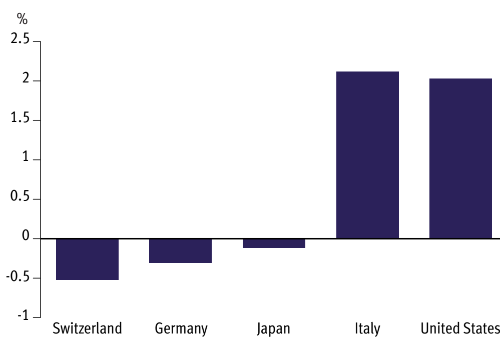
investors CHRONICLE alpha

21 June 2019

Phil Oakley's Weekly Round-Up

Bonds with negative real interest rates are held up as supporting the case for equities. Yet, this ignores the fact that yields are low due to weak growth expectations, which ultimately will hit shares

10-year government bond yields



Source: @CharlieBilello Negative Bond Yield Index

The companies mentioned this week are:

- Kier Group
- Ashtead
- Telecom Plus
- Berkeley Group
- easyJet
- Whitbread

Fantasy Sipp performance

	Portfolio returns(%) 1 month	Year to date	1 year
LF Blue Whale Growth Fund	3.33	25.60	18.1
Fundsmith Equity T Acc	4.37	24.5	17.9
Phil Oakley Fantasy Sipp	**4.0**	**23.4**	**17.4**
Lindsell Train Global Funds	2.62	22.6	20.6
Finsbury Growth & Income Trust	0.112	19.9	13.5
Vanguard S&P 500 ETF	3.42	18.2	10.1
Castlefield CFP SDL UK Buffettology Fund	-0.737	15.8	8.74
Scottish Mortgage Investment Trust	3.98	13.1	-3.44
FTSE All-Share – Total Return	1.24	12.4	0.147

Source: SharePad

The perils of negative interest rates

One of the growing themes in the financial world at the moment is the surge in the number of bonds with negative interest rates, where the bondholder pays to hold the bond rather than being paid to do so. There are over $12trn of bonds across the world which now have negative yields to maturity.

One of the most interesting people I follow on Twitter is investor and writer Charlie Bilello (*@charliebillelo*). He has compiled a negative bond yield matrix to show where the negative bond yields are across the world. It makes for fascinating viewing.

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@CharlieBilello	The Negative Bond Yield Matrix												
Country	6-Mo	1-Year	2-Year	3-Year	4-Year	5-Year	6-Year	7-Year	8-Year	9-Year	10-Year	15-Year	30-Year
Switzerland	-0.75	-0.64	-0.89	-0.91	-0.89	-0.87	-0.79	-0.76	-0.69	-0.63	-0.52	-0.29	-0.01
Germany	-0.58	-0.68	-0.74	-0.76	-0.74	-0.68	-0.64	-0.58	-0.46	-0.40	-0.31	-0.10	0.27
Netherlands	-0.59		-0.72	-0.70	-0.64	-0.61	-0.50	-0.42	-0.32	-0.25	-0.15	-0.01	0.30
Japan	-0.13	-0.17	-0.20	-0.22	-0.23	-0.22	-0.22	-0.22	-0.21	-0.16	-0.12	0.07	0.36
Denmark	-0.66		-0.70	-0.70		-0.68			-0.45		-0.28		
Austria		-0.54	-0.65	-0.63	-0.57	-0.47	-0.39	-0.28	-0.22	-0.14	-0.03	0.31	0.70
Finland			-0.66	-0.63	-0.61	-0.54	-0.45		-0.19		-0.01		0.56
Sweden	-0.40		-0.62			-0.55		-0.26			-0.01	0.18	
France	-0.59	-0.60	-0.68	-0.66	-0.62	-0.53	-0.41	-0.31	-0.21	-0.10	0.02	0.38	1.15
Belgium	-0.57	-0.58	-0.60	-0.66	-0.60	-0.54	-0.42	-0.25	-0.14	-0.06	0.09	0.40	
Slovakia		-0.33				-0.24	-0.50		0.00	0.18	0.26		
Ireland	-0.41	-0.55	-0.45		-0.46	-0.39	-0.24	-0.14	0.45		0.22	0.58	1.16
Slovenia		-0.48	-0.30			-0.31		-0.14			0.25		
Spain	-0.41	-0.39	-0.40	-0.34	-0.27	-0.21	-0.06	0.08	0.20	0.29	0.43	0.80	1.47
Portugal	-0.38	-0.34	-0.37	-0.25	-0.17	-0.14	0.05	0.16	0.28	0.44	0.55	0.95	1.50
Malta	-0.23	-0.20		-0.10		0.02					0.74		
Bulgaria		-0.13		-0.01		0.05		0.37			0.58		
Italy	-0.16	-0.02	0.22	0.71	1.03	1.31	1.53	1.61	1.77	1.82	2.12	2.45	3.17
United States	2.19	2.03	1.81	1.75		1.78		1.89			2.03		2.52

Source: @charliebilello

The number of negative yields is staggering and this is pushing down 10-year government bond yields in the UK and the US.

Source: SharePad

I would not be surprised to see these yields continue to go lower – even to zero – especially if economies across the world show further signs of weakness.

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Source: SharePad

The stock market seems to love this. It reinforces the view that shares offer higher yields than bonds, so where else can you put your money? This trend has been akin to a free lunch over the last decade, but this will only continue to work as long as company profits hold up.

It seems that few people are asking why are yields going lower in the first place? It is because the economy is weak and may get weaker. How do profits keep growing with that outlook?

I think that charging savers to lend money to borrowers is stupid and undermines the whole monetary and financial system. Those who believe in this madness think that if people will be charged to hold government bonds or deposits in banks they will be put off and spend the money instead.

This is by no means certain, but negative interest rates have huge implications for the financial system. It could lead to a run on banks if savers withdraw their money. It also gives a signal that an economy is so weak that investing in new projects may not be worthwhile. In fact, negative interest rates have done little to revive the eurozone economy by channelling lending into new projects.

What is particularly worrying is the implication for final salary pension funds. Negative interest rates will cause the liabilities of these funds to balloon and make them increasingly difficult to meet.

Above all else, negative interest rates destroy the incentive to save, on which all sound economies are built. It is a stupid policy to pursue and shows how central bankers are intent on destroying savers to bail out lenders. Low rates are the cause of the economic malaise, which started in Japan over a quarter of a century ago and has spread westwards ever since.

So what does it mean for investors?

Shares may rally, but the message of economic weakness implied by negative rates may cause profits to stall. UK and US government bonds could continue to rally.

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The big beneficiary could be gold. I am not a fan of gold as an investment, as it has performed badly over the long haul and pays no income. But if the powers that be want to destroy money and the returns on it, the alternative of holding gold looks more compelling. Savers have been treated badly for too long and many will not pay to hold money in bank accounts. They may continue to hold bonds if they think yields will go even more negative and capital gains can grow.

Kier Group

Carillion, Interserve, Galliford Try and **Kier Group (KIE)**. It has hopefully dawned on most sensible investors that construction companies are largely uninvestable. This is not just because it is virtually impossible for any company outsider to really know what's going on, but it seems people on the inside don't know either.

The company builds bridges, railways, roads, hospitals, prisons, hospitals and utility networks. In some cases, once these have been built it looks after them as well. It also constructs affordable homes, develops properties and has an environmental services business.

Kier has got itself into a mess. It has bought lots of companies using borrowed money over the past few years and its business hasn't made enough money to cope with it. Its shareholders have lost faith and they largely snubbed its rights issue last year when the company asked them for more money to shore it up.

I'm not surprised as I cannot really make sense of what money has been flowing in and out of this company. Take a look at its most recent statement of operating cash flow and the size of the working capital outflows. These are horrendous and the sign of a company in significant difficulty.

	Notes	**Unaudited 6 months to 31 December 2018 £m**	Unaudited 6 months to 31 December 2017[1] £m	Year to 30 June 2018 £m
Cash flow from operating activities				
Profit/(loss) before tax – continuing operations		**(35.5)**	34.3	106.2
– discontinued operations		**-**	(0.6)	(1.0)
Non-underlying items excluding amortisation, depreciation and finance costs		**59.7**	-	-
Net finance cost		**14.6**	13.8	28.2
Share of post-tax trading results of joint ventures		**(14.2)**	(22.8)	(42.7)
Normal cash contributions to pension fund in excess of pension charge		**0.2**	0.9	0.8
Equity settled share-based payments charge		**5.1**	3.3	5.4
Amortisation of intangible assets less negative goodwill recognised		**25.1**	17.1	37.7
Research and development expenditure credit		**(3.3)**	(1.5)	(8.6)
Depreciation charges		**7.1**	9.9	19.1
Profit on disposal of joint ventures and subsidiaries		**-**	(0.6)	(3.5)
Profit/(loss) on disposal of property, plant and equipment and intangible assets		**1.4**	(1.8)	(0.8)
Operating cash inflows before movements in working capital		**60.2**	52.0	140.8
Deficit contributions to pension fund		**(11.9)**	(14.5)	(26.6)
(Increase)/decrease in inventories		**(35.7)**	7.2	33.4
(Increase)/decrease in receivables		**(15.6)**	39.9	(29.4)
Increase in contract assets		**(50.1)**	-	-
(Decrease)/increase in payables		**(48.9)**	(94.8)	32.5
Decrease in contract liabilities		**(68.1)**	-	-
Decrease in provisions		**(1.8)**	(8.6)	(9.9)
Cash (outflow)/inflow from operating activities before non-underlying items		**(171.9)**	(18.8)	140.8

Source: Company report

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A new chief executive has been brought in to clear up the mess. Kier is selling off its affordable homes, facilities management and environmental services businesses. This should help get the debt pile down a bit, which is higher than the company had initially expected with monthly average net debt levels of £420-£450m. That's compared with a current stock market value of its equity of £175m at a share price of 108p. These levels of debt are a lot higher than the company posts in its year-end balance sheets and are a lesson to investors to treat these kind of companies with a lot of caution.

As many as 1,200 employees are losing their jobs, which the company hopes will save it £55m per year by 2020. No dividend will be paid in 2019 or 2020 as a way of saving money.

Current forecasts look like they should be ignored given what is going on. What would concern me is that the businesses that the company wants to keep hold of – highways, utilities and housing maintenance – are experiencing softer demand than expected. The trend in profitability still looks to be downwards.

Kier Group forecasts

		Year (£m)	
	2019	2020	2021
Turnover	4,421.70	4,671.20	4,856.60
Ebitda	167.7	197.9	208.9
Ebit	140.6	169.8	176.8
Pre-tax profit	117.6	151.2	160.2
Post-tax profit	91.2	119.1	123
EPS (p)	71.9	74.9	79.5
Dividend (p)	13.5	25.7	24.4
Capex	37.5	33.8	35
Free cash flow	-14.9	89.9	105
Net borrowing	-37.6	5.1	-132

Source: SharePad

I've no doubt that a few investors will be tempted to pick up some Kier shares at a depressed level, but this looks like a leap in the dark to me. It still has too much debt – businesses like this should have no debt, in my view – and predicting future profits is still very uncertain. It may not go bankrupt, but it is still not out of the woods.

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Ashtead

Imagine having a savings account that paid you a rate of interest of 16 per cent. Then imagine that you had the opportunity to put more money into that account every year. The amount of income your savings account would produce every year would grow handsomely and it would soar in value.

This is a bit simplistic, but the recent experience of industrial equipment rental company **Ashtead (AHT)** fits this description quite well.

Ashtead makes its money by buying equipment and renting it out to construction companies, special events, facilities maintenance, local authorities and emergency services – aerial platforms, forklift trucks, tools, diggers, cranes, power generators, fencing, barriers and pumps. It makes most of its profits in North America (Sunbelt), but also has an established business in the UK (A-Plant) and a small but growing one in Canada.

Ashtead typically owns the equipment for seven years before selling it. At the end of April 2019, its equipment fleet had a value of £8.3bn with an average age of just under three years.

Since 2007, significant investment in new assets and buying up rival companies has produced fantastic results for Ashtead's shareholders. The underlying free cash flow of the business – Ashtead helpfully gives a number for its replacement or stay in business capex which allows us to calculate this – has soared from £83m to £1.4bn.

Ashtead's revenues and operating profit grew by 19 per cent in the year to April 2019, while producing excellent returns at the same time. Operating margins were 28 per cent, return on capital employed (ROCE) was 16.4 per cent and the underlying free cash flow margin was 31.1 per cent. These are the hallmarks of a very decent business.

This performance is almost entirely due to the buoyancy of US construction markets along with a strategy of buying up competitors' rental business. As well as having a following wind, Ashtead is doing the basics of equipment rental well. It is keeping the utilisation of its assets high (they are rented out for around 70 per cent of the year) with stable or moderately rising hire rates. The short-term outlook is for these favourable markets to continue.

The problem for investors is that history suggests good times will not last. Ashtead's profitability was hit hard during the last recession and I don't know anyone who thinks that recessions have been made a thing of the past. There's a good chance that its profits will turn down again.

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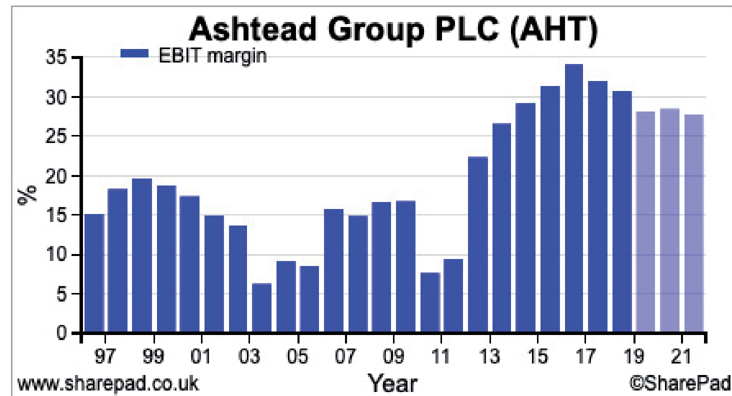

Source: SharePad

The year to 2020 has started well with Ashtead expecting organic revenue growth of 9-12 per cent in the US, with another 2-3 per cent to come from bolt-on acquisitions. Profit margins are expected to be maintained. This suggests that current profit forecasts for 2020 are achievable.

Ashtead forecasts

	Year (£m) 2019	2020	2021
Turnover	4,450.00	4,927.50	5,202.10
Ebitda	2,098.50	2,335.00	2,457.80
Ebit	1,258.00	1,404.60	1,448.50
Pre-tax profit	1,109.30	1,231.00	1,277.40
Post-tax profit	840.5	980.8	1,019.60
EPS (p)	173.9	201.3	215.1
Dividend (p)	37.9	41.5	45.2
Capex	1,491.40	1,461.20	1,256.50
Free cash flow	360.9	658.5	1,022.60
Net borrowing	3,510.10	3,480.60	2,833.10

Source: SharePad

The cyclicality of profits makes valuing Ashtead shares quite difficult. I don't think I am going too far out on a limb by saying that the US construction cycle is nearer a peak than a trough. At 2,111p, Ashtead's current rolling one-year forecast PE of just over 10 times suggests that investors are taking a cautious view and leads me to believe that the valuation is not excessive.

Its main competitor, **United Rentals (NYSE:URI)** is on a much cheaper 6.3 times, though with very modest rates of revenue growth currently being forecast from 2020 onwards.

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United Rentals forecasts

	Year ($m) 2019	2020	2021
Turnover	9,349.40	9,693.80	9,932.00
Ebitda	4,473.70	4,708.50	4,896.00
Ebit	2,290.00	2,526.40	2,793.00
Pre-tax profit	1,873.10	2,032.90	1,917.90
Post-tax profit	1,517.10	1,621.00	1,540.70
EPS (¢)	1,942.70	2,143.30	2,410.80
Dividend (¢)	-	-	-
Capex	2,243.30	2,180.50	2,223.50
Free cash flow	1,420.50	1,738.10	1,868.00
Net borrowing	10,930.70	9,687.70	8,339.00

Source: SharePad

The US rental market remains very fragmented with half of it in the hands of small independent companies. Ashtead will, no doubt, keep on buying some of these, but it is getting close to its self-imposed debt limit of 2.0 times net debt to earnings before interest, tax, depreciation and amortization (Ebitda) – it is currently 1.8 times.

Telecom Plus

I quite like the idea behind **Telecom Plus (TEP)**, which trades under the Utility Warehouse brand. Buying your utilities – gas, electricity, broadband, mobile and home insurance – from the same provider with one simple monthly bill will have a lot of attraction, but I've never been convinced that it could save me money.

A friend of mine is a distributor or partner and makes a decent amount of money from the commissions he gets paid from a percentage of his customers' bills. Despite his very persuasive selling skills, he has never been able to get me a cheaper deal than I already have.

The one compelling attraction that I found does stack up is the cash back card, which gives 1 per cent cash back and discounts of between 3 per cent and 7 per cent in various shops. The cash back is given as a reduction in your monthly utility bill. The main drawback with this card is that it is not a credit card, but one that you have to load up with cash in advance. This has undoubtedly put people off using it.

My friend has also taken me along to his local partner meetings to see how the organisation works. It is a tough environment. Many people think that persuading people to sign up to Utility Warehouse is an easy source of money, but those who don't bring enough money in are quickly shown the door.

As with many things in life, I find myself at odds with lots of people, but maintain that I am savvy enough to still pay less with a better service than Utility Warehouse. It seems that plenty of people like what Utility Warehouse

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has to offer and don't want to be bothered with the hassle of searching out the best deals every year. Last year, customer numbers increased by 4 per cent to 635,039 and the number of services taken increased by 8 per cent to 2,532,024. Over a quarter of all customers take all their utility and telecom services from the company.

Cost pressures held back the growth in pre-tax profits to £56.3m – an increase of 3.7 per cent – with the dividend increasing by 4 per cent to 52p per share.

	2019	2018
Electricity	579,603	555,721
Gas	470,227	449,810
Fixed Telephony (calls and NGN)	338,439	321,494
Fixed Telephony (line rental)	326,766	307,742
Broadband	304,678	283,518
Mobile	252,206	221,716
CashBack card	245,620	195,960
Home Insurance	14,485	4,758
Total	**2,532,024**	**2,340,719**
Residential Club	2,455,698	2,261,680
Business Club	76,326	79,039
Total	**2,532,024**	**2,340,719**

Source: Company report

The company has seen growth across all its services and has just started ramping up its home insurance business. It has signed a new power purchasing agreement with npower, which should give it better margins and is offering better routers to broadband customers to keep them happy.

The move to 1 per cent cash back has seen a big increase in the take up of the cash back card. Other services such as boiler insurance – with a 10 per cent discount on gas included – and boiler installation are all improving the quality of the customer base, which should hopefully help them stick around for longer and generate more value for the company.

Telecom Plus forecasts

		Year (£m)	
	2019	2020	2021
Turnover	833.4	906	958.5
Ebitda	61.2	67.3	72.3
Ebit	54.2	64.3	64.7
Pre-tax profit	57	62.7	67.7
Post-tax profit	45.9	51.5	55.3
EPS (p)	58.2	64.5	69.9
Dividend (p)	52.2	57	61.7
Capex	4.1	9	6.9
Free cash flow	21	45	53.7
Net borrowing	27	36	12.9

Source: SharePad

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The improvements in customer and service numbers has meant that 2019-20 is shaping up to be a good year. The company has a lot of visibility over its profits, which has given it the confidence to state that it expects its pre-tax profits to be between £60m and £65m and its dividend will increase by 10 per cent to 57p per share. At 1,518p, this puts the shares on a forecast dividend yield of 3.8 per cent, although based on a very high payout ratio.

Where does the future growth come from?
Home insurance should give revenues a further push, while I expect the relaunched cash back card to improve the attractiveness of its one-stop shop.

I am just in the process of switching our household electricity and gas supply. While doing so, I could not help notice how much more price-competitive the big six energy suppliers are compared with a couple of years ago. In the past, these companies have prioritised profits over market share and have lost a lot of customers to smaller companies who have done exactly the opposite.

This cannot last as evidenced by a lot of smaller suppliers going out of business. Utility Warehouse, with its fair pricing policy backed by its npower supply, may find that its customer churn rates on electricity decrease and that customer acquisition costs – in aggregate – decrease as well. This should be helpful for its profits.

Berkeley Group
If I had to own a housebuilding share, it would probably be **Berkeley Group (BKG)**. For years its approach to managing the house market cycle has paid off handsomely for its shareholders. This is a business that doesn't seem to take unnecessary risks and has proven to be very adept – and a little bit lucky – in turning its landbank into a very lucrative revenue stream and profits.

I say lucky not in a derogatory sense, but as an acknowledgement that Berkeley has benefited from buying land very cheaply in London during the last recession and then rode the boom in the City with a bit of help from the government's subsidising of the market.

The benefit of all that cheap land has worn off, as the company very openly stated last year. Pre-tax profits for the year to April fell from £977m to £775m due to this and changes in mix. Profits in London have been helped by a shortage of supply and robust demand – particularly from foreign investors – which has seen firm selling prices offset the widespread industry cost inflation. The company is ahead of schedule to make £3bn of cumulative profits in the five years ending April 2021.

The company's financial position remains impeccable

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with net cash balances of £975m at the year-end.

The year to April 2020 is expected to see pre-tax profits fall by a third, yet the company remains very confident in the profits it can make from its landbank of just under 55,000 plots. It reckons that its land has future gross profits in it of at least £6.2bn, which has led the company to promise shareholders returns – dividend and share buybacks – of £250m per year out to 2025.

Berkeley Group forecasts

	Year (£m)		
	2019	2020	2021
Turnover	2,695.70	2,348.90	2,312.60
Ebitda	697.7	517.8	481.9
Ebit	702.5	527.4	506.4
Pre-tax profit	710.7	548.5	541.2
Post-tax profit	582.1	444.4	444.7
EPS (p)	421.9	337.6	331.9
Dividend (p)	169.7	203.6	204.5
Capex	6.8	5.6	5.6
Free cash flow	460.2	500	392.2
Net borrowing	-865.1	-919.1	-1,012.90
NAV	2,881.50	3,003.50	3,120.00

Source: SharePad

In 2017 and 2018, Berkeley Group was making returns on equity of over 30 per cent. Going forward, it reckons 15 per cent to be more realistic. Given the accepted relationship between returns and equity and the cost of equity – and assuming the latter to be 10 per cent – these returns imply a price-to-book value of 1.5 times (because the company is making 1.5 times its cost of equity). Applying that to a net asset value (NAV) per share of 2,305p gives a valuation for the shares of 3,458p. This compares with a share price of 3,514p at the time of writing.

easyJet

Easyjet (EZJ) shares had a bad 2018. I thought they might perform better in 2019. I was wrong.

I knew it was going to be quite tough, as the company has been adding more capacity into a softening market, while rising fuel costs have been eating into profits. Despite this, I thought the profit drag from its newly acquired base in Berlin would wear off and that ancillary revenues from its new holidays venture would add some useful incremental profits. Looking further out, improvements to the fuel efficiency of its fleet would also help strengthen its competitive position.

The European short haul market has proven to be a lot weaker than people expected. In an industry where you have a lot of fixed costs, this was never going to be good news for profit forecasts.

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There are simply too many planes chasing too few passengers. The German market resembles a bloodbath at the moment, as evidenced by a rather big profit warning from Lufthansa last weekend. Its Eurowings budget airline was expected to get to breakeven this year, but is now expected to make a significant loss, as competition is leading to fares being slashed.

The likes of easyJet, Ryanair and others seem willing to fly planes at a loss in order to gain a share of the German market and at the moment don't want to cut capacity and want to be one of the last operators standing. This is inflicting a lot of pain on shareholders.

I expect easyJet to be a long-term winner in the European short-haul market and that profits do have the potential to rise over the long run as it gets more difficult for new entrants. At the moment, profit forecasts are being slashed. Back in April, analysts expected easyJet to make pre-tax profits of just under £500m. Those forecasts are now standing at £422m and the fear is that they could go lower still.

easyJet forecasts

	Year (£m)		
	2019	2020	2021
Turnover	6,344.20	6,825.10	7,318.10
Ebitda	854.6	939	1,044.10
Ebit	468	527	624.6
Pre-tax profit	422.4	486.5	574.3
Post-tax profit	341	390	467.5
EPS (p)	86.1	97.6	114.2
Dividend (p)	44.5	49.7	58.5
Capex	903.6	1,094.70	823.2
Free cash flow	-137.6	-211.4	283.3
Net borrowing	329.6	622.1	685.9

Source: SharePad

I think the shares are reasonably cheap on under 10 times rolling one-year EPS forecasts, while offering a dividend yield of nearly 5 per cent on a payout that looks reasonably safe. However, while I am positive long term, the short-term outlook looks to be full of turbulence and investors would be wise to keep their seat belts fastened.

Whitbread

Whitbread (WTB) shareholders were slightly fortunate last year when Coca-Cola came along and bought Costa Coffee for a lot more than most people thought it was worth. The company was then left with its budget hotel brand, Premier Inn, which had been performing very well.

Since then, trading at Premier Inn has become more difficult. The UK leisure and business market has clearly seen some softening of demand at the same time that

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Whitbread has been expanding aggressively into it. The company has long been trying to take market share off weaker independent operators and has undoubtedly done so, but this week's trading update shows that all is not well with Premier Inn.

	Like-for-like Sales Growth	Total Sales Growth
Accommodation	(4.6)%	(1.5)%
Food & beverage	(2.1)%	(0.4)%
UK & Ireland	**(3.7)%**	**(1.1)%**
Germany	n.a.	77.3%
Total Sales	**n.a.**	**(1.0)%**

UK metrics	*Actual*	*Growth*	*Like-for-like Growth*
Occupancy	74.8%	(230)bps	-
Average room rate	£61.45	(3.4)%	-
Revenue per available room	£45.98	(6.3)%	(6.0)%
Net number of hotel rooms	76,385	214	-

Source: Whitbread

The all important revenue per available room (RevPAR) has fallen by 6.3 per cent in the first quarter of Whitbread's financial year. Occupancy fell by 230 basis points, with room rates falling by 3.4 per cent.

Q1

Year-on-year change	Premier Inn UK accommodation				Midscale & economy market[3]	
	Like-for-like Sales	*Total Sales*	*Like-for-like RevPAR*	*Total RevPAR*	*Total Sales*	*Total RevPAR*
London	(4.2)%	1.0%	(4.4)%	(6.1)%	3.5%	(0.6)%
Regional	(4.7)%	(2.2)%	(6.4)%	(6.6)%	(1.5)%	(4.6)%
Total UK	**(4.6)%**	**(1.5)%**	**(6.0)%**	**(6.3)%**	**(0.1)%**	**(3.4)%**

Source: Whitbread

This performance has been worse in other regions than in London, but what is worrying for Whitbread shareholders is that it is underperforming the market as a whole.

The company will be softening the blow by buying back lots of shares using the money from the sale of Costa, but I think that only buys so much goodwill.

The push into the German market has been slow and looks as if it will take a long time to make a material difference to Whitbread's overall profits. For me, Whitbread looks more vulnerable than ever to some kind of corporate activity.

I've thought for some time that Whitbread should realise the value of the freehold property in its Premier Inn estate and convert the business to an asset-light, highly profitable, highly cash-generative franchising model. This has worked wonders for **Intercontinental Hotels (LSE:IHG)** and I think it could work out well for Whitbread too.

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Whitbread forecasts

		Year (£m)	
	2020	2021	2022
Turnover	2,139.30	2,281.00	2,387.80
Ebitda	676.9	716.8	772.2
Ebit	475.1	505.4	534.7
Pre-tax profit	416.1	444.8	464.1
Post-tax profit	347.6	370.7	380.8
EPS (p)	225.6	252.8	288.5
Dividend (p)	95.4	102.4	111.6
Capex	539.7	560.3	599.3
Free cash flow	-87.8	42.6	-30.1
Net borrowing	84.3	-162.4	621.8

Source: SharePad

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