
Analysts warn FirstGroup's west coach rail bid 'a double-edged sword'

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SNATCHING the west coast rail franchise away from arch rival Stagecoach would be a double-edged sword for FirstGroup chief executive Tim O'Toole, because it would give him less incentive to sell his underperforming UK bus operations, analysts claim.

Speculation is mounting that Aberdeen-based FirstGroup will steal the lucrative franchise away from its Perth-based peer, which runs the Glasgow-to-[London](#) service in a joint venture with Sir Richard Branson's Virgin Group.

UK transport secretary Justine Greening is expected to announce the winner a week tomorrow. FirstGroup and Virgin Rail are seen as the front-runners for the contract ahead of two other bidders, a partnership between Dutch-owned Abellio and Serco – which recently took over the NorthLink Ferries franchise to Orkney and Shetland – and a consortium featuring French pair Keolis and TGV-operator SNCF.

Paul Hickman, an analyst at Peel Hunt, said: "Our gut feel is that FirstGroup – with more need to bid up – will win on price. A win by FirstGroup would be negative because there would be less incentive to dispose of its underperforming UK bus operations."

FirstGroup is said to have bid £7 billion for the franchise, topping a £6bn offer from Virgin Rail. Such a deal would involve FirstGroup paying the Treasury £500 million a year to operate the route, up from the £160m the Exchequer currently receives from Virgin.

Branson wrote to Greening and Prime Minister David Cameron last week to rail against any "unrealistic high" bid from FirstGroup, warning the UK government could see a repeat of the re-nationalisation of East Coast, which National Express abandoned after the recession hit revenues.

Douglas McNeill, an analyst at Charles Stanley, said O'Toole will come under [pressure](#) from the City to prove he hasn't overpaid if he wins the west coast route.

"Over bidding is always a danger and we've seen it occur in the past, with the East Coast line when National Express had it," said McNeill. "It's one thing to bid and lose – it's disappointing but there's nothing dishonourable about it – but to win and over-bid is an egregious sin. But FirstGroup is well aware it is a danger and they would have to demonstrate to a City audience that they have not overpaid for it."

McNeill said FirstGroup would press ahead with the sale of its bus assets in the UK no matter what the outcome is of its west coast bid. "FirstGroup has said the businesses are insufficiently profitable. That rationale will be the case no matter what happens with the rail business," he added.

O'Toole, the former head of [London](#) Underground, unveiled plans in March to sell £100m of bus assets but - analysts last month questioned his ability to find buyers after Stagecoach pulled out of a deal to take on routes in Devon.

A spokesman for the Department of Transport said an announcement on the west coast franchise would be made "shortly".

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