31July 2014

THOMAS COOK (TCG): 121.5p
Margin pressure becoming an issue?

Company reports 'successful transformation continues with third quarter profit increase….

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	NA	5.0	NA	Nil	Nil
2014 (E)	200.0	10.7	11.4	Nil	Nil
2015 (E)	302.0	16.2	7.5	2.9	2.4

Source: Company & Broker Estimates

Group updates on Q3 trading:

Thomas Cook has this morning updated on trading for its Q3 to end-June and our comments are set out below:

Overall:

Thomas Cook maintains that 'our transformation is progressing very well.' CEO Harriet Green maintains that 'today's announcement of a £32 million rise in underlying EBIT, represents our eighth consecutive quarter of increased profits.'

- TCG reassures that 'every business improved and the UK delivered the most significant contribution, accounting for over three quarters of the total rise, as we start to realise its full potential.'
- The group says 'twenty four months into our transformation, we are confident that our deliberate actions to improve operating efficiency and yield management, digitise our business and develop new exclusive products that build on the strength and trust that our brand represents, will significantly improve Thomas Cook's profitability and growth trajectory.'
- It concludes 'as a stronger and more resilient business, our operational performance remains in line with our expectations for FY14 and we look forward to delivering more value in FY15 and onwards.'

Revenues, Current Bookings & Late Sales:

- Revenues have slipped by 5.7% to £2.2bn for the quarter
- Margin is 20.1% against 19.8%
- TCG reassures that 'the Summer season is currently approximately 83% sold, slightly better than last year' but says 'bookings and headline average selling prices for our UK business are broadly similar to when

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Market Cap: £1.8bn
12m range 117p 189p

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we previously updated the market in May, being flat and 4% lower respectively compared to last year.

- The group says ‘recent booking volumes in the "lates" market have improved significantly, indicating a later booking pattern for the Summer season than last year.’

- In the UK ‘the lower average selling prices are mainly due to product mix and a higher proportion of shorter duration holidays reflecting customer demand.’

Outlook:

- The group says ‘we are very encouraged by early Winter 14/15 bookings, which are over 7% higher than last year in the UK with an increase in average selling prices of 3%.

- TCG concludes that ‘this demonstrates early tangible benefits of our enhanced product and Winter Sun strategy.’

- Trading is tougher but the group says ‘due to the ongoing transformation of our business, Thomas Cook is stronger, more resilient and better able to withstand the headwinds inevitable in a global travel business, as demonstrated by our ability to mitigate the impact of unrest in Egypt earlier in the year.’

- It says ‘recent demand in the Summer 14 "lates" market has been strong in the UK, Germany and Northern Europe’

- The group accepts that the market is tougher and says ‘although there is continuing pricing softness due to higher levels of market capacity, we are confident that the acceleration of our cost out and profit improvement programme will mitigate market pressures in order to achieve our FY14 gross margin target improvements of greater than 1.2% and achieve operational performance in line with our expectations for FY14.’

- TCG concludes ‘while it is early in the booking cycle, we are encouraged by booking and pricing trends for the Winter 14/15 and Summer 15 seasons.’

Langton Comment: Thomas Cook has survived its near-death experience has restructured. It won’t be revisiting the dark days of 2012 in a hurry but, on the back of today’s somewhat cautionary comments, we believe that estimates are likely to fall as numbers are becoming more dependent upon cost cutting and transformation than on product growth.

The recovery may be pushed out to the right and all will depend on Q4’s trading. This is now some 1/3 complete and, though today’s statement covers Q3 to end-June only, the outlook comments must have taken this on board.

TCG has avoided a profit warning at this stage and there could and probably should be something of a relief-bounce in the group’s shares. The achievement of its full potential, however, may take a little longer than shareholders had hoped. This is maybe unavoidable but, whilst the management of TCG has little choice but to tough it out, shareholders can vote with their feet and we would suggest that they consider doing so after the group’s shares have risen somewhat.

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