

18 October 2011

Leisure: Whitbread (WTB): 1618p H1 to 1 Sept 2011 – Analysts' Meeting

Following the announcement of its H1 results for the six months to 1 September this morning, Whitbread hosted a meeting for analysts at which the main points and questions to emerge are set out below:

- Trading – Premier Inn
 1. Online bookings now comprise 76% of total
 2. Corporate sales are up 13% and new CRM system introduced
 3. Premier Offers has morphed into Premier Savers
 4. Moving to dual pricing (as Travelodge has done for some time) i.e. Premier Flexible and Premier Savers – cancellable rooms are more expensive
 5. Saver bookings doubled in the year to this H1
 6. 55k rooms have been secured (i.e. 11k new rooms) & target of 65k (2015/16) remains in place. Some 60% of pipeline is in South
 7. Group is moving to 'regional clusters' from business types for reporting purposes; says this is 'more joined up'
 8. What's happened to visibility? Not answered directly. Trading is variable, distorted by weather etc.
 9. Comment on the Olympics? Have given some to the Olympic body. Have 3,000 rooms per day left and have set a limit of £199, which is selling well. But remember only 15 hotels will benefit out of 600. Impact will be modest.
 10. PI International will see less capital employed and returns rise. Some £30m pa will be spent.
 11. PI International does have significant but indirect benefits of being allied to the UK business. These are 'hard to quantify'
 12. PI International – when will you sign franchisees? It may 'be a while before they get 'asset light' capacity put on'
- Trading – Pub Restaurants:
 1. 'Trading has been disappointing' and 'the consumer is more cost conscious', particularly at the weekends
 2. Lower ticket offers have performed better
 3. Input cost inflation? Around 2% to 3% - although coffee prices have risen more significantly.
 4. How will offers impact margins? It's 'too early to say' but it won't push margins up
- Trading – Costa:
 1. Results have been 'outstanding'
 2. New products & store design have pushed sales
 3. 'Ahead of acquisition plan' re Coffee Nation
 4. When will China move to profit? Won't say as the current target is growth. Should be profitable in 'a couple of years'. Margins should ultimately be in line with those in the UK.
 5. Closures? Don't read too much into this; many were relocations. Also got out of some highly rented sites in Russia – from the high street towards shopping malls

Find us at:



Recent News Here:

- Today's email
- Recent emails
- A day in the life...
- Who we are, what we do...
- Upcoming news-flow
- Recent company updates
- Thematic pieces
- LinkedIn profile

Langton Capital Limited
Suite 58, The London
Fruit & Wool Exchange,
Brushfield Street,
Spitalfields, London,
E1 6EP - 020 7392 7613

- Trading – Outlook:
 1. On track to hit 5yr targets & market expectations for 2011/12
 2. Growth will be funded from own resources
- Cash Flow – Described as ‘robust’. Dividend growth is substantial although H1’s increase is a rebasing
- Balance sheet: Premier Inn will add rooms over the next three years in the proportion of leasehold, 63% and freehold 37% - this should positively impact returns on capital
- The pension deficit has risen from £423m to £517m despite the £61m paid in during the year

Langcap view: Whitbread once again reassured. At Premier Inn, having introduced dynamic pricing a couple of year ago, the company is once again introducing something that Travelodge has done for some time in the form of dual pricing. This should allow the company ‘to capture cancellations’. The Olympics will only impact modestly. Restaurants are facing tough market conditions. Offers will weigh on margins but lower-ticket sales are holding up. Costa goes from strength to strength. Input inflation is an issue but, at 2% to 3%, this should not hold back profits materially. Overall, the shares, which trade at around 12.5x this year’s earnings, appear to offer good value.

Comment Continued – Restricted List Only - Bears may pick over a couple of comments. Premier Inn, heaven forbid, may look like a follower rather than a leader in that it has now adopted a couple of Travelodge’s ideas (and its online booking percentage is still running behind) and its offers, Premier Offers, Premier Savers, weekend-loyalty schemes etc. may look a bit cluttered but the group is getting there, one way or another.

Comment Continued – Restricted List Only – However, there is little doubt that Whitbread has a balance sheet that most other operators can only dream of (H1 interest cover was 16.3x) and has some genuinely interesting brands operating in markets, both in the UK and overseas, that are in secular growth. Hence we continue to believe that the group’s shares remain attractive.

Contact – Mark Brumby - +44(0)20 7392 7613

mark.brumby@langtoncapital.co.uk

This message (and files contained herein) may contain confidential or proprietary information and is intended solely for the use of the individual or organisation to whom it is addressed. If you are not the addressee you should not disseminate, distribute or copy this email or any part thereof. Further, please notify the author immediately by

telephone or by replying to this email and then delete all copies of the correspondence from your system. We apologise for any inconvenience that this may have caused. This information is a financial promotion for the purpose of the European Markets in Financial Instruments Directive (MiFID) and FSA's Rules. It has not been prepared in accordance with the legal requirements designed to promote the independence or objectivity of investment research. This document is not based upon detailed analysis by Langton Capital of any market, issuer or security named herein and does not constitute formal research or a research recommendation, either expressly or otherwise. It is not investment advice and does not take into account the investment objectives and policies, financial position or portfolio composition of any recipient. This document should not be relied upon as authoritative or taken in substitution for the exercise of your own commercial judgment. Whilst Langton Capital has taken steps to control the spread of viruses on its systems, it cannot guarantee that this email and any files transmitted with it are virus free. No liability is accepted for any errors, omissions, interceptions, corrupted email, lost communications or late delivery arising as a result of receiving this message via the Internet or for any virus that may be contained in it. Recipients should review independently and / or obtain independent professional advice and draw their conclusions therefrom should decide to undertake transactions with third parties. Langton Capital or its employees may have positions in securities mentioned herein. We reserve the right to monitor email messages passing through our network. Langton Capital Limited is authorised and regulated by the Financial Services Authority. Langton Capital Limited is registered in England number 07112949.