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WHITBREAD (WTB): 3866p FY Results: Analysts' Meeting:

Whitbread says it aims to become a 'bigger & better company...'

Year to end-Feb	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (E)	480.9	211.6	18.4	82.2	2.1
2016 (A)	546.3	234.0	16.5	90.6	2.3
2017 (E)	600.0	250.0	15.5	98.2	2.5

Source: Company & Broker Estimates

FY Numbers 2015/16 – Analysts' Meeting:

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

Trading & Outlook – Premier Inn:

- Group says the London market 'was weak' in H2
- Whitbread says that 85k rooms is a realistic 2020 target. Much of the shortfall will come from extensions & filling in in London. The Independent market will continue to decline. Whitbread will put on about a half of the market's increase in capacity between now and 2020
- Hub will allow PI to grow 'in high property value areas'
- Internationally, India looks to be losing high single digit millions. The Middle East is in profit & it's very early days for Germany
- A modest German acquisition, in order to road-test the model more rapidly, is not out of the question
- In the UK, rents will be something of a drag on margin as the group opens more leasehold units
- Looking forward, WTB concurs with the STR suggestion that the London market will see a further decline in REVPAR, at least in early 2016. Extensions will also depress REVPAR – but they help LfL sales
- Re current trading, no numbers were given but 'PI is taking share in a weak market' – this will have been skewed by an early Easter
- The group has 'modelled Airbnb' and is sanguine about competition. Thus far, though WTB denies any charge of complacency, it has not felt an impact

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Market Cap: £7.1bn
12m range 3649p-5440p

- Pl's price premium 'has come down'. But this is at least partly because Travelodge has been putting up its prices
- Extensions and new build should stem the 'leakage' of customers to rival operators

Trading & Outlook – Restaurants:

- Alison Brittain says that she has reviewed the role of restaurants within the organisation and, where they are co-located, they are a valuable addition to the group
- They differentiate the group 'from its major competitor' but also from disruptors such as Airbnb
- The group would like to add on-site restaurants where this is possible. Breakfast is critical. Third party restaurateurs on site are understandably unwilling to push the boat out at 7am

Trading & Outlook – Costa:

- Whitbread confirms that £2.5bn of sales (around £1bn ahead of the current position) is a reasonable 2020 target
- Food opportunities 'are huge' and the group will road-test 'finer coffee'
- The group will be inventive when it comes to points of distribution, this for the machines business
- Questioners wondered whether China wasn't being 'de-emphasised'. The group denied this but stressed that returns would come over the longer term. Starbucks 'has been there 15yrs & has made mistakes along the way...'
- Costa trading is currently said to be 'good' but WTB gave no further detail
- Medium term, it expects LfL sales growth of perhaps 2% to 3%.
- Current growth is partly volume & partly the January price increase.
- Food is around 30% of revenues. This could go up but 'Costa will always be primarily a coffee shop'. Costa margins could come down a little as the proportion of food sold rises.

Trading & Outlook – Overall:

- The 53rd week was worth £13.9m to profits
- Whitbread says it is committed 'to building a bigger & better business'
- CEO Alison Brittain says that she expected to find a good business & that she has not been disappointed – the group 'has a good platform upon which to build'
- The growth targets, which were inherited by Ms Brittain, have been audited & approved as reasonable by the new CEO
- The group 'is in good shape' but markets evolve & there will be a degree of evolution at Whitbread going forward
- National Living Wage will 'cost around £10m this year' (no change from earlier estimates)

Other:

- Whitbread expended some £510m in expansionary capex in FY16. This number will moderate to around £550m to £600m in FY17 'and there is likely to be more sale-and-leaseback activity'

Langton Comment: Whitbread has modestly beaten current year numbers and it has reiterated its commitment to medium term targets.

Airbnb is not (currently) taking share and, though Costa's growth has moderated, WTB believes that it can continue to grow share in what remains an expanding market.

And WTB's rating is not stretched. Well at least it's not as stretched as it was and the group has well-regarded brands with international potential.

Here we would like to see some evidence that sales lead to profits but clearly a freehold-based hotel expansion programme in Germany will take some time to produce results.

Overall, there was little by the way of drama in these numbers.

More markedly, there was a commitment to prior targets and that's not altogether a bad thing. An incoming CEO saying 'do you know what, snowdomes are the way forward...' would be much more upsetting than one that retains previously announced expansion targets.

Some China froth may have come out of Whitbread's shares but, at less than £40 and trading on around 15x current year earnings, they offer solid value.

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