FINANCIAL TIMES

December 13, 2011 5:25 pm

Go-Ahead lifts profit outlook on passenger growth

By Rose Jacobs

Shares in the Go-Ahead Group rose by almost 5 per cent after the operator of UK trains and buses raised full-year operating profit forecasts on the back of strong passenger growth at its rail franchises.

The operator – in partnership with French group Keolis – of the London commuter railways Southern and Southeastern, as well as intercity service London Midland, said more people were shunning private cars for trains during cheaper, off-peak times, helping push up revenues on the commuter lines by 9 per cent and on London Midland by 13 per cent.

David Brown, chief executive, said the anticipated organic growth in the six months to December 31 came to some extent from “modal shift” – or cash-conscious travellers moving from road to rail – but also benefitted from marketing by the group, which reminded people of off-peak deals.

In the regional bus business, meanwhile, the introduction of smartcards drew in more customers, though it diluted revenues per passenger as the technology made it easier to take advantage of fare deals. Still, Go-Ahead said it aimed to rapidly increase usage, which currently stands at fewer than five in 100 journeys across the system.

Organic regional bus revenues rose 3.5 per cent, most of which Go-Ahead put down to higher volumes. That beat rival Stagecoach’s half-year like-for-like regional bus performance.

In the regulated, London market, new contract wins lifted revenues.

Several analysts raised full-year profit-forecasts, though Gerald Khoo at Espirito Santo noted: “Rail seems to be the main driver of outperformance, so we would consider this to be a lower quality move to guidance, with potentially limited implications for valuation.” Go-Ahead derived 70 per cent of group revenues from rail last year, but most of its operating profit came from the bus businesses.

Shares rose 7.9 per cent to £13.29 by the close.

FT Comment

With a 2012 dividend yield of more than 6 per cent, it is no wonder Go-Ahead is lighting up value investors’ eyes, particularly as the group demonstrates it is making the most of its assets. In rail, managers actively marketed off-peak fares rather than sit back and enjoy industry-wide modal shift. In bus, they are drawing in a wider audience through smartcards. But the dividend is protected by profits from rail franchises which come up for renewal in 2014 and 2015. Go-Ahead – trading at 9.4 times next year’s earnings – could lose some of that business then or sign up to less-attractive contracts to stay in the game. Like the buses the company runs, this investment might be a vehicle best used for short rides.