Langton Capital Limited

16 Sept 2014

THOMAS COOK (TCG): 130p
FY Trading Update – Conf. Call

Company reports summer is satisfactory but Germany slowing, work to do in France, Russia…

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	NA	5.0	NA	Nil	Nil
2014 (E)	190.0	10.0	11.4	Nil	Nil
2015 (E)	282.0	15.5	7.5	2.5	2.4

Source: Company & Broker Estimates

Group updates on Q4 trading:

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

Conference Call & Questions:

- Summer overall 'has been satisfactory' & winter is 29% sold in the UK (slightly up on last year)
- All businesses should show improved EBIT over last year
- Germany:
  - German bookings 'have moderated'. There is 'a more subdued economic outlook'.
  - Margins in Germany 'have weakened' – but should (the co. hopes) improve
  - Germany – is 'going from a very strong position to moderation'. Says capacity has gone on. Consumer is conservative
- UK:
  - Capacity has gone on but believes now that it is coming out
  - Thinks average selling prices will improve in FY15. Closing prices (down 4%) were 'as expected'
  - September is
- Other trading:

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Market Cap: £1.9bn
12m range 116p 186p

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

  - France: Market has been getting worse 'but Thomas Cook is exceeding he market'. Break even should be achieved next year & the group is taking share
  - Russia: Outbound business performing well. Inbound disappeared with Ukrainian problems
- Costs:
  - Group says increasing targets are incremental, not just bringing forward existing plans. Strongly flagging that it will increase targets at FY numbers.
  - Fuel costs falling, somewhat positive environment
- Balance sheet & other:
  - There was a working capital outflow & debt should be £300m to £350m.

Outlook:

- The group still believes that it can 'achieve the potential of this great brand'
- Group 'continues to make progress' – it is aiming for sustainable growth
- The group will update on Wave II (and expects to raise targets)

Langton Comment: Thomas Cook has announced that Germany is slowing and that it has work to do in France & Russia. The UK continues to improve at an underlying level although sluggish bookings in June and July have impacted margins.

There was a degree of hesitancy over the conference call and the group's shares, which have now lost more than 10% of their value in two trading sessions, reacted accordingly. Forecasts have been edged down and it would appear that the recovery has indeed been pushed a little out to the right.

That doesn't necessarily mean that TCG is not doing the right things. Rather it reminds us that leisure travel is a volatile and low-margin industry. This should not come as a surprise but, to those observers who perhaps expected not to encounter bumps in the road, it serves as a reality check.

The group's shares, at around 8x next year's perhaps slightly downgraded FY15 numbers, perhaps offer fair value. We would not be inclined to chase the shares at these levels and, for those fortunate enough to have acquired holdings at lower levels, we would favour taking profits.

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

mark.brumby@langtoncapital.co.uk

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