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## THOMAS COOK (TCG): 140.0p Fosun takes 5% (to grow to 10%) stake

*Company announces 5% stock issue to Fosun, latter to buy a further 5% over time...*

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	178.6	11.1	12.6	Nil	Nil
2015 (E)	233.9	12.7	12.0	1.4	1.0
2016 (E)	285.9	16.2	8.6	4.4	3.1

Source: Company & Broker Estimates

### Group Announces Fosun to take Stake:

Thomas Cook has this morning announced that Fosun is to take a 5% stake. Our comments are set out below:

#### The Deal:

- Fosun is to buy 5% of Thomas Cook via a private placement. This will raise £91.8m & comes at a price of around 125.5p
- Group says this will not mark a change in strategy. It may accelerate the move towards having 50% of product 'differentiated'. The deal will include the following features:
  - Fosun intends to buy hotels, via a fund & TCG intends to operate them. Other investors may be invited into the fund
  - Happy for these to be new or existing hotels
  - Enhanced co-operation with Club Med & with Chinese travel agency CITS, which will focus on Chinese visitors to Russia
  - Further co-operation directly with Fosun to tap the Chinese market
- TCG cautions that all of this will take time. There will be no short-term announcements. Initiatives should 'create value from next year'
- The deal will 'further strengthen TCG's finances'.
- There are no plans for Fosun to take a board seat.

#### Fosun:

- Fosun was founded in 1992 in Shanghai with capital of only £4,000

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Market Cap: £2.0bn  
12m range 102p 186p

- Today, the company has market cap of £7bn with investments in insurance, leisure & other industries. It owns one of China's largest travel agency businesses & recently purchased Club Med

#### Other Q & A:

- Concept hotels: Fosun to own, TCG to manage – given the shareholding, TCG suggests that it will have more control over its assets going forward.
  - Group has identified c30 hotels that would be candidates for purchase by the above hotel fund. This could cost €350m to €500m. Other investors could be invited in. The fund should be set up in this financial year.
  - TCG believes that it can fill hotels that it 'controls'. They would take the supplier risk from the vendor of the hotel & run it internally.
- Implications for bank debt etc. The £91.8m coming in does increase flexibility.
- Group says the deal was 'mutual' and was not driven by either side.
- Financial impact. Group needs 'around 12' hotels to be included in the deal in order to compensate for the dilution caused by the share issue. There are clearly plans for much more than this (in addition to incremental work with Club Med, China travel etc.)
- Re current trading? Group won't be drawn too much but it remains 'well sold' in the UK. Germany and the Continent are seeing 'continuing strength'. There may be a later booking trend in Germany. Ditto Northern Europe.
- Co-operation with Club Med? TCG may be able to combine flight requirements etc.
- Fosun 'would have liked a 10% placing'. TCG have obliged them to buy the second 5% in the market.
- Will TCG & Club Med merge? Not a question that was ever likely to be answered. For the record, Fosun said 'we have no plans to make this merger'.

#### Langton Comment: Thomas Cook has surprised via this tie up.

We are relieved to see that the cash will not be splurged on price cuts or more capacity – though it does (probably) put the lie to the idea that the airline may be sold.

The deal has been marketed well. It sounds like (and we believe is) a good move. China is clearly a big market and the cash injected into TCG will be helpful (though dilutive) in the short term. Over the medium term, when Fosun takes its stake up to 10%, this should help the group's shares.

Over the longer haul, TCG has survived its near-death experience and has both restructured its balance sheet and improved its prospects. Peter Fankhauser and Michael Healy are immensely solid and shareholders will find their emergence a major comfort going forward.

The group's future has arguably been secured and the prospect of doing more business in China and with a Chinese partner is attractive.

Thomas Cook's numbers continue to 'evolve'. There are unlikely to be changes to estimates today but, for 2016 and beyond, the group has suggested that today's announcement should be positive.

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