Langton Capital Limited

20 Oct 2015

WHITBREAD (WTB): 4725p
H1 numbers: Analysts' Meeting:

Group reports it is on course to deliver results in line with expectations…

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)	542.0	239.8	19.7	91.4	1.9
2017 (E)	613.0	270.0	17.5	103.2	2.2

Source: *Company & Broker Estimates*

H1 numbers: Analysts' Meeting:

Following the announcement of its H1 numbers this morning, Whitbread hosted a meeting for analysts and our comments are set out below:

Trading – Premier Inn:

- London sales are +51% 2012-2015 vs a market increase of 12%. In the regions, growth at PI is 37% vs 24% for the market as a whole
- Supply growth (STR numbers) should be around 2% in London and 1% in the regions (and some of this is PI adding stock)
- Occupancy levels for the year should be 'broadly flat'
- Leases now account for 35% of estate. Freeholds are still a focus as they allow flexibility, such as re the decision as to whether to add rooms via extensions
- Group will add 7% to 6% to capacity this FY. Costs are weighted to H2. Some 5,500 rooms will be added. Three more hubs should open this FY with three more the following year
- Hub is achieving £100 per room, international losses are slightly down at £3.0m and 84% of distribution is now digital. The new hub sites could have more double rooms. Group will consider other cities, Edinburgh was mentioned.
- Group 'is seeing no impact from AirBnB in London'.
- How do you see Germany developing? How will you allocate capital? Group has 'tremendous opportunities' in the UK. Having said that, the group needs to get to critical mass (12-15 hotels in 6-8 cities) as quickly as possible.

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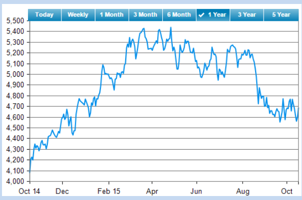

Market Cap: £8.6bn
12m range 4200p 5440p

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- Group uses hotels.com. Paid search marketing costs have actually fallen year on year

- How defensible is your UK price differential? Co interpreted the question in a certain way, said that it offered excellent VFM – even if it wasn't the cheapest offer on the market

Trading – Restaurants:

- Group is beating the Coffer Peach Tracker & refurbishments continue

Trading – Costa:

- Costa has turned in an 'excellent' performance. Underlying profits are +28.4%.

- Group will open 220 net new stores this year and add 700-800 machines

- Price rises have only been modest and group has left Starbucks in the dust when it comes to the question 'what is your favourite coffee shop?' Some 31% favoured Starbucks 7yrs ago (now 17%) whilst Costa has risen from 22% to 38%

- Group would like 2,500 stores in the UK by 2020 – it currently has 1,999

- Re machines, more drivers 'are making a Costa coffee and essential part of their journey'

- China & Asia should see 50 new stores added this year. The China slowdown 'is not helping' but Costa is a very small part of the economy and says 'its success is in its own hands'

- Wages rose by c10% in H1. This will impact costs in H2.

- Group is 'looking at and starting to expand into' a number of other European countries

Overall, balance sheet, cash flow & other:

- Current trading. August was 'disappointing' but trade has picked up in September and October.

- Group is a good payer & NLW will not change (but may accelerate) its payment systems. Wage bill will rise by 5% to 6% or so. This is a little ahead of the 4% to 5% that it had previously expected.

- Debt for the year should settle around £900m. Co intends to remain below 3.5x debt to EBITDA.

- £36m of capex was directed to new hotels and extensions, the group remains confident and new CEO Alison Brittain, will take over in early December.

Langton Comment: Whitbread has reassured that UK trading is in line with expectations and concludes that its performance in China is not yet being adversely impacted by the economic slowdown in that country.

The group's brands have legs both domestically and overseas. Whitbread's shares have reacted positively to today's announcement. The shares are rarely 'cheap' and, at around 20x this year's earnings, that remains the case.

However, the growth profile remains attractive, the group is conservatively financed and is well asset-backed. Sellers have little reason to exit the shares and would-be holders remain poised to take advantage of any share price setbacks.

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