



16 Sept 2014

THOMAS COOK (TCG): 130p Full Year Trading Update

Company reports it is having 'continued success transforming Thomas Cook...'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	NA	5.0	NA	Nil	Nil
2014 (E)	190.0	10.0	11.4	Nil	Nil
2015 (E)	282.0	15.5	7.5	2.5	2.4

Source: Company & Broker Estimates

Group updates on Q4 trading:

Thomas Cook has this morning updated on trading for its Q4 and year to end-September and our comments are set out below:

Overall:

Thomas Cook maintains that 'the successful transformation of our company continues'. CEO Harriet Green maintains that 'we are also very encouraged by the progress we are making against our most important strategic targets'.

- TCG reassures that 'FY14 operational performance [is] expected to show material improvement on last year despite the recent downturn in consumer confidence in Germany'
- It says FY14 underlying EBIT is expected to be between £315 million and £335 million, equivalent to growth of between 39% and 48%. This may be a shade below highest estimates
- The group ascribes this to 'excellent progress in web performance, particularly in the UK' and an 'improving revenue contribution from Concept and Partnership hotels'
- Re summer, the group says it has seen a 'strong late Summer 14 bookings in all of our major source markets, with increasing demand for our Concept hotels'
- Re winter, it says the UK is 29% sold with summer 15 bookings said to be 'encouraging'

Transformation:

- The group says 'the successful transformation of Thomas Cook continues' and adds that its website 'continues to deliver improved online package bookings'

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Market Cap: £1.9bn
12m range 116p 186p

- It emphasises 'demand for our Concept hotels remains strong, with Summer 14 bookings up 43% compared to last year'
- And says 'Wave 1 of our cost out and profit improvement programme, is delivering ahead of schedule and this will result in us achieving benefits ahead of our target of more than £360 million in FY14.'

FY 2014, winter 2014:

- Summer is 92% sold, the same as last year. Lates were strong in August but the group does mention 'the impact of continuing price softness, largely due to higher levels of market capacity'
- Prices in the UK are 4% lower 'mainly due to a change in product mix and is partly influenced by a greater level of market capacity'
- The group says 'we remain encouraged by early Winter 14/15 bookings in the UK; with 29% of capacity sold and bookings and average selling prices higher than last year'
- Continental Europe is 90% sold (as last year) at similar prices with bookings in Northern Europe 3% higher with 97% sold. Norway has had some issues

Outlook:

- The group says 'we continue to focus on our strategy of sustainable profitable growth' alongside cost cutting
- Q4 should be ahead of Q4 last year, the 9th Quarter of LfL growth
- TCG says having significantly reduced net debt already, it expects 'our net debt to improve further to approximately between £300 million and £350 million'

Langton Comment: Thomas Cook has survived its near-death experience and has both restructured its balance sheet and improved its prospects.

As we have mentioned before, it won't be revisiting the dark days of 2012 in a hurry but 2014 has provided something of a reminder as to just how volatile an industry leisure travel can be.

Yes the year is selling out well but margins were lower at the beginning of the peak season and, as this uncertainty (as to demand if not supply) is a feature of the industry, some would-be holders may be put off or demand a more attractive entry level before they pick up shares.

TCG has once again avoided a profit warning at this stage and its shares have recovered a little in recent trading. The achievement of its full potential, however, may take a little longer than shareholders had hoped.

This is maybe unavoidable but, whilst the management of TCG has little choice but to tough it out, shareholders can vote with their feet and we would suggest that they consider doing so after the group's shares have risen somewhat. Continued strong growth in profitability is baked into forecasts and execution, as June and July 2014 have proven, is not a given.

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