Langton Capital Limited

20 May 2015

THOMAS COOK (TCG): 157p

H1 to March 2015 – Analysts' Meeting

Company CEO Fankhauser reports group is 'making a lot of progress…'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	185.0	11.3	13.9	Nil	Nil
2015 (E)	227.0	11.7	13.4	1.4	1.8
2016 (E)	280.0	15.0	10.5	3.9	2.5

Source: Company & Broker Estimates

Group Reports H1 Numbers:

Following the announcement of its H1 numbers earlier this morning, Thomas Cook hosted a meeting for analysts and our comments are set out below:

The numbers:

- Group has 'delivered results in line with expectations'. The UK business has performed particularly well with seasonal losses down by £25m
- European currencies have weakened against Sterling but, as a mix of profits & losses are reported in H1, the impact 'is not material'.
- UK H1 losses were down, same in France & Russia
- Fuel prices are clearly lower but some bed costs have risen. Overall, margins are stable though flight compensation cost £5m in H1 (est. £18m in FY)
- The cost out programme continues to exceed expectations. However, from end-FY15, this will evolve. Wave II will drop the name & be much more structural + far-reaching

Cash flow, debt & capex:

- When disposals are accounted for, cash flow was £10m > last year. Debt at year end should be £100m to £150m.
- A new bank facility (£800m to May 19) replaces the earlier facility & provides the group with enhanced flexibility

Trading outlook:

- Q3 is softer but summer looks good. UK summer sales are 3% > last year, Continental Europe is 4% < last year, Northern Europe < 4% and Airlines Germany is +9%

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Market Cap: £2.5bn
12m range 102p 165p

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- TCG says the Q3 weakness appears to be nothing more than a shift into Q4
- Group is 'seeing particular strength in the UK & in Airlines Germany' and own-brand hotel sales are well ahead. Group expects UK EBIT margin of 5%
- Bookings 'have improved markedly in recent weeks'.
- Trading has been tougher in Germany but, as we lap the World Cup, comps become much softer.
- France is improved but will not break even this year. Hopefully FY16. Russia has been difficult but, more importantly, it is de-risked – it will b/even this year
- TCG should hit its financial targets with the exception of the 2013 prediction that it would grow sales by 3.5% p.a.
- Group says it will enunciate a clear dividend strategy by end-FY15. The bank facility that limited pay-out flexibility has now gone. Group still wishes to reduce debt levels.
- The group has thus far seen no negative impact on booking levels of the publicity surrounding the deaths of two children in 2006
- Oil benefits should be £60m to £80m on the year at the gross level. There was no net benefit in H1. At present, the industry is seeing no benefits. TCG could hold onto £10m to £15m – but there is no evidence of this yet

Strategy, longer term targets:

- Group reassures that targets set in FY13 remain in place. In addition, TCG will 'pursue partnerships [such as that with Fosun] to speed up execution'
- Fosun deal will focus on Hotel Investments, a China JV & closer relationships with Club Med. Re the hotel fund, the first assets should be acquired by end-year. The JV is close to being set up & group is talking with Club Med
- There will be little if any capex incurred as a result of the Fosun deal
- Margins at managed hotels are 200-500bps higher than average & Fosun should bring 30 more such hotels. TCG will choose where these hotels are purchased
- It will also target growth areas such as long haul & luxury, will continue to deliver refreshed planes, better hotels etc.
- Group will concentrate the number of hotels that it uses from perhaps 9k to c3k
- Mobile is a 'key area of growth'. In the UK, mobile bookings +65% in H1 to c1/3 of bookings from c1/5.

Langton Comment: Thomas Cook has sought to reassure that trading is improved & improving.

The group will attempt to simplify its targets. Wave II will drop the name & become more structural. Business change will be tasked to the businesses.

As mentioned earlier this morning, the group's shares trade on something in the region of 13.4x this year's earnings falling to perhaps 10.5x next. A dividend should be reinstated next year (FY16, probably a final payment only to be announced November 2016) and a yield of around 3% should be achievable within two to three years.

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The shares are, perhaps, therefore reasonably priced on trading alone but the JV with Fosun and the opportunities that it provides continues to add spice. Would-be shareholders may be attracted by this and we believe that the shares have upside from current levels.

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