



14 Jan 2016

RESTAURANT GROUP (RTN): 637p FY Trading Update – 52wks to 27 Dec 15

Group says the 'trading environment for many consumer facing businesses has been tougher in recent months...'

Year to end-Dec	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	78.0	29.9	21.2	16.0	2.5
2015 (A)	86.8	33.6	19.0	17.2	2.7
2016 (E)	96.1	37.3	17.1	19.2	3.0

Source: Company & Broker Estimates

Full year update – 52wks to 27 Dec 2015:

The Restaurant Group has this morning updated on trading for the 52wks to 27 December and our comments are set out below:

Today's numbers:

- Group says total turnover for the 52weeks to 27 Dec was +7.9% and like-for-like sales increased by 1.5%.
- This is down from the +2.00% for week 45 and suggests that the last 7wks, which coincided with the release of Star Wars, must have been down by perhaps by as much as double digits
- We would caution at this stage about reading too much into that comment as 1) weeks in December are not equivalent to weeks in February and 2) there may be some rounding influence as RTN does not update to the nearest basis point. Recent sales trends 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

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Market Cap: £1.35bn
12m range 637p – 739p

H1 - 2014	+2.50
FY - 2014	+2.80
Xmas fortnight	+5.00
First 8wks 2015	+2.50
First 19wks 2015	+2.00
H1 - 2015	+2.00
First 34wks 2015	+2.00
First 45ekd 2015	+2.00
52wks 2015	+1.75

Source: Company Reports

- RTN confirms that the Group's full year results will be announced on 9th March. It says 'these are expected to show material growth in both earnings and cash flow versus the prior year, with profits for the full year towards the middle of the current range of market expectations.'

Trading caution:

- However, that group does go on to say 'it has become apparent from much of the recent data from the retail sector and the wider economy that the trading environment for many consumer facing businesses has been tougher in recent months than it was earlier in 2015.'
- The group adds 'this has caused like-for-like sales growth to trend lower and accordingly we are more cautious than previously on the outlook for 2016.'
- RTN adds 'a possible referendum on the UK's continued membership of the European Union, National Living Wage implementation and global uncertainty are all additional issues that we are conscious of going into the new year.'
- RTN concludes that it 'has an excellent portfolio of businesses with strong market positions.'
- It says 'the Company's move towards a more balanced portfolio is paying dividends and we have a proven track record established over many years of delivering strong financial returns and excellent cash flows, even through more difficult trading periods.'
- Overall, the group concludes 'therefore, notwithstanding some of the uncertainties described above, we are confident that TRG is well positioned to deliver further profitable progress in 2016 and subsequent years.'

Balance sheet & other:

- RTN says that 'during 2015 we opened a total of 44 new restaurants' and it adds 'we are very pleased with how these are trading and they are set to deliver strong returns.'
- The group adds 'we have good visibility on the composition of the opening programme and we anticipate opening a broadly similar number of new restaurants during 2016.'

Langton Comment: Restaurant Group has cautioned that trading is tougher and that the outlook for 2016 may have to be reassessed in that light.

That is what it is though we would add that, because RTN updates in round-quarter-percentage-points, the drop from 2.00% at w45 to 1.50% at w52 may be influenced by rounding.

However, the words used do seem to suggest that the downturn has been real – and that despite Star Wars and the news that, whilst high street footfall may have been under pressure, retail parks were busy over the Xmas period.

Hence, as was the case with Gregg's earlier in the week, both RTN's earnings – and perhaps more importantly its rating – may now come under the microscope.

With that in mind, we would expect the shares to surrender some of their recent gains.

We have for some time preferred others in the sector. Asset backing and higher yields can be had elsewhere where, incidentally, we are hearing that trading over the November and December periods has actually been rather good.

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