
- Restaurants:
 1. Covers were down by around 2.5% and spend per head was up by about the same number
- Costa:
 1. This was impacted by cold then hot weather ‘but the 24w average provides a guide to growth potential’
 2. It is ‘too early to judge’ how successful Costa may be in entering the office market
 3. Will a push into offices cannibalize trade? Too early to say – but company ‘doubts they will lose trade’ – says one location or occasion, does not really cannibalize from another
 4. China has slowed a little but still looking very healthy
 5. Polish Costa machines are proving to be successful
 6. Openings are likely to be H2 weighted

Langcap view: Whitbread has outlined clearly that, whilst nothing material has changed beneath the surface, this was a half of two quarters.

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Costa has 'slowed' but the average of 5.7% is still impressive and the group remains on track to hit targets etc.

However, the group's shares are not cheap. It should earn around £388m in the year to end-February 2014. This implies earnings of around 167p with perhaps a dividend of 62.0p. The group's shares therefore trade on a PER of around 19.3x and offer a yield of 1.9% and a degree of profit taking is perhaps to be expected.

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