

22 Oct 2013

Leisure: Whitbread (WTB): 3372p H1 to 29 Aug 13: Analysts' Meeting

Following the announcement of its H1 results to 29 August 2013 this morning, Whitbread hosted a meeting for analysts and our comments are set out below:

- **Trading: Premier Inn:**
 1. The group is 'taking share' in the UK
 2. Value for Money (VFM) is not just about price. You could sleep on a bench for a quid. It's about location and offer, too.
 3. Says the VFM gap with Travelodge 'is widening'
 4. There are a lot of leases in the pipeline but, even when this is built out, PI will be 61% freehold
 5. The buoyant London property market is making site-finding a challenge but 40% of the group pipeline is in London
 6. Group concedes Travelodge's problems made 2012 easier than it would otherwise have been & competition will hot up
 7. Supply in the regions is benign; there will be 'a small dwindling of the independents'
 8. International is 'making progress' & the division should have c50 hotels by 2015
- **Trading: Restaurants:**
 1. These were flat. Footfall down and spend up. This was 'in line with the Coffey Peach Tracker for units outside London' (where WTB has 'virtually no presence')
 2. Guest scores are rising and the outlook is better
- **Trading: Costa:**
 1. Costa is performing strongly in the UK; share has moved from 7% to 11% and the gap over Starbucks 'is widening'
 2. Transaction volumes in the UK were up by 5.5%
 3. Hot weather in the UK hit Costa but sales growth remained positive
 4. The group is content for margins not to rise further; coffee prices are down 15% or so over the year but milk prices and the cost of labour is up
 5. Costa Enterprises now has 3,142 machines, hitting its 3k target some 2.5 years early
 6. Costa International swung from a small profit to a loss (£1.5m to negative £05m) year on year on start-up costs in France, expansionary costs in China and tough trading in Poland
 7. Group maintains Poland 'is recoverable'
 8. In China, the shift in profit/loss momentum (from more losses towards profit) 'will be several periods yet'
- **Cash Flow, Debt & Balance Sheet:**
 1. Capex was down H1 on H1 but this is due to the purchase of St Martin's Lane (to be a Pod) last year
 2. The pension deficit fell to £507m (2012: £542m) though only after a cash contribution of £61.2m)

Langton view: Overall, Whitbread appears to be confident that it is doing the right things well.

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Trading is in line with management expectations and the group remains on track both for this year's numbers and for its 2016 and 2018 milestones.

Hence valuation remains the issue. Whitbread has brands with overseas potential in both Premier Inn and Costa and growth may not, therefore, be constrained in terms of either trading or valuation in the same way that it is with several other operators.

But the group's shares are arguably getting up with events and their rating does perhaps leave them open to profit taking from time to time.

The group 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 20x and offer a yield of 1.9%.



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