



24 Sept 2015

THOMAS COOK (TCG): 115.9p Q4 Trading Update:

Company reports 'Summer holiday sales in line with expectations, encouraging start to Winter trading...'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	182.0	11.3	10.3	Nil	Nil
2015 (E)	170.0*	8.2	14.1	Nil	Nil
2016 (E)	221.0	11.9	9.7	3.1	2.7

Source: Company & Broker Estimates, *inclusive of Tunisia, Greece costs

Group updates on Q4 trading:

Thomas Cook has this morning updated on Q4 & FY trading and our comments are set out below:

The Numbers:

- Group says 'with our Summer 2015 holiday programme now almost fully sold, trading has progressed well overall'
- It adds 'all markets are performing in line with our expectations, while Northern Europe has enjoyed particularly strong trading in the second half of the year'
- TCG adds 'winter 2015/16 trading has started positively, with improved bookings in all major source markets.' It adds 'demand has continued to grow for our differentiated holidays, particularly to our own-brand hotels'
- TCG concludes 'guidance for the full year remains consistent with our expectations at the time of our third quarter results in July'
- It says 'our focus is on moving the Group into the next phase of transformation in order to generate growth, through an improved customer experience and more efficient and better integrated operations'

Summer 2015:

- Thomas Cook reports 'the Summer season is approximately 91% sold for the Group as whole, in line with the same time last year'
- It says 'booking trends in the late Summer season have been in line with our expectations, leading to a similar bookings position for the Group to that reported at our third quarter results on 30 July.'

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Market Cap: £1.83bn
12m range 101p 161p

- Tunisia is effectively closed and TCG has seen 'a significant increase in the number of customers travelling to Greece and Egypt, while our strategy to invest in long haul routes is paying off, with particularly strong growth in holidays to the USA and the Caribbean.'
- UK is 95% sold, 1% ahead of the same time last year and average selling prices are up by 4% both for package holidays and for seat only
- In Northern Europe 'following a slower start to bookings in the first half of the calendar year, demand has accelerated substantially and the business has performed particularly well in the second half of the year, helped by recent poor weather in Scandinavia'
- Summer 2015 is now 99% sold in Northern Europe 'with bookings 1% higher than last year and average selling prices 4% higher.'
- In our Continental Europe business, capacity commitments are 90% sold, similar to the same time last year, with pricing 1% lower. Airlines Germany is 89% sold (same as 2014).

Winter 2015/16 & Summer 2015:

- TCG says 'while it is early in the booking cycle, we are encouraged by strong booking and pricing trends for both the Winter 2015/16 and Summer 2016 seasons.'
- Winter is 39% sold and 'all of our major source markets are ahead of last year in terms of booking volumes, with improved pricing trends particularly in the UK and Northern Europe.'

Transformations Update & Fosun:

- TCG says 'our transformation continues at pace, as we execute our strategy for profitable growth.'
- It says 'demand for differentiated holidays is growing. Bookings of our own-brand hotels, which are mostly exclusive to Thomas Cook, have increased by 38% for Summer 15, with particularly strong growth in the UK, Germany, the Netherlands and Belgium. '
- Online continues to grow with bookings on smartphones and tablets up 30% v last year
- TCG is now ready to move 'into the next phase of its transformation.' It will further improve product quality 'with a core focus on our own-brand hotels and airline'
- Re Fosun, the group says 'we continue to develop our strategic partnership' and it says 'in particular, we expect our China joint venture, which will develop domestic, inbound and outbound tourism activities for the Chinese market, to become operational by the end of 2015.'
- It adds 'we are also making progress with jointly establishing our hotel investment vehicle' and says 'we will provide a further update on these initiatives at our full year results in November.'

Outlook:

- Group says 'our underlying business has continued to develop in line with our expectations, despite the impact of disruption in certain destinations and significant foreign exchange headwinds, as previously announced.'
- It says 'demand for our differentiated holidays has accelerated in Northern Europe during the course of the year and has continued to grow in the UK, while conditions in Continental Europe have remained challenging.'

- Overall, it adds 'our airlines have experienced strong demand as our strategy of investing in the customer experience, expanding our route network and growing our seat only business is paying off' and it concludes 'we expect our financial results for the current financial year to be in line with our expectations at the time of our third quarter announcement in July.'

Langton Comment: Thomas Cook has reassured that trading is in line with expectations.

Indeed, our feeling is that the year is ending very well indeed with late prices holding up and demand stronger than at this time last year.

The group is moving to the next phase of its development, it is moving forward with Fosun and it will have an inbound and outbound China tourism business operational by the end of this year.

The group is (now) conservatively managed and, whilst it is not covered in today's announcement, it is solidly financed.

The group, after accounting for issues in Greece and for the tragic events in Tunisia, is set to earn around 8.2p this year, putting the shares on a multiple of around 14x earnings. Next year (to Sept 16), which should be regarded as more representative, TCG should earn c12p, putting the shares on a multiple of 9.7x earnings of the year due to commence next week.

TCG's JV with Fosun (the latter has yet to buy 5% of TCG in the market – and there are some suggestions that it could bid for the whole company) is exciting and potentially a major game-changer. At a single-digit (FY16) multiple of earnings, we believe that the group's shares offer solid value.

Contact – Mark Brumby - +44(0)20 7702 3389

mark.brumby@langtoncapital.co.uk

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Mark.brumby@langtoncapital.co.uk

Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389