

Stagecoach pins hopes on US adventure

Sir Brian said that the opportunities in America were very exciting Micha Theiner/Rex Features

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The financial rail crash at East Midlands Trains and slumping profits on Virgin Rail have held back earnings at Stagecoach.

But a spectacular turnaround at East London Buses and hopes for the take-off of Stagecoach's low-fare megabus operations in the United States persuaded investors to return to the company's share register yesterday.

"UK bus is the spine of the company and the rail and our US operations are its arms and legs," Sir Brian Souter, the company's founder and chief executive, said. "The railways could make a difference to this company and we are making investment for the future. But the opportunities in America are very exciting and have the potential to be transformational."

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UK buses, Stagecoach's largest business, reported a 6 per cent rise in underlying earnings in the year to the end of April. In East London, a £6 million loss on the local bus company which Stagecoach bought for a song from the Australian finance house Macquarie 18 months ago, has been turned into a £13.5 million profit.

Group pre-tax profits came in £3 million lighter at £202 million after Stagecoach counted the cost of assumptions about what a good business East Midlands Trains might be.

Stagecoach signed up to run East Midlands in 2007, a year before the financial crisis struck. It was so sure the franchise would be a success that it signed up to arrangements in which it would return excess profits to the Department for Transport.

Last year the train company's revenues came in at £290 million — £120 million a year lower than had been projected — with the business at one stage making losses of £5 million a month. That nearly halved Stagecoach's profits from its wholly owned train businesses, including South West Trains, to £27 million.

Yet the curious intricacies of Britain's state-subsidised railways means that the taxpayer is now in the process of bailing out East Midlands. While the business is contracted to make premium repayments to the DfT of £78 million this year, its contract also states that because its projected revenues are so far behind estimates, the DfT will hand it back more than £80 million in so-called revenue support this year.

Earnings at Virgin Rail, Stagecoach's joint venture with Sir Richard Branson, were nearly halved to £15 million. The company blamed a £40 million rise in premium payments in the last year of the franchise before its re-tender.

US profits were marginally ahead but investors are being told that the growth of megabus there, compounded by Stagecoach's recent acquisition of Coach America, should allow the business to take off. "What we are seeing in the US is the most dramatic change in the intercity bus market anywhere in the world in the last 30 years," Stagecoach's finance director, Martin Griffiths, said. The share price closed last night up 13¾p at 263½p.

Bus drivers find unlikely friend in Olympic walkout

He is regularly pilloried by unions as a transport fat cat, but Sir Brian Souter yesterday revealed that he was at one with striking London bus drivers in their struggle for a £500 payment for working during the Olympics (Robert Lea writes).

Sir Brian says drivers in London should receive a bonus — but only because other transport workers in the capital are receiving special payments. "Do I think the payments are justified? On a point of principle I do not think they are." the

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