

Whitbread PLC

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Whitbread faces pressure to prove merits of Premier Inn as standalone business

Whitbread plc (LON:WTB) is getting more bang for its buck by selling Costa Coffee than the previously planned demerger of the business but it now faces pressure to grow what remains of the business.

Costa is to be sold to The Coca-Cola Co. (NYSE:KO) for £3.9bn and investors seem to have responded positively to the news with shares in Whitbread rising more than 16% in morning trading.

READ: Whitbread shares froth higher as it agrees to sell Costa coffee to Coca-Cola for £3.9bn

Whitbread had originally planned to split off the business by 2020 after being urged to do so by activist investors Elliott Management and Sachem Head. But the price Coca-Cola is offering was considered more attractive.

Investors may question merits of Premier Inn as standalone business

The company is now essentially left with its Premier Inn hotel business and will need to prove to investors that this is enough to sustain growth and deliver decent shareholder returns.

Whitbread's plan is to invest in the expansion of Premier Inn in the UK and Germany.

"Progress has been good and we believe the product is excellent, but it's a very different business to Costa and growth will be slower and demand more up-front investment," said Nicholas Hyett, equity analyst at Hargreaves Lansdown.

"An excellent deal it may be, but Whitbread investors may miss the caffeine highs Costa serves up."

Recent trading performance of Costa and Premier Inn

The latest figures showed Premier Inn UK sales rose by 4.3% in the first quarter, supported by the addition of 644 rooms, but like-for-like sales fell 0.9% as tourism to London eased back.

Trading could have picked up since then, however, as the recent heatwave saw more UK residents take staycations to enjoy the good weather at home.

In comparison, total Costa sales in the UK increased by 5.2% in the first quarter but fell 2.0% on a like-for-like basis as tough retail market conditions meant there were fewer shoppers on the high street stopping for a coffee break.

READ: Whitbread perks up after in-line first quarter

"We have been seeing and warning about declining like-for-like at Costa for some time and this 2% drop was a concern about how the brand is performing on the high street," said Neil Wilson, chief market analyst at Markets.com.

Price: 3326

Market Cap: £6.71 billion

1 Year Share Price Graph



Share Information

Code: WTB

Listing: LSE

52 week High Low
4462.28 1551.15

Sector: Leisure, gaming and gambling

Website: www.whitbread.co.uk

Company Synopsis:

Whitbread PLC is the UK's largest hotel and restaurant company operating businesses in the budget hotels and restaurant sectors. Its brands include Premier Inn, Beefeater, Table Table, Brewers Fayre, Taybarns and Costa Coffee. Whitbread PLC employs over 33,000 people and serves 8.5 million customers every month in its 1500 outlets across the UK.

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"Lower footfall is one thing, but we continue to see Costa facing tougher competition from artisan coffee retailers who are taking market share."

However, the Costa Express machines division is seeing strong growth and the brand is delivering a robust performance abroad, particularly in China.

Wilson reckons Coca-Cola should be well placed to get the best out of Costa internationally and start to see the brand valued at the kind of multiple enjoyed by Starbucks.

In the UK, coffee has also been growing in popularity. A report from the British Coffee Association (BCA) earlier this year showed the UK's coffee consumption jumped to 95mln cups a day in 2018, up from 70mln in 2008.

Investors wake up and smell the coffee

Coca-Cola said hot drinks is one of the few remaining segments in the beverages sector it is yet to tap and believes Costa gives it a "strong coffee platform".

The takeover is one of a handful of recent deals in the coffee sector.

JAB Holdings, an investment fund of Germany's billionaire Reimann family, announced in May that it would buy British chain Pret A Manger for US\$2bn to expand its coffee empire.

The privately held company's decision to acquire Pret follows deals to buy coffee businesses Douwe Egberts, Keurig Green Mountain Inc and Peet's Coffee & Tea.

Meanwhile, Nestle strengthened its position in the market by agreeing to pay global giant Starbucks Corp (NASDAQ:SBUX) US\$7.1bn to sell its coffee products in its stores.

Who's next on the activist investor hit list

Whitbread is not the only London-listed company to bow to pressure from activist investors recently.

BHP Billiton plc (LON:BHP) in July said it had agreed to sell its underperforming US onshore shale assets following pressure from Elliott.

READ: BP strikes US\$10.5bn deal to acquire BHP Billiton's US shale assets

Around the same time, John Menzies announced it would sell its newspaper distribution business to private equity firm Endless LLP after top shareholders Kabouter Management LLC, Shareholder Value Management and Laskestreet called for a split up of the business.

Barclays PLC (LON:BARC), Micro Focus International (LON:MCRO), Hammerson PLC (LON:HMSO), Smith & Nephew PLC (LON:SN) and Premier Foods PLC (LON:PFD) are also facing calls from activists to make changes.

READ: Lloyds Banking and BT Group among the big names on the Investment Association's naughty step

"Firms where share price performance has been weak, operational performance sub-optimal relative to peers or the business structure is complex could come under greater scrutiny," said Russ Mould, AJ Bell Investment Director.

"Possible candidates may include shopping centres owner Intu Property PLC (LON:INTU), whose share price continues to drop like a rock, Pets at Home Group PLC (LON:PETS), Petrofac Ltd (LON:PFC) and any number of struggling retailers, including perhaps Kingfisher PLC (LON:KGF), where boss Veronique Laury's One Kingfisher plan is still yet to really make its mark (at least on the share price) half-way into the five-year project.

"Besides Intu, the Real Estate Investment Trust sector also looks ripe for consolidation."

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