



8 Sept 2015

WHITBREAD (WTB): 4711p

Q2 trading update: 11wks to 13 August 2015:

Group says 'we are continuing to deliver our ambitious organic growth plans with another good quarter...'

Year to end-Feb	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (E)	480.9	211.6	22.3	81.8	1.7
2016 (E)	545.0	239.6	19.7	92.1	2.0
2017 (E)	620.0	272.3	17.3	104.4	2.2

Source: Company & Broker Estimates

Q2 Trading Update: 11w to 13 August 2015:

Whitbread has this morning updated on Q2 trading for the 11wks to 13 August and our comments are set out below:

Current Trading:

- The group reports Premier Inn total sales for the quarter +11.6% (LfL +4.3%), Restaurants +2.0% (LfL +0.6%) and Costa +16.2% (+4.0% LfL)
- In Q1 LfL sales were +6.3% at Premier Inn, +0.1% at Restaurants and +5.0% at Costa showing that the pace of growth has slowed somewhat
- Whitbread has been saying for some time that comps would get tougher in the current FY
- Total sales across the group are up by 11.1% (+3.3% LfL) and for the first 24wks of the year are up by 11.8% and 3.9% respectively.
- Recent sales trends are shown below:

Tab.1. Whitbread's Sales Trends:

Period	Premier Inn LfL sales (%)	Restaurants' LfL sales %	Costa Coffee LfL sales %
H1 09/10	-7.5	+1.8	+2.5
FY 10/11	+8.6	+3.3	+7.8
Q1 11/12	+3.0	-1.4	+4.0
Q2 11/12	+7.1	-1.6	+9.7
FY 11/12	+3.2	-0.2	+5.5
Q1 12/13	+4.3	+2.1	+8.4

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Market Cap: £8.6bn
12m range 3958p 5440p

Q2 12/13	+3.2	+4.9	+5.7
FY 12/13	+3.1		+6.8
Q1 13/14	+2.7	+0.0	+8.0
H1 13/14	+3.3	-0.1	+5.5
Q3 13/14	+5.4	+1.8	+4.9
Q4 13/14	+8.3	+4.4	+7.3
FY 13/14	+5.0	+1.6	+5.7
Q1 14/15	+9.5	+4.4	+4.5
Q2 14/15	+9.2	+1.7	+7.3
H1 14/15	+9.1	+3.1	+6.1
Q3 14/15	+8.5	+1.6	+5.2
Q4 14/15 (11w)	+8.6	+0.6	+6.9
FY 14/15	+9.1	+2.1	+6.0
Q1 15/16	+6.3	+0.1	+5.0
Q2 15/16	+4.3	+0.6	+4.0

Source: Company Reports

Premier Inn & Restaurants:

- In hotels & restaurants, Whitbread reports 'Premier Inn has continued to win UK market share' and says total room nights sold rose by 8.0% to 8.3 million.
- It says 'total occupancy remained high at 83.5%, in line with last year, together with an 8.1% growth in the number of rooms available.'
- It says that LfL sales growth of 4.3% 'was ahead of the like for like revpar growth of 3.2%, benefitting from our accelerated hotel extension programme.'
- Sales in London were +21.1% in the quarter 'with a 20.3% increase in rooms available'
- It says 'in the regions we grew total sales by 9.2% in the quarter, with a 3.3% increase in total revpar, a 6.2% increase in rooms available with total occupancy similar to last year at 86.2%.'
- In restaurants, the group delivered total sales growth of 1.7% and like for like sales growth of 0.3% for the 24 weeks. It says this was 'ahead of a soft pub restaurant market outside the M25.'
- Re growth, some 800 rooms have been added in H1 and the group says 'for the full year, we plan to open around 5,500 UK rooms including c.1,300 extensions.'

Costa Coffee:

- Whitbread reports 'Costa grew its worldwide total sales by 16.7% and like for like UK sales by 4.6% for the 24 weeks'
- It adds 'UK Retail system sales, year to date, grew by 15.7% to £376.5 million with equity stores growing like for like sales by 4.6%. We opened 61 net new UK stores.'
- International sales were up by 13.6% to £144.1 million (13.6% at constant currency).
- For the full year 'Costa plans to open around 220 net new stores.' The group adds 'this includes the closure of around 60 lower margin UK franchise stores in petrol stations following their disposal by Esso.' Whitbread adds 'we also plan to install around 700-800 net Costa Express machines in the year.'

Other:

- Re finances, Whitbread says 'the strong financial position of the Group remains unchanged.'
- CEO Andy Harrison reports 'we are developing plans to adopt the recently announced National Living Wage. We shall mitigate this substantial cost increase over time with a combination of productivity improvements, boosted by investment in systems and training, efficiency savings and some selective price increases.'
- He concludes 'our first half performance keeps us on track to deliver full year expectations, as well as our ambitious growth milestones.'
- These encompass opening c5,500 UK rooms this year, adding around 220 net new Costa stores worldwide and installing 700-800 new Costa Express machines.' Mr Harrison adds 'our UK hotel pipeline has grown to 14,106 rooms.'

Langton Comment: Whitbread's shares peaked ahead of FY numbers back at the end of April and they, along with the wider market (and despite good FY figures) have slipped since.

Today's numbers, though good, do support the suggestion that LfL sales comparatives were becoming more challenging and that sales growth would slow.

This should not come as a surprise but, as mentioned in earlier emails, the group's rating – at least until the recent sell-off - is perhaps somewhat stretched.

The company is pencilled to earn around 240p in the year to February 2016, putting the shares on some 19.7x current year earnings with a yield of some 2.0%. Whilst hardly cheap, this is not too high by Whitbread's own standards.

The group's targets should be achievable and Whitbread has scalable brands. Nonetheless, there is little room for error at these levels and the group has to manage its change of CEO before the end of the current financial year.

On balance, however, we continue to believe that, should the group's shares weaken a little further, they may offer interesting value over the longer term.

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