15 May 2014

THOMAS COOK (TCG): 179p
H1 Results to 31 March 2014

Group reports that 'strong progress underpins strategy of sustained profitable growth…'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	NA	5.0	NA	Nil	Nil
2014 (E)	212.0	11.2	16.0	Nil	Nil
2015 (E)	319.0	16.9	10.6	2.4	1.3

Source: *Company & Broker Estimates*

H1 Results to end-March 2014:

Thomas Cook has this morning reported H1 numbers to end-March and our comments are set out below:

Headline numbers:

- The group has reported revenues down by 6.6% at £3.011bn.
- EBIT is a loss of £187m at the underlying level, down from a loss of £198m for the same period last year
- Net debt, post the refinancing last year, is £811m against £1,215m for H1 last year

Major features:

- The group reports that the target for Wave 1 FY cost cutting has been increased (again) to £460m (up £20m)
- The Wave 2 target remains 'over £400m'
- Online bookings have grown strongly and are now 'almost 39%' of sales
- The group says that it is seeing 'strong product demand' and says 'summer 2014 booking performance is developing well with solid volumes in our main markets'

More on reported trading:

- Thomas Cook says that the revenue reduction referred to above is 'due to market disruption in Egypt', which more than offset growth elsewhere
- Currency translation presumably did not help either
- Gross margins rose by 120bps to 22.5%

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Market Cap: £2.6bn
12m range 112p 189p

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Outlook:

- TCG says Summer 2014 is 'developing well'. It says however that there is 'some Summer season pricing softness in the UK'

- The group says that 'continuing delivery remains an overriding objective' and it says 'we are confident of delivering further momentum'

Langton Comment: Thomas Cook has survived its near-death experience and, whilst it has not yet prospered, it should be in a position to do so in FY14 and beyond.

That said, today's statement does have a few cautious strands running through it and the remainder of the group's recovery will be hard-fought. The UK is experiencing some 'pricing softness' and, ultimately, cost cutting will not be enough to sustain the group going forward.

Profits will not normalise until FY16 at the earliest, when observers are pencilling in 20p and more in earnings. The group's shares, whilst they have performed extremely strongly over the last 18 months and a degree of continued profit taking may be expected.

No-one said it would be easy but, with the above in mind, we'd conclude in the absence of evidence to the contrary, that TCG's shares offer fair value (provided a dividend can be seen on or only slightly over the horizon) and, for those who have been on board since mid-2012, it may seem sensible to take some further profits.

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