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Stagecoach shares rise on increased turnover

By Jane Wild, Mark Wembridge and Mark Odell

Stagecoach has said it is "fighting to protect" rail franchising, after Labour signalled last week that it was hardening its position on private companies running all Britain's main railway routes.

Martin Griffiths, chief executive, said that as an operator, Stagecoach had to demonstrate to the government that franchising could be successful after the debacle over the West Coast contract.

"We are fighting to protect the franchise business model," Mr Griffiths said. "It's really important that we get this started again and ideally get some contracts let before the next general election, so people have the confidence that it's working."

Failings at the Department of Transport forced the government to cancel the West Coast mainline contract in October, and the retendering of franchises due to expire before the 2015 general election has been pushed back. The government is renegotiating contracts for the deferral period.

"You could argue that there is an alternative model out there that's called renationalisation, which we can't afford and is the wrong answer," Mr Griffiths said.

Mr Griffiths' comments came as Stagecoach reported a turnround of its UK rail division and solid growth from its British regional bus business, which drove up full-year earnings and offset a weaker performance in its North American arm.

Scotland-based Stagecoach – Britain's largest bus operator by revenue and fleet and one of the UK's biggest train operators – reported an 8 per cent increase in turnover in the 12 months to April 30. This was buoyed by a recovery at its UK rail unit after government subsidies for one of its main franchises kicked in.

The group's UK rail division saw a year-on-year jump in operating profit from £27.1m to £49.9m, after its East Midlands franchise became eligible for "revenue support" payments from the transport department to offset lower-than-expected turnover on the route.

Opening discussions with the government on the franchise extensions had been "positive", Mr Griffiths said. In the coming months it hopes to conclude talks on its South West franchise, as well as West Coast, the joint venture with Virgin rail 49 per cent owned by Stagecoach, which suffered a near-40 per cent drop in operating profit to £9.8m. East Midlands will follow next year.

Its UK regional bus operations continued to drive profit, with growth in the numbers of fare-paying passengers, and a 3.5 per cent fare increase offsetting a decrease in government bus subsidies and higher fuel costs.

Stagecoach reported annual revenues of £2.8bn, up from £2.6bn, while pre-tax profit fell to £196m from £240m.

However, when exceptional items from last year such as a £37m one-off gain are excluded, underlying pre-tax profit rose from £203m to £219m.

The diluted earnings per share fell to 27.2p from 29.1p, and a final dividend of 6p (5.4p) was proposed, boosting the full-year payout to 8.6p from 7.8p.

Stagecoach has set a target for its US bus division – which includes yellow school bus services and its lossmaking Megabus intercity coach unit – to double profits next year. Poor weather, start-up costs and over-capacity depressed operating profit this year by a third, to $21m, although revenues rose almost 30 per cent to $642m.

Anand Date, analyst at Deutsche Bank, noted that rival National Express had agreed an extension on its c2c contract in Essex with margins of 3-4 per cent, setting an encouraging precendent for franchising.

Shares in the FTSE 250 transport company rose 3.5 per cent to 310p.