



17 June 2014

WHITBREAD (WTB): 4168p Q1 update: Analysts' Conference Call:

Group reassures on strong Q1 trading...

Year to end-Feb	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	411.8	167.7	24.9	68.8	1.7
2015 (E)	455.5	198.2	21.0	75.4	1.8
2016 (E)	519.0	224.0	18.6	85.3	2.0

Source: Company & Broker Estimates

Trading Update 13w to 29 May 2014:

Following its report on Q1 trading this morning, Whitbread hosted a conference call for analysts and our comments are set out below:

Current Trading (Sales & Margins):

- Whitbread concedes that it has 'started the year well' and reiterated that there are 'clearer signs of a recovery in the UK's regions'
- Comps from last year (a cold spring) made restaurant comps soft but more challenging at Costa

Hotels & Restaurants:

- What's your thinking on margins? You said 'flat' at year end. This would have been true for 4% to 5% REVPAR growth. It has been better therefore margins should increase.
- There are a couple of capital hungry London hotel openings. London property market is getting more competitive
- Timing of hotel openings? These are back-end loaded, c70% will be H2.
- Supply? There is more in London though not very much in UK regions where Premier Inn is 'most of the supply' at present.
- Still intend to be capital-light overseas.
- How is the Travelodge bounce-back coming on? They are lagging soft numbers. They seem to be increasing rate. They are still refurbishing. Performance should continue to improve. However, Premier Inn is still performing well.

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Market Cap: £7.6bn
12m range 2980p 4500p

- Occupancy should 'step up one or two percent' this year. As market strengthens, rate should rise. The group has increased the maximum price across its London units
- Group is seeing 'a good return on capital' for refurbishments (on restaurants) – but declines to give figures. Have done 80 (of 140 Brewers' Fayre). Beefeater 'have done around a dozen'
- Restaurant margin? Group is 'working hard' on cutting promotional discounts and margins are edging up

Costa:

- Have been some closures in India. Not material in terms of bottom line.
- Starbucks increasing price on back of higher coffee costs, what are you doing? Costa is 'even better value for money'. Growth is being driven by footfall, not price increases.
- Don't want observers to extrapolate from Q1's numbers.
- Poland? Units rebranded to Costa are 'very encouraging' and the Polish economy is somewhat better. VAT increased in Poland last April.
- France? Should open a dozen or so this year.

Langton Comment: The risks over the conference call were on the upside and Whitbread has done nothing to dissuade the bulls from believing that trading is currently very encouraging.

The regions (where Premier comprise 'most of' the hotel new build pipeline) are picking up, Costa is continuing to take market share and restaurant refurbishments are performing well.

Forecasts are likely to be edged up by 2% to 3% or more and there is no reason to suggest that the group's share price should rise by any less. In fact, with the regions in the UK picking up, the shares could easily rise by more on the basis that there could be more upgrades to come.

A rating of c21x this year's numbers, whilst high, appears justified and Whitbread's shares offer good value.

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