29 Aug 2014

RESTAURANT GROUP (RTN): 659p
H1 Numbers; 26w to 29 Jun 2014

Group has 'delivered another record set of results' and 'is in great shape…'

Year to end-Dec	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	72.7	28.0	23.5	14.0	2.1
2014 (E)	80.5	30.5	21.6	15.7	2.4
2015 (E)	89.8	34.2	19.3	17.0	2.6

Source: *Company & Broker Estimates*

H1 Results: Analysts' Meeting:

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

Trading & Outlook:

- LfL sales tailed off towards the end of H1. This was all down to weak cinema admissions (reportedly down 20% in May & June) and the start of the World Cup.
- LfL sales have been much better in H2 to date. Hot weather last year has not been replicated & the W Cup ended.
- Margins rose on the back of a more benign cost environment and scale benefits
- Costs:
    - Food costs will be up less than 2% this year and food price inflation should fall again in 2015
    - Wage increases (NMW up 3% in October) are a little higher & utility prices are rising by c5%. Rents are perhaps 2% p.a.
    - The group 'needs 2.5% to 3% LfL growth to grow margin'
- Competitors 'vary by market–place'
- The group has no overseas ambitions. It can double 'over 8-10yrs' in the UK alone
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Market Cap: £1.3bn
12m range 520p – 712p

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Balance Sheet & Capital:

- Fixed cost cover in unchanged at 2.5x
- Opening costs are 'a little higher' at Coast to Coast, largely due to the units' larger size
- The group is prepared to develop some sites itself
- Pipeline of 40 units in 2015 and 30 in 2016 are agreed. A further 150 are in discussions. Visibility is 'better than ever'

Strategy & Other:

- New CEO Danny Breithaupt reassured that no radical changes were being planned
- He has been with RTN for 13yrs & a 'bedding in' period will not be necessary
- Re growth, Frankies could 'go to 350' from its current 240 units. Chiquito could operate '120-150' (74) and Coast to Coast c100 (12)
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Langton Comment: Restaurant Group reassured that it has no plans under its new CEO for a radical shakeup of the business.

The pipeline seems secure, trading is improving and the outlook is good.

But the shares are not cheap. With the group set to earn perhaps £80.5m in the current year giving around 30.5p in EPS, it is trading on a multiple of around 21.6x this year's earnings, falling to perhaps 19.3x 2015.

This means that the group's shares are trading at a very material premium to JDW and other, even more strongly-asset backed pub operators, and some holders may wish to lock in some profits at these share price levels.

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