Langton Capital Limited

26 Nov 2014

THOMAS COOK (TCG): 137.9p
Full Year Numbers

Company reports strong profit progression but cautions on pace of growth and announces Harried Green is to leave the company

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:

Thomas Cook has this morning reported full year numbers to end-Sept and has announced that CEO Harriet Green is to step down. Our comments are set out below:

The Numbers:

- Group reports underlying EBIT of £323m (+44%) and says 'all businesses delivered improved profitability'
- Sales are down by £727m at £8.6bn
- Group says 'in particular, underlying UK EBIT margin improved by 130 basis points to 3.5% (FY13: 2.2%), achieving our FY14 target'
- Margin has risen slightly to 22.3% from 22.1% last year
- Underlying EPS is up by more than 100% at 11.3p against 5.0p last year
- Debt is down to £326m from £421m last year

Departure of CEO:

- Thomas Cook says Harriet Green is to be replaced immediately by Chief Operating Officer, Peter Fankhauser
- It says Harriet's 'remit was to transform the company' and Ms Green adds that the time for her to leave is now
- Peter Fankhauser has been with Thomas Cook for 13yrs, before which he was at Kuoni
- Michael Healy will continue as CFO.

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

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- Chairman Frank Meysman says 'Harriet has had a highly positive impact on this company' and adds 'we are delighted that someone of Peter's stature will succeed Harriet and lead the next phase of our transformation'

More on the numbers:

- Thomas Cook reports New Product sales up by £186m and web penetration is at 38% of sales
- Costs continue to be cut, and the group says 'our Wave 2 FY18 target currently remains at £400 million'
- Cook adds 'we have de-risked our business by reducing low profit and high risk operations, through business disposals, strategic reductions in risk capacity in France and Russia, and the removal from sale of low quality product'
- Sales are down on the 'reduction of strategic risk capacity and removal of low quality product (£189 million), and continuing lower demand for Egypt (£177 million)'
- New product revenues are £186 million and Cook says 'this has resulted in an improved quality of business, reflecting our focus on higher margin products as part of our strategy for sustainable profitable growth'
- Regionally, 'Northern Europe maintained its strong EBIT position, while all other parts of the business recorded increased profits'

Outlook:

- Group says 'in the two years since the start of the transformation, we have delivered like-for-like EBIT growth of £102 million (82%) in FY13 and £98 million (43%) in FY14.'
- It says 'reflecting the tougher trading environment our outlook for growth in FY15, while still positive, is more measured'
- It will 'deliver further growth this year at a more moderate pace.'
- Net debt should fall to 'between £100 million and £150 million' by the end of this year and the group says 'our work to transform Thomas Cook continues.'
- The group concludes 'we are just two years into our major change programmes and, whilst the transformation has already delivered substantial benefits to the business and its stakeholders, there is more to do.'
- It adds 'we are confident that our robust product strategy, our focus on digital and our continuing profit improvement initiatives will enable us to deliver further significant value this year and beyond.'

Langton Comment: So Thomas Cook has jettisoned the captain and is seeking to edge back the more optimistic forecasts with regard to its recovery.

And this may be healthy over the medium and longer term but it may lead to Harriet Green era spreadsheets being revisited and the uncertainty will not be welcomed in the short term.

Over the longer haul, TCG has survived its near-death experience and has both restructured its balance sheet and improved its prospects.

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Peter Fankhauser and Michael Healy are immensely solid and shareholders will find their emergence a major comfort going forward.

As we have mentioned before, it won't be revisiting the dark days of 2012 in a hurry but 2014 has provided something of a reminder as to just how volatile an industry leisure travel can be and Ms Green's exit perhaps serves to remind us that smooth marketing needs to be overlaid with real work on the fundamentals.

Having avoided a profit warning over Egypt earlier this year, it is likely that numbers will be pulled back and TCG's recovery will move out to the right. The achievement of the group's full potential may take a little longer than shareholders had hoped. Numbers are in flux, uncertainty is seen as a negative by most investors and the group will be questioned closely at its meeting this morning.

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