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WHITBREAD (WTB): 4560p Q3 Trading Update: Conference Call:

Incoming group CEO says 'it's all about continuing the journey...' but outsiders may read the Call as a shade defensive...

Year to end-Feb	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (E)	480.9	211.6	21.6	81.8	1.8
2016 (E)	542.0	239.2	19.1	91.3	2.0
2017 (E)	610.0	268.0	17.0	102.6	2.3

Source: Company & Broker Estimates

Q3 Update: Conference Call:

Following its Q3 update this morning, Whitbread hosted a conference call for analysts and our comments are set out below:

Introduction, Alison Brittain:

- The new CEO's aim is to continue to build & strengthen the group's brands. She buys in to the target milestones, will continue the journey
- The systems & processes within the company will require some investment as a result of the rapid growth thereof

Hotels:

- Group's second Hub opens this week at Tower Hill with a third opening in Shoreditch later this year.
- November is positive – but 'softer than the rest of the quarter'. Year 'had been tracking c4% - but in November it was c1.5%'. Says PI was not down as much as the market
- You had been looking for 4% REVPAR increase for the rest of the FY; has this changed? Group downplaying November. Clearly, if 1.5% were to persist, numbers would come under downward pressure.
- Says 'November is a strange month'. Forward bookings are low at this time of year – people mentally are thinking either pre- or post-Christmas. Hence Jan bookings tend to be strong.
- Group was asked about 'the last week' but will not be drawn to make comments on a weekly basis.
- Will your premium over Travelodge narrow? Competitors are pushing prices. Travelodge is not opening much space (so needs margin). This

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Market Cap: £8.3bn
12m range 4306p-5440p

'may continue'. It gives Premier Inn opportunities. There 'are more levers to pull'. Prices are c£15 to c£18 higher at PI vs Travelodge.

- Have you seen a step up in cancellations? No. It was simply a little softer on the leisure side, Friday & Saturday.
- Is Airbnb causing problems? It's a key issue, says WTB is not complacent. Says 'broadly speaking, we have not seen an impact.'
- Internationally? Robust in India (from a low base). Middle East 'rather challenging given the lower oil price'. Germany will open in February.

Restaurants:

- Pub restaurant market outside the M25 'remains very competitive'.

Costa:

- Costa LfLs were up by only 0.5% in November. Group says this has been as a part of a general pre-Christmas slowdown (witness BRC – also today's Coffer Peach numbers)
- November was 'somewhat softer'. Group was questioned on this a number of times & said one should not read too much into it.
- Group points out it had a soft August 'and bounced back rapidly'.
- Prices? Group has not put prices up for some time. Gap has opened up. Starbucks & Nero put prices up pre-Xmas. Alison Brittain says this is 'a good position to be in'.
- It sounds as though Costa prices may be set to rise. What is the price elasticity? No real comment.
- China. Around 20 fewer stores now set to open. Group also to open a shade fewer in the UK – mostly Esso units. It's 'about getting quality sites rather than just sites'.
- Costa Fresco roll-out? It's both a concept and a test. It has 'street appeal'. It's in response to customer trends. Will test customer reaction. It could be retrofitted to a number of stores if consumers respond positively.

Other:

- What will be the impact of 'upgrading systems'? Gradual. Is it needed to fight off the online operators? Just launched a new website. Aim to make frictionless. But surely PI prices are simply a shade on the high side?
- Financials. Are we right to think you will hit your profit targets but via higher margins rather than higher sales? Group skirted the question, said numbers of c£540m to c£545m are intact

Langton Comment: Whitbread's conference call was cautionary in tone.

The group has a new CEO but the feeling that things slowed a little, particularly in November, goes perhaps a little deeper than that.

Indeed, given the level of questioning, the company may wish that it hadn't commented on November at all – though that's not really possible – as there were a number of questions focusing on the 'exit rate' i.e. what is now looking like the weakest month of the year to date.

And that's understandable – as is the reaction (down c3%) in the group's shares.

Investors may decide at this point to hold back & to wait, see how December and January pan out. Whitbread has said that January bookings historically have been very strong suggesting that the company should have a much clearer line of sight on current trading.

Overall, and when combined with comments made in the Coffey Peach Tracker this morning, one has a feeling that the market may be slowing. This could be temporary but, as the market attempts to discount the future, it is having an impact.

Clearly WTB's share price is equivalent to PER multiplied by EPS and, though the latter is not changing at the moment, its composition perhaps is and the PER could come under a little pressure. Perhaps time to stand back & garner further evidence as to ongoing trends.

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