Restaurant Group PLC

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Restaurant Group's proposed Wagamama takeover considered a bold move by analysts

The Restaurant Group PLC's (LON:RTG) proposed acquisition of Asian chain Wagamama is considered a bold decision by some analysts as it comes at a challenging time for the dining sector.

The owner of Frankie & Benny's and Chiquito has agreed to buy Wagamama for £559mln and will fund the acquisition with £357mln in cash, £202mln debt and some of the money raised from a £315mln fully underwritten rights issue.

READ: Frankie & Benny's owner Restaurant Group to buy Wagamama for £559mln
The plan is to expand the Wagamama chain across the UK where the restaurant sector has been struggling against tough competition and weak consumer confidence.

Over the past four years, the casual dining market has become saturated with a net 4,000 new restaurants opening across the UK.

With a wealth of dining options on offer, restaurants have had to cut their prices to attract customers while grappling with higher costs related to increases in the minimum wage, rents and input cost inflation.

"Restaurant Group's £559m bid for Asian restaurant chain Wagamama, funded by a £315m rights issue, looks a brave move given the saturated nature of the casual dining market and the iffy consumer outlook," as Russ Mould, investment director at AJ Bell.

"Growth is about more than getting bigger and while the deal would add a little under 200 new restaurants to its 509-strong portfolio, there have to be serious question marks over the scope to expand Wagamama - even if it is a successful operator."

TRG thinks Wagamama sets itself part, will benefit from healthy eating trend
The Restaurant Group (TRG) believes Wagamama has a "differentiated, high growth pan-Asian proposition" that has "consistently and significantly" outperformed the market. It also thinks the chain is well placed to capitalise on the trend for healthy eating.

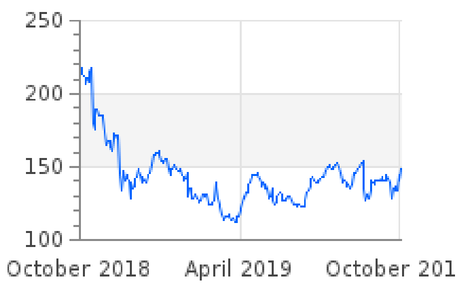
TRG is exploring the option of converting at least 15 of its existing sites into Wagamama restaurants, which it expects to deliver an incremental earnings benefit of £7mln per year at maturity. The group is also considering growing Wagamama's presence in concessions at the 14 airports where its other restaurants operate.

Following the completion of the acquisition, TRG expects about 70% of the enlarged group's outlet earnings (EBITDA) will be generated from Wagamama and the pubs and concessions businesses, which are also being expanded with new sites opening this year and next.

Price: 148.6

Market Cap: £730.36 m

1 Year Share Price Graph



Share Information

Code:		RTN
Listing:		LSE
52 week	**High**	**Low**
	218.7	**110.1**
Sector:		**Food & drink**
Website:		**www.trgplc.com**

Company Synopsis:
The Restaurant Group Plc (TRG) is a significant player in the UK casual dining market, operating over 500 restaurants and pubs which include Frankie and Benny's, Chiquito, Coast to Coast, Garfunkel's, Firejacks, Brunning & Price and Joe's Kitchen. We also operate a concession business which trades over 60 outlets across more than 30 brands, primarily in UK airports.

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Wagamama to 'transform investment case' for TRG, says ShoreCap
Shore Capital thinks Wagamama will "transform the investment case" for TRG by leading to faster growth and reducing its exposure to the structurally challenged parts of the group.

However, the broker added: **"**We do harbour some concerns of moving back to the high street and reducing the proportionate mix of higher value concessions, especially given the debt, although on balance a much improved business is set to emerge."

In August, TRG cut its full-year profit guidance after the World Cup and extremes in the weather hurt first-half sales. Total sales fell 2.1% to £326.1mln in the six months to July 1 from £333.1mln a year ago, with like-for-like sales down 3.7%.

In early February and late March, heavy snowfall and icy temperatures across the UK, kept customers away from restaurants. During the summer months, a heatwave and the World Cup meant people spent more time in the pub than at restaurants.

TRG said on Tuesday that in the 14 weeks since the World Cup ended on 15 July, trading has improved with like-for-like sales rising 1.4%. In the year to date, total sales are down 0.5% or 2.2% on a like-for-like basis.

ShoreCap maintained a 'buy' rating on the shares saying: "The update on current trading is also encouraging with year-to-date like-for-like sales of -2.2% implying +1% over the last eight weeks, consistent with our full year expectations."