



25 Sept 2014

MITCHELLS & BUTLERS (MAB): 407p Q4 + Y-t-D Trading Update – 51w to 20 Sept 2014

Group reports ‘...despite a difficult trading period in the last Quarter, the transformation of our business is well on track....’

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	150.0	34.9	11.7	Nil	Nil
2014 (E)	188.0	35.8	11.4	0.5	0.1
2015 (E)	212.0	40.4	10.1	3.0	0.7

Source: Company & Broker Estimates

Q4 & YtD Trading Update, 512w to 20 Sept 2014:

Mitchells & Butlers has this morning updated on trading during its Q4 (and for its year to date), being for the 51w to 20 Sept and our comments are set out below:

Trading result:

- Mitchells & Butlers has reported that total LfL sales in Q4 were up by 0.1% and it says that cumulative w51 growth is now 0.6%
- Total sales to w51, including Orchid, were up by 3.8%
- Wet sales LfL were down by 0.2% in Q4 and are running up 0.5% in the year to date; food sales were up 0.1% and are running up 0.7%
- The group reports that ‘having seen an improvement in demand in July following the World Cup, trading conditions during August were difficult in the pub market’
- It says ‘consumers remained cautious about spending and rainfall was significantly higher than last year’
- Nonetheless, MAB adds ‘we continued to make progress in improving our volume performance through delivering on our key initiatives.’
- It says that guest scores are improving and the investment in IT and infrastructure has continued
- MAB cautions that ‘margins remain below last year, as a result of lower levels of sales and also of spend per head, as we moderate price increases to drive volume back into our sites.’

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Market Cap: £1.67bn
12m range 374p 490p

- Re Orchid, the group says that the results are included in numbers from the date of acquisition – though they are not in the LfL numbers and LfL sales trends are shown below:
- **Tab.1. Mitchells & Butlers LfL Sales Trends:**

Period	LfL sales (%)
FY 08/09	+1.6
FY 09/10	+2.8
FY 10/11	+2.6
H1 11/12	+2.7
FY 11/12	+2.1
H1 12/13	+0.3
FY 12/13	+0.4
H1	+1.1
14w to 19 July	+0.0
9w to 20 Sept	+0.1
51w to 20 Sept	+0.6

Source: Company Reports

Cash Flow, Balance Sheet Trading & Other:

- Orchid 'continues to trade well and in line with our expectations' and the first units should be converted prior to Christmas
- The group has additionally opened 22 new sites and converted or expanded 9 sites this financial year.
- Net debt will be up on the back of the Orchid acquisition but no update is provided today

Conclusion, Summary, Current Trading:

- CEO Alistair Darby comments 'despite a difficult trading period in the last quarter, the transformation of our business is well on track.'
- He concludes 'coupled with the successful integration of the Orchid estate, this gives us confidence in our future growth prospects.'

Langton Comment: M&B's shares have rallied since their early-August lows but are still markedly below their recent highs of around 490p, a level achieved towards the end of Q1 this year.

The group had been under something of a cloud as, with most operators out-performing the Peach Tracker, there had to be some underperformers and, as M&B is the largest contributor to the survey, that honour fell to them.

Today's update confirms that August was not good. Peach has said as much as did GNK earlier this week when its leisure tracker highlighted the fact that cold weather in August was not good for wet sales.

Added to which, MAB has been on something of a 'reset'. Whilst not as dramatic as moves at Morrison's, Tesco and the like, it is clear that margins are a little down (they are up elsewhere) as the group tries to take share.

This will not be a quick fix.

Dividends are not mentioned (this is only a trading update) and nor is Spirit Group. MAB will host a conference call for analysts at 9am and is likely to be questioned further on both issues.

The group has assets to die for. Ask Mr Lewis. And it is deliverable by its two largest shareholders to an ambitious bidder, should the major investors tire of their shareholdings. Whilst there is little likelihood of this happening in the near term (as the group digests Orchid and perhaps considers Spirit), there are therefore considerable upside risks.

The group's shares are not trading on a demanding rating (some 11.4x this year's earnings falling to around 10.1x 2015) but there is no guarantee that a dividend will be reinstated, the group's share register may be off-putting to some and there exists the possibility that the group may become involved in an auction for Spirit Group.

Whilst acknowledging the latent strength of M&B's business, we do not see MAB as a share that you have to have and we would still be tempted to look for value elsewhere.

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