11 Feb 2014

THOMAS COOK (TCG): 188.3p
Q2 Trading Update – Conference Call

Group reports 'encouraging trading' and 'continued delivery of strategy…'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	NA	5.0	NA	Nil	Nil
2014 (E)	199.6	11.2	16.2	Nil	Nil
2015 (E)	311.0	16.9	10.8	2.75	1.5

Source: *Company & Broker Estimates*

Q2 Trading Update Conference Call:

Following its update on Q2 trading this morning, Thomas Cook hosted a conference call for analysts and our comments are set out below:

Cash, cost-cutting, balance sheet etc.:

- Group won't update on cost out at this stage. Will do so at H1.
- Team is 'embracing the cost out issue'. Internet penetration will be dealt with at the H1s. New Product Strategy going well, excellent new hotels have been sourced. In line for £300m of new business

Winter 2013/14:

- Winter is 'almost done'. Trading has 'been satisfactory'. Volumes in Europe are down a little but as planned given the smaller French & Russian programmes.
- The impact of low-cost carriers in Nordics has been slight. Some capacity is coming off.
- How big is Thai business, particularly from Nordics? Group 'actively took out 20% of Thai capacity here'. Says this was 'well-judged'.

Summer 2014:

- Summer trends 'have improved'. Ditto margin. Season is 50pc sold. Some prices are lower but margin is > 2013. Comps should be easier post June, July due to warm weather last year.
- 'No complacency' but group in a good position re Summer.
- At Q1, we believed selling prices would trend back up; that hasn't happened.

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Market Cap: £2.6bn
12m range 78p 186p

Mark.brumby@langtoncapital.co.uk
Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389

- There has been 'some margin pressure' in UK. Where? This was not addressed.

- Germany been performing well. Winter pricing strong (over 3%) & bookings up more than 2%. Bookings are running up over 5% for the summer. Group has taken 2% of market share.

- Russia is ahead of last year. CEO says group hopeful of returning to profit next year.

- France now has a 'dream team'. Environment 'challenging' but group is ahead of last year although 'a little bit behind budget'. Hope for September 2015 break even.

Overall:

- The group is still 'knocking down silos' and 'embedding best practice'

- Favourable trends have continued, the group is 'making quite a lot of progress…'

- Egypt could cost £15m and there are some currency headwinds.

- Strategy is on track, disposals are ahead of plan. Trading is encouraging and product evolution continues.

- Group is bigging up the Egypt issue & says it was a remarkable success 'managing the situation, lessening the impact and finding alternative destinations'

- Headline Q2 is underlying flat, Egypt costs £15m but the group was ahead £10m at Q2. Therefore will be down H1 on H1 in headline terms but up underlying, ex-bad-stuff

- Re full year, new products kick in more in H2

Langton Comment: Thomas Cook is now somewhat normalised.

And that is good in that debt is no longer a major issue and EPS can once again be the basis for valuation, but it is less good in that the group is large and diversified and 'issues' (currently Egypt) will always need to be dealt with.

Re trading, the group will be slightly behind (due to Egypt) at the headline EBIT level in H1 but ahead on an underlying basis. Some critics may suggest that you should not ex-out the bad things but there you have it.

Around 20p of earnings in FY16 remains the medium term target and, if achieved, the group's shares trade on a single digit multiple of earnings, albeit three years out. Given the risks involved, this appears fair value and a degree of profit taking is perhaps warranted.

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

mark.brumby@langtoncapital.co.uk

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