



21 Oct 2014

WHITBREAD (WTB): 4226p H1 numbers: Analysts' Meeting

Group reports a 'very good set of first half results...''

Year to end-Feb	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	411.8	167.7	25.2	68.8	1.6
2015 (E)	462.0	202.8	20.8	76.3	1.8
2016 (E)	525.0	230.0	18.4	86.2	2.0

Source: Company & Broker Estimates

H1 Numbers: Analysts' Meeting:

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

Premier Inn:

- The proportion operated on leases rather than owned freehold increased this H1 from 32% to 34%
- The group has the largest estate in the UK with a much higher satisfaction score than its chief competitor(s). Independents continue to lose share
- There is a small tail to be cut, around 255 franchised rooms will go. New rooms this year should total around 4,500 but, as it's back end loaded, this would be impacted if we have a bad winter
- AirBnB is not taking any share
- 79% of bookings are now on line, London sales were up 11% and regional sales +15.6% on the back of a 'strong market recovery in the regions'
- The first Hub opens in November, the first German hotel in Frankfurt next year. German target is c6 in 4-5yrs. This will not be a capital light model but rather similar to the UK
- German costs will be modest (perhaps £2m p.a.) in the early years but should be a 'healthy profit' by FY18. An acquisition in this market is unlikely 'but never say never'

Restaurants:

- Margins are up, the refreshes are performing well & the estate outperformed the UK restaurant market as a whole

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Market Cap: £7.7bn
12m range 3370p 4470p

Costa Coffee:

- Put in an 'excellent' performance. India is being trimmed but the operation put in strong growth everywhere else
- The Polish re-brand is on track. Ditto Costa Express. It is 'early days' in France but 'promising' in Spain. China is 'exciting'

Other:

- Return on Capital is rising, partly as a result of the group shifting modestly to a leased model in Premier Inn (and already there with Costa)
- The group has cautioned that comps will be tougher in H2 and particularly in Q4. Weather last winter was very mild
- Debt to EBITDA is a modest 3.0x and the pension deficit has reduced to £489.2m from £534.3m at end-Feb (admittedly on the back of a cash contribution)
- The group is not looking to diversify away from its core businesses at the moment; it has 'plenty on its plate'

Langton Comment: Whitbread has reassured that its core businesses are performing well.

Independent hoteliers continue to lose share, Germany is a potential area of growth, Costa is performing strongly, there are no obvious signs of saturation and China is 'exciting'.

But the group has reiterated its belief that Q4 comps will be tough and there will not likely be upgrades on the back of today's numbers.

The group's shares are down by 1% (43p) at the moment but, rather than reflect any problems, this may be little more than a settling down of the shares after a positive move of almost 300p over the last week. The shares are not cheap but WTB looks set to deliver over the medium term.

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