



27 Sep 2016

THOMAS COOK (TCG): 70p FY Trading Update to Sept 2016

Company reports 'summer 2016 closing out as expected, with strong demand for most destinations apart from Turkey...'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	50	8.9	7.8	Nil	Nil
2016 (E)	155	8.3	8.4	1.1	1.6
2017 (E)	185	10.2	6.9	1.9	2.7

Source: Company & Broker Estimates

Group Updates on Full Year Trading:

Thomas Cook has this morning updated on full year trading saying 'summer 2016 [is] closing out as expected, with strong demand for most destinations apart from Turkey'.

Trading update:

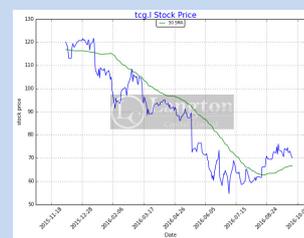
- Group says 'winter 2016/17 bookings are in line with last year'
- It adds 'full year underlying EBIT guidance unchanged'
- Group says it is 'focused on continuing to improve the customer experience, and delivering substantial progress in our New Operating Model, including a new hotel sourcing partnership with Webjet and the launch of Thomas Cook China'
- CEO Peter Fankhauser comments 'the Summer season has progressed largely as expected.'
- Fankhauser adds 'customers' desire to go abroad on holiday has remained strong with the exception of Turkey where demand continues to be volatile.' He says 'to date, sales for the Winter season are in line with last year while sales so far for Summer 2017 suggest that customers are booking early in an effort to secure their first-choice destination and hotel.'
- Mr Fankhauser goes on to say 'we remain focused on ensuring that we have the right holidays available in the most popular destinations in order to meet changes in customer demand. At the same time, we continue to transform our business for profitable growth.'
- Overall positive tone as the group says 'we've taken big steps forward in recent months with the agreement of a new hotel sourcing partnership with Webjet and the launch of Thomas Cook China. However, we're

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Market Cap: £1.1bn
12m range 55p 126p

particularly proud of the improvements we've delivered in customer satisfaction thanks to the work we've done to strengthen the quality of our offering. We know that the increased loyalty we get from happier customers is key to driving the future success of our business.'

Further detail:

- Thomas Cook says 'overall [summer 2016] Group bookings remain in line with our expectations. Excluding Turkey, bookings are up by 8% across the Group as a whole, while including Turkey, bookings are down by 4%.'
- TCG says 'sales have been driven by demand for high-volume destinations including the Balearic and Canary Islands and the USA, alongside smaller destinations like Bulgaria and Cuba.'
- Re summer, the group concludes 'our Summer 2016 programme is 89% sold for the Group, 3% below the same period last year.' It adds 'in the UK, bookings are slightly higher than the prior year.'
- Northern Europe bookings are 6% lower 'in line with capacity cuts made as part of our destination strategy, and against a very strong performance in the comparative period last year.' Here 'pricing is up 3% compared to last year, reflecting strong demand for our differentiated holidays.'
- TCG says 'in Continental Europe, bookings are 9% lower than at this time last year reflecting continued weak consumer confidence, including in Belgium where demand is significantly down as a result of the Brussels terror attacks.'
- Re Continental Europe, the group adds 'overall pricing is 3% below last year's levels. In Germany, bookings are 6% lower than this time last year, but we continue to outperform the wider tour operating industry.'

Outlook:

- TCG says 'we continue to experience good demand for our holidays in the UK and Northern Europe, offset by weaker demand in Germany, particularly for Turkish destinations.'
- It adds 'our expectations for full year underlying operating profit remain in line with previous guidance' and says 'the Group is well positioned for future growth.'
- TCG says 'we have a strong balance sheet, a resilient business model and a strategic focus on strengthening our holiday offering for the benefit of our customers.'

Langton Comment: Thomas Cook's shares have recovered a little from oversold levels but the market remains nervous.

That said, today's update should reassure.

Trading is in line with earlier expectations and, if the group is to deliver on previous forecasts, then its shares are trading on less than 7x next year's earnings.

There is no mention of a dividend. Opinion is divided but a payment is expected for the full year, which will be reported on 23 November.

As we mentioned before, the group flirted with death in 2012. It then righted its balance sheet and its shares moved up from sub-20p to a high of a shade under 190p.

The group has shifted capacity to the Western Med, the Canaries & the USA.

This has not been achieved without great effort but, as the group moved quickly, it has been at minimal marginal cost.

Margins are therefore being protected and, as bookings normalise, the group should deliver on estimates.

Consensus numbers have the group trading on a next year PER of around 7x earnings. This is rather lower than one would expect for a company whose recovery is not complete.

TCG's China JV is potentially very exciting and we believe that its shares offer good value.

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