

MARKETFORCESLIVE BLOG



Go-Ahead cautious about rail business as consumers feel the pinch

Company says franchise bid assumed stronger economic growth at this stage

Weak UK economic conditions have put the brakes on one of **Go-Ahead's** key rail businesses, sending its shares down nearly 2%.

The transport group said its Southern franchise - which includes the Gatwick Express - would see full year growth in passenger numbers of around 1% but added:

The current economic environment does present challenges going forward as the bid model in 2009 assumed stronger underlying economic growth rates at this stage in the franchise.

Its southeastern and London Midland franchises, as well as its bus businesses, saw a rise in passenger numbers. But the bus division had a lower average yield per journey as cash-strapped consumers took advantage of value for money period passes and smartcards. Looking ahead the company said:

We expect the performance of our bus business to remain strong. In rail we expect slower than assumed economic growth rates to impact performance, and £6m of rail bid costs are forecast next year.

This caution has sent the group's shares 22p lower to £11.97. Gert Zonneveld at Panmure Gordon said:

We continue to remain cautious about the medium term growth prospects of Go-Ahead. Winning additional rail franchises remains crucial, especially if the company wants to sustain its current level of dividends over the medium to longer term, but we see few catalysts in the short term, with a winner for the new Thameslink franchise not expected until May 2013. We retain our hold recommendation and £12.50 target price.

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