11 Feb 2014

THOMAS COOK (TCG): 185.4p
AGM & Q1 Trading Update

Group reports it is 'pleased to report further rapid progress delivering our strategy for sustainable profitable growth…'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	NA	0.6	NA	Nil	Nil
2014 (A)	201.7	11.2	16.6	Nil	Nil
2015 (E)	311.0	16.9	11.0	3.0	1.6

Source: *Company & Broker Estimates*

Q1 Trading Update to end-December 2013:

Thomas Cook has this morning updated on trading for the three month period to end-December and our comments are set out below:

Headline Numbers:

- Revenues for the period are down by a little under 1% at £1.656bn; this is 'due to lower customer demand for Winter holidays to Egypt which offset improvements in capacity management and new product growth'
- The group's underlying loss, at the EBIT level, is down by 15% at £56m; this is 'reflecting profit improvement and cost-out initiatives'
- On a running 12m basis, the group's profit (EBIT) is up by 36% at £274m
- Debt, which is at a seasonal high, is some 17.5% lower at £1.286bn

Further Strategic Developments:

- The group reports 'we have continued to divest of non-core businesses and investments to allow us to focus on our core activities'
- Gross proceeds to date amount to around £125m against communicated targets of 'between £100m and £125m'
- New products generated £131m over the 12m to date, 36% of holidays were booked online (up from 34%) and 50% of all searches are now via a mobile or tablet
- In Q1, a further £38m of costs were cut in Wave I (running total £232m) leaving FY14 and FY15 targets of £340m and £440m intact

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Market Cap: £2.7bn
12m range 78p 186p

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- Wave II cuts are now being formulated and 'we continue to expect them to be of a similar magnitude to Wave I'

Other issues:

- Separately, Thomas Cook Group has today announced that it has entered into an agreement to sell Gold Medal, a UK-based distributor of long-haul scheduled flights, hotels and car hire, to Dubai-based dnata for total consideration of £45m.

- The transaction is expected to complete on or about 27 February 2014 and, post-transaction, Gold Medal will continue as TCG's exclusive supplier of long-haul scheduled flights

- CEO Harriet Green comments 'this latest transaction represents another important step in the transformation of our UK business, consistent with our strategy of focusing on our core brands and products, whilst offering our customers choice and flexibility.

Current trading & Conclusion:

- TCG reports Winter 13/14 is 86% sold and says 'bookings for Summer 14 are developing in line with our expectations and at similar levels to last year' – it is 39% sold but prices are 2% and 4% lower in the UK and Nordics respectively

- The group concludes 'our Q1 results, new product revenue growth, web integration, cost out and profit improvement programmes combined with an intense business focus and financial discipline, all underpinned by the Thomas Cook Business System, give us confidence of achieving our targets and delivering even more value in the years to come.'

- The group says 'solid volumes in our main markets…should facilitate improved capacity management later in the season'

Langton Comment: Thomas Cook has survived its near-death experience and, whilst it has not yet prospered, it should be in a position to do so in FY14 and beyond. That said, profits will not normalise until FY16 at the earliest, when observers are pencilling in 20p and more in earnings. The group's shares, whilst they have performed extremely strongly over the last year. They then traded sideways over calendar Q3 and Q4 but have once again risen materially over the last three months.

Summer 14 looks OK but the heavier mix of low-value holidays will have to be recouped later in the season. Forecasts remain in flux with some brokers preferring to suggest a level of 'recovery' earnings of 20p and more from FY16 with some more modest 'recovery' growth thereafter. Additional growth may be available but the low-hanging fruit, by FY16, will have gone and Thomas Cook's shares will have 'normalised'.

TUI Travel, with a minimal amount of bid-speculation, trades at 13.5x FY14 estimates and v12.2x FY15. Discounting the next year at perhaps 15%, gives a suitable PER for FY16 earnings of around 10.6x and attaching this multiple to our hazy 'forecast' of 20p gives 212p.

Our thinking could be way off beam but this represents a relatively modest 15% premium to today's share price. There is no dividend (TUI pays around 3.3% this year and 3.6% next) and, stripping this out would reduce the premium further suggesting that the massive gains of 2012 and 2013 may have run their course.

As we have mentioned, there are more caveats re the above than you could shake a stick at. Thomas Cook may perform better (or worse) than TUI. TUI itself could be too cheap. The 20p estimate could be way off the mark, it could be achieved a year early (or late, or never) and the discount rate of 15% could be a nonsense.

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