FINANCIAL TIMES

January 12, 2012 7:36 pm

Disposals hinder FirstGroup's drive on debt

By Rose Jacobs

Problems unloading non-core businesses have slowed FirstGroup's drive to reduce debts, with the public transport group blaming the weak economy and buyers' nervousness over regulatory approval.

The operator of UK rail franchises and buses, and coaches and other transit services in the US, said net cash would reach just £100m-£115m for the year to March 31, compared with previous predictions of up to £150m, due to fewer disposals this year than planned.

With no moves by the group to cut the dividend or reduce investment, analysts bumped up their predictions for year-end balance sheet leverage. Paul Hickman at Peel Hunt forecast net debt at 2.4 times earnings – only slightly below last year's 2.5 times, in spite of the group targeting "further improvement in 2011/12".

FirstGroup said the changes would not affect its policy, launched in 2010, of raising the dividend pay-out by 7 per cent a year for three years. But, said Mr Hickman, "a company committed to strengthening its balance sheet maybe shouldn't be making a commitment to keep hitting the balance sheet for increased dividend payments every year."

Other analysts were surprised that disposals of businesses – as opposed to land sales in the US previously flagged by the company – were proving key to it reaching debt-reduction targets.

A spokeswoman for FirstGroup said all the targeted disposals were within the UK bus division, and that the difficult economy meant the multiples being offered had fallen, while recent advice to the Office of Fair Trading from the Competition Commission to look carefully at bus deals had signalled to bidders that they need to seriously consider competition issues, thus delaying transactions.

She added: "These were always opportunistic disposals. We don't need to get rid of anything. We can just wait."

Shares fell 2 per cent on Thursday, to 320.2p.

The adjusted outlook came alongside third-quarter trading figures showing the group's five main divisions performing in line with expectations. First Student, the company's US school-bus business, is set to produce operating margins in line with last year, demonstrating a continued recovery after a severe dip in fortunes last year, while Greyhound, the north American intercity coach business, pushed up like-for-like sales by 5.9 per cent.

"This is a very strong result especially as it masks an even stronger performance in the USA (as the weaker Canadian business is also included)," said John Lawson at Investec.

In the UK, rail revenues rose by 8 per cent – a slower rate than the first half's 9 per cent growth – and bus like-for-like figures inched up 1.8 per cent. FirstGroup said it saw stark differences between performance in the south of the country and the north, but added that the businesses targeted for disposal span the country.