



9 Sep 2014

WHITBREAD (WTB): 4398p Q2 Trading Update – Conference Call

Group reports ‘another strong quarter...’

| Year to end-Feb | PBT (£m) | EPS (p) | PER (x) | DPS (p) | Yield (%) |
|-----------------|----------|---------|---------|---------|-----------|
| 2014 (A) | 411.8 | 167.7 | 26.2 | 68.8 | 1.6 |
| 2015 (E) | 460.0 | 201.3 | 21.8 | 75.9 | 1.7 |
| 2016 (E) | 523.0 | 228.1 | 19.3 | 86.0 | 2.0 |

Source: Company & Broker Estimates

Trading Update 11w to 24 August 2014:

Following its update on Q2 trading this morning, Whitbread hosted a conference call for analysts and our comments are set out below:

Premier Inn & Restaurants:

- Occupancy hit a record 87%, up 3.1pps on last year
- Level of openings will have to pick up in Q3 & Q4. This Q was ‘a little light v expectations’. It ‘will be back-end loaded’
- There are a number of extensions, which are pretty certain but ‘we have a really good pipeline now’
- London REVPAR slowing? A ‘little bit weaker’. There are a number of unproven theories. PI is concentrating on market share
- Where will REVPAR be for the year as a whole?
- Acquisitions? Freehold is preferred means. It does bring the liability on balance sheet versus off. They can move quickly and, even if outbid, can sometimes make the purchase
- Q4 comps will be tough to beat. There were some one-offs such as Farnborough.
- Weather benign last year. Consensus REVPAR is 5.5% to 6% for the year & that seems reasonable
- The 13k rooms are 5.5k in London and 7.5k in UK provinces. The FY16 and FY18 targets require a small stepup in the current rate of openings.
- There will be an element of churn as ‘some of the worst quality rooms’ come out of the estate. Perhaps 1k to 2k over time

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Market Cap: £8.0bn
12m range 2980p 4500p

- The group 'is not looking at block purchases'. The consistency & quality can't be guaranteed.
- The 75k of rooms by FY18 'is not a slam dunk' but is still the best estimate
- "Hub' is quite an important lever to pull'
- Forward bookings & occupancy? Group has visibility out 6-8 weeks 'and feeling good about that'. Says the occupancy performance at the moment is good.
- Rate v occupancy? Peak could be 83%. Will have to be rate thereafter. London occupancies will be higher & pull the group rate up. Will be rate growth thereafter.

Costa Coffee:

- Costa closed 87 units in the period. Some 26 in UK is 'normal churn' & closed 7 in Poland, 13 in China, 26 in India. Says all were planned
- Plans in UK unchanged. France, still learning curve.

Other:

- Scottish independence? Can't see any impact. Have got 65 hotels, 100 Costas, 40 restaurants.
- The group 'may' update its targets in April next year (when it reports FY15 numbers)

Langton Comment: Whitbread has reassured that strong trading continues.

However, it has cautioned that Q4 will be tougher to beat and it does not seem to be signalling upgrades. It further suggests that current occupancies are good, the implication being that it may be tough to maintain.

Hence, the group's multiple remains around 22x for the current year. At that level, the group needs to perform and, though it is delivering, the shares may not run ahead on good numbers.

Despite the fact, therefore, that WTB is doing pretty much everything right, some holders may wish to take an element of profits over the short term.

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