

10 Sept 2013

Leisure: Whitbread (WTB): 3216p Q2 Trading to 15 August 2013

Whitbread has this morning updated on trading for its Q2 being the period to 15 August 2013 and our comments are set out below:

- Whitbread has this morning updated on Q2 trading for 11 weeks to 15 August 2013 saying that LfL sales across the group as a whole increased 2.1% and that total sales were up by 10.8%
- In Q1, the corresponding figures were +3.1% and +13.8% suggesting that the warm weather in July slightly slowed the rate of (still impressive) growth
- LfL sales increased by 3.0% at Premier Inn and were up by 3.0% at Costa (Q1 +2.7% and +8.0%)
- Restaurants were down by 0.2% having been flat at 0.0% at Q1
- CEO Andy Harrison reports 'Whitbread delivered another good performance' and says 'we are on track with our annual plan and ambitions five year growth milestones'
- Recent trading details are shown below:

	Premier Inn LfL % sales	Pub restaurants LfL % sales	Costa Coffee LfL % sales
H1 (09/10)	-7.5	+1.8	+2.5
H1 (to 2 Sept)	+10.1	+4.2	+8.5
FY 10/11	+8.6	+3.3	+7.8
Q1 (11/12)	+3.0	-1.4	+4.0
Q2 w24 (11/12)	+7.1	-1.6	+9.7
Q3	+2.6	+1.1	+3.8
Q4*	-0.9	+2.2	+6.2
FY (11/12)	+3.2	-0.2	+5.5
Q1 (12/13)	+4.3	+2.1	+8.4
Q2 (11w to 18 Aug)	+3.2	+4.9	+5.7
Q3	+2.5	+1.9	+7.1
11w to 14 Feb	+2.9	+0.2	+5.5
FY (12/13)	+3.1		+6.8
Current trading (at 20 April)	'positive momentum'	'hit by cold weather'	'helped by cold weather'
Q1 (13/14)	+2.7	+0.0	+8.0
Q2 (11w to 15 Aug)	+3.0	-0.2	+3.0
24w to 15 Aug	+2.9	-0.1	+5.7

Source: Whitbread.

- **Premier Inn** – Premier Inn grew total sales by 12.1% with total revpar up by 3.0% to £50.44 per room
 1. **Sales were up by 16.1%** in London (number of rooms up by 11.9%)
 2. **Regional sales were up by 10.4%** with revpar up by 2.5%
 3. During the 24 weeks, the group has opened some 1,270 new rooms and should achieve around 4,000 for the full year

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- **Restaurants** – These ‘performed in line with the Coffer Peach Tracker’ – albeit the numbers outside of the M25
- **Costa** – Costa ‘has continued to grow rapidly’ with total system sales for the 24 weeks up by 19.7% (Q1 23.1%) and franchise sales up by 18% (Q1 +21.6%) at £111.8m
 1. Costa Enterprises, which includes Costa Express, delivered system sales of £126.8m (up 24.5%, was up 32.6% at Q1) and the group added 553 new machines in the 24 weeks to take the total to 3,113 Costa Express machines in operation
 2. The group opened 78 net new stores in the UK in the 24 week period
 3. International system sales were up by 20.7% at £115.6m (up 12.2% in EMEI and up by 53.2% in Costa Asia)
 4. Costa opened 54 new stores overseas (in the 24 weeks) including 30 in China, where it now has 283 stores
 5. The group should open around 300 new Costa stores in the full year and is targeting 850 new Costa Express machines
- **Balance sheet** – Whitbread comments that ‘the strong financial position of the group remains unchanged’

Langcap view: Whitbread has once again reassured that trading remains good and in line with management expectations. Q2 has seen growth slow slightly – albeit from levels that Whitbread said in Q1 would not prove to be sustainable. The weather has led to a slowing of growth at Costa but, overall, the impressive sales performance of the group has continued.

The group’s shares have risen by 120% over the last two years and have moved strongly higher over recent months, having moved up by 33% since their recent lows of £24 in May.

This is testament to the solidity of Whitbread’s earnings and the strength of its balance sheet but it does mean that, on an earnings basis, the group’s shares are no longer cheap – particularly when compared with the group’s asset-backed, leisure sector peers.

However, Whitbread remains something of a conundrum in that it has overseas potential in both Premier Inn and Costa and growth may not, therefore, be constrained in the same way that it is with several other operators.

To some extent, therefore, Whitbread may be compared to much larger companies such as SAB or Diageo or even consumer majors such as Unilever and Reckitt Benckiser in that it serves a number of consumer geographies and has potentially exciting prospects in a number of emerging markets.

But even here, Whitbread’s shares are arguably getting up with events. Their rating does perhaps leave the group’s relatively highly-rated shares vulnerable to the occasional setback but, as Whitbread continues to expand its overseas presence, this may be a risk that holders remain prepared to take.

The group should earn around £388m in the year to end-February 2014. This implies earnings of around 167p with perhaps a dividend of 62.0p. The group’s shares therefore trade on a PER of around 19.3x and offer a yield of 1.9%.

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