



3 Mar 2016

WHITBREAD (WTB): 4103p Q4 Trading Update: Conf. Call:

Great brands but short term concerns. Position should be somewhat clearer by time of group's FY numbers in April...

Year to end-Feb	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (E)	480.9	211.6	19.4	82.2	2.0
2016 (E)	540.0	237.0	17.3	91.1	2.2
2017 (E)	600.0	263.0	15.6	101.4	2.5

Source: Company & Broker Estimates

Q4 Update: 50w to 11 Feb – Conf. Call:

Following its 50wk update earlier this morning, Whitbread hosted a conference call for analysts and our comments are set out below:

Premier Inn:

- Says 'the UK hotel market has been weaker since November'
- Group 'anticipates a pickup' in London in the next few months – but REVPAR is likely to be flat over the coming year
- Can you cut costs if market worsens? Says operational gearing is lower because of the freehold nature of the estate.
- Slowing market? Yes in London, less so in regions. STR estimates London flat in year to next Feb. Says market 'is down 3% at present'. STR is looking for 3.5% growth in the regions. PI has extensions in addition to organic REVPAR. These show in LfL sales but they do dilute REVPAR. WTB is expecting around 1% reduction in REVPAR as a result of extensions.
- Extensions, 1500 this year, c1700 next. Extended hotels see REVPAR down around 3%. Across the estate, this equates to a 1% drag. Returns on extensions (no extra infrastructure etc.) are good. They tend to cost around £60-65k per room.
- Group will open c5k rooms per year.

Restaurants:

- LfLs have been improving, what's going on? Business is 'doing relatively well'. It is the F&B offer for the PI estate.
- Is 2-3% LfL reasonable going forward? Say around 2%.

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Market Cap: £7.4bn
12m range 3649p-5440p

Costa Coffee:

- Footfall on the high street and in shopping centres has been flat. This impacted hot-drink sales
- Are you losing share? It is a competitive market. Being #1 is good – but it requires effort to maintain this position.
- What was the exit rate? Has recently been ‘phenomenal’. Last 8wks ‘has been closer to 3%’. But it is variable.
- High Street has some issues. Internet, business rates issues etc. but ‘we remain social creatures and coffee shops have a future...’
- Group points to the 3% number ‘but this may be 2% to 3% for next year and thereafter. Group says it ‘is not just about LfLs, it’s about growth as well’. E.g. Express.
- How does this 2-3% split between pricing & volume? Say half and half. Group has just put through its first price rise in years. Prices still lower than competitors.
- Should be around 250 units next year, 50:50 UK & overseas with around 50 in China. Should install around 1,000 machines next year. Just signed with Shell to open c150 in Canada.
- Costa Fresco? The store has done well. It’s just a test. Learnings ‘will be extended to a handful of stores’. There could be some back-filling to existing stores.
- Group will continue to open c200-250 units per annum.

Other:

- Group reiterated that it ‘will need to invest’. P&L cost will be around £15m. This is an incremental step up – it will be ongoing per annum.
- Sale & leaseback? Couple of years since they last did this. They may go £100m plus. Yields are looking good (i.e. low). Won’t guide at the moment re yield.
- Group will spend £700m this year and c£700m next. Debt this year should be around £900m.
- Capex will clearly be influenced by the freehold-leasehold mix.

Langton Comment: Whitbread has confirmed that it is in line to hit targets.

However, the group’s comments on Costa (impacted by the weather) and Premier Inn (impacted by the slowdown in London) have arguably warranted the c4% drop in the group’s share price this morning.

Whilst FY16 numbers are secure (the year actually ends today), there will be a degree of uncertainty regarding FY17 – and indeed growth going forward.

The position will be clearer when the group reports FY numbers in April. The recovery that the group expects to have happened in the London hotel market (in order to hit flat on the year) will have either happened or not and the weather (re Costa) should have normalised.

We continue to believe that Whitbread has potentially world-beating brands in the shape of Costa and Premier Inn. However, until the outlook for the London hotel market becomes a little clearer (and we do believe that the down-cycle will become established), would-be shareholders may decide to sit on

their hands with regard to Whitbread's shares. With that (worth of the brands vs short term concerns) in mind, value is likely to emerge but we would not be in a rush to establish an overweight position.

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