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NatExpress continues its turnround

By Rose Jacobs

A two-year turnround programme at National Express is nearing completion, with the public transport group boasting margins that were in line with competitors' last year and predicting volume growth across its divisions in 2012.

"We've done a lot of work to rebuild our reputation and balance sheet and that puts us in a good position," said Dean Finch, who was drafted in as chief executive in late 2009, after the group forfeited its contract to run the lossmaking East Coast rail franchise and faced up to soaring net debt.

Mr Finch on Wednesday pointed to an 8 per cent increase in the full-year dividend for 2011, to 9.5p, paid from earnings outside the group's diminished rail division. Revenue grew 5.3 per cent to £2.2bn, while earnings per share increased 14 per cent to 27p.

Profit before tax, at £180.2m against £160.5m in 2010, was helped by continued cost-cutting and rationalisation of bus and coach networks, as well as stronger yields across its UK coach and bus divisions and its North American and Spanish operations.

Passenger numbers grew in Spain in spite of the country's economic problems, a trend the company expects will continue across its markets this year as customers seek cheaper travel amid higher fuel prices and squeezed household budgets.

Karl Burns, an analyst with Shore Capital, said that the group was "now in the next phase", looking to reap the benefits of the past two years' work. And while he is bearish on the UK market for bus and rail, he argued that investors were undervaluing National Express's business.

"The Spanish operation has proven fairly resilient, the local economy in the West Midlands [where the bulk of the group's buses operate] is doing pretty well, and they're moving on from self-help," he said.

In North America, the company's takeover of school bus group Petermann is taking longer than expected to complete, but Mr Finch said he expected regulatory clearance in the next few months.

The shares closed up 5.5 per cent at 223.5p.

● **FT Comment**

Given the unpredictability of UK rail franchise wins, particularly in the coming years when foreign state-backed groups are eager to get in on the action, pricing future rail profits into a transport group's share price is a dangerous game. That makes National Express appealing, given that its shares (taking account of a dim future for rail) trade at 9.4 times 2012 earnings compared with 11 times at Stagecoach. Moreover, even if the market has given up on rail, management hasn't, spending more than £9m already on preparations to bid for three upcoming contracts. With the revived bus and coach business now fuelling earnings and dividend growth, any win would be the icing on the cake.