26 Nov 2014

# THOMAS COOK (TCG): 137.9p
## FY Numbers: Analysts' Meeting:

*Company seeks to reassure after surprise management change, forecasts uncertain, slower growth likely*

| Year to end-Sep | PBT (£m) | EPS (p) | PER (x) | DPS (p) | Yield (%) |
|---|---|---|---|---|---|
| 2013 (A) | NA | 5.0 | NA | Nil | Nil |
| 2014 (E) | 185.0 | 9.6 | 14.4 | Nil | Nil |
| 2015 (E) | 270.0 | 15.0 | 9.2 | 2.5 | 1.8 |

*Source: Company & Broker Estimates*

## Group Reports FY Numbers:

Following the release of its FY numbers this morning, Thomas Cook hosted a relatively short meeting for analysts (given results today also from Britvic, Compass Group, Patisserie Valerie & Hogg Robinson) and our comments are set out below:

### The Numbers:

- Unfortunately the numbers have been overshadowed by the departure of CEO Harriet Green
- This said, the Group updated in a reasonably positive fashion.
- Underlying trading backwards in FY14? UK in year had 'very poor shoulder' in Oct & Egypt was negative. This was masked by cost cuts in H1. H2 trading was better
- Wave I should total £500m, Wave II going as planned at 'more than £400m'
- Depreciation was higher than anticipated.

### Targets, Future Trading etc.:

- Group says 'it will hit its web-penetration targets over time'
- Says sales growth target for FY15 will be 'challenging to achieve'
- Lower fuel prices should top-line at c£70m, but perhaps 4/5 may be passed on to customer – but there is some cost inflation in Spain
- Current 'caution' does not come from UK but rather from Continental Europe, German demand & margins. Also a little more cautious in N Europe (on airline capacity increases)

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Market Cap: £2.0bn
12m range 102p 186p

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- How much of what you lost in Egypt will come back? Lost around £170m of revenue with EBIT of perhaps £20m. Some of this is coming back, both in Europe & the UK – but group won't achieve 2012 levels this year

- Cost out? Around 60% of 'cost out' should feed through to bottom line, the balance will be offset by further costs or benefits passed to the consumer

- EBIT will still move forward, but at a slower rate

- Dividends? The group will continue to update but it will continue to work towards 'a more efficient balance sheet'. This would suggest retaining income rather than paying it out as dividends over the short term

- France & Russia? It was right to de-risk.

## Balance Sheet etc.:

- 2015 bonds will be 'repaid from cash' & group will do all it can to reduce interest payments

## Management Change, Reasoning etc.:

- Direct questions here were extremely limited

- Where do Peter's strategic views differ from those of Harriet? Mr Fankhauser suggests there are no material differences

**Langton Comment:** Thomas Cook reassured here that it has management in depth.

Peter Fankhauser and Michael Healy presented well and illustrated beyond doubt that TCG is not rudderless and, though it may be at a slower rate, there if further growth to come.

However, for the time being, attention will be focused on the management change and what it means for growth projections going forward. Here the group has made it clear that 1) EBIT will grow but adds that 2) it will be at a slower rate.

This will be taken as an acceptance that forecasts will need to be shifted out to the right and, though this is unlikely to send the shares back to their lows – as these were pre-restructuring – there will need to be a reappraisal with regards to value.

A dividend will not be forthcoming in the short term and the group's shares are likely to remain under some pressure until estimates are bottomed out.

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