9 Jan 2015

RESTAURANT GROUP (RTN): 685p
Q4 Trading Update, 52w to 28 Dec 14

'Christmas trading was strong…LfLs +5%...'

Year to end-Dec	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	72.7	28.0	24.6	14.0	2.0
2014 (E)	88.5	33.9	20.2	17.2	2.5
2015 (E)	99.4	38.0	18.0	19.4	2.8

Source: *Company & Broker Estimates*

Q4, Xmas & FY Trading Update to 28 Dec 2014:

The Restaurant Group has this morning updated on trading for the Xmas period and also for the 52wks to 28 December and our comments are set out below:

- Group says total turnover for the 52wjs was up 9.6% on the prior year, and like-for-like sales increased by 2.8%.
- It says 'Christmas trading was strong with like-for-like sales growth of 5% over the 2 week holiday period to 4th January' and recent sales trends are shown below:

Tab.1. Restaurant Group Recent LfL Sales' Trends:

Period	LfL (%)
H1 – 2010	-0.50
FY – 2010	-1.00
H1 – 2011	+3.00
FY – 2011	+3.25
H1 – 2012	+3.25
FY – 2012	+4.50
H1 – 2013	+5.00
FY - 2013	+3.50
First 8w 2014	+3.50
First 19w 2014	+4.00
H1 - 2014	+2.50
First 34w 2014	+3.50
First 45w 2014	+3.00
First 52w 2014	+2.80
Xmas fortnight	+5.00

Source: Company Reports

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Market Cap: £1.32bn
12m range 555p – 712p

Mark.brumby@langtoncapital.co.uk
Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389

- Although it may to some degree be down to rounding errors, the move from +3.0% at w45 to +2.8% at w52 suggests that December, excluding the Xmas fortnight, was not good
- The question therefore, is was it Xmas or the rest of December that we should use to extrapolate from. It may be the latter
- RTN goes on to say 'we opened a total of 40 new restaurants, compared to 35 in the previous year. We are very pleased with how these are trading and they are set to deliver strong returns.
- The group points out since 2009, it has increased the number of openings each year and says 'we expect to do so again in 2015' during which time it says we 'anticipate opening between 42 and 50 new restaurants'
- Re its numbers, RTN says the results 'are expected to be within the range of market forecasts' and 'will show material growth in both earnings and cash flow versus the prior year, notwithstanding the cost issues noted at the time of the November IMS.'
- Re 2015 and beyond, the group says the outlook 'is very positive with growth in disposable consumer incomes, an increasing number of new site openings, and a considerably improved outlook for UK Cinema performance.'
- RTN points out that 'following 2014, which has been the weakest year for cinema admissions for many years, 2015 and 2016 are expected to show significant growth as a result of much stronger film release schedules.'
- The group concludes 'these factors are all clearly positive for the future prospects of the Group and underpin our confidence in delivering further profitable progress in 2015 and subsequent years.

Langton Comment: Restaurant Group has reported what is clearly a good Christmas but it has also suggested that the rest of December may have been slow.

It is upping its opening programme at a time when many other, arguably more nimble, casual dining operators are doing the same thing.

It says that it has excellent visibility and its contacts on retail parks are second-to-none but, at some point, oevercapacity may become an issue.

The group points out that the economic fundamentals are good but, as we point out elsewhere this morning, the consumer remains reluctant to spend.

The group has performed well but, with the group set to earn perhaps £88.5m in the current year and therefore generating 33.9p in EPS, the group's shares trade on a multiple of around 20.2x this year's earnings, falling to perhaps 18.0x 2015 – and this is a shade high.

However, these numbers will soon be historic and, on the basis of 2015 numbers, Restaurant Group's shares trade on a more manageable rating.

Nonetheless, the group's shares are not cheap. As mentioned previously, whilst the group maintains that Coast to Coast will be rolled out and that the rate of openings will increase, this multiple suggests that the shares, which are not asset backed, are somewhat expensive compared with the likes of Marston's, Greene King and Mitchells & Butlers. The shares have a legion of supporters but, with the above in mind, it may make sense to lock in some profits at these share price levels.

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