Go-Ahead increases £100m bus profit target

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Go-Ahead has effectively increased its 2015/16 bus division profit target from £100m to nearly £105m.

The new target was set after Go-Ahead announced that bus profits in the year to July 2013 were significantly ahead of previous expectations. Operating profits, which had been forecast to remain flat in 2012/13, rose from £70.2m to £78.2m as an £18.6m hit from the reduction in BSOG and fuel cost rises was successfully overcome.

Outside London, fare rises and 1% patronage growth were the main factors in increased profits. In the capital, the main factors were a full year contribution from the Northumberland Park acquisition, a £3m rise in quality payments from Transport for London and significant numbers of new contract wins.

The results led to Go-Ahead announcing that the £100m profit target for 2015/16 would be revised to include the impact of the IAS19 accounting regulation which will have the effect of depressing reported bus profits by £4.5m. Previously the target had excluded the IAS19 impact. "Ultimately the bus profit target has been given a £4.5m underlying increase," Joe Spooner, an analyst at investment bank Jefferies, said.

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In addition, Go-Ahead set out its core objectives for achieving the profit target, which include a requirement for like-for-like revenue growth below the 4%-plus level achieved in each of the last three years. Go-Ahead said conservative assumptions had been used to minimise the risk of missing its target.

The plan anticipates mileage remaining at current levels, with growth based on filling spare capacity on Go-Ahead's existing routes rather than network expansion. It will include increased emphasis on enhanced personalised marketing using data gained from the group's Key smartcard which is now used for 130,000 journeys per day. Cost savings covering group systems in areas such as IT, engineering, procurement and efficient driving are expected to contribute £10m of savings. To date, £1m has been achieved, which Go-Ahead said had been delivered earlier than planned.

"We consider management's move to spell out its bus plans more explicitly a reflection of a growing confidence in achieving its target," Spooner commented. "That positive sentiment is further bolstered by the progress already achieved in bus ahead of schedule."

Capital expenditure on the bus fleet will fall from £50m in 2013/14 to £30m next year and £40m the year after. A spokesman said that the variation was largely due to the requirements of funding new vehicles for London bus contracts and planned investment in new vehicles would maintain the current average fleet age at 7.4 years.

Assumptions in bus profit target

- Average annual deregulated revenue growth of 3.5%
- Average annual regulated revenue growth of 2.5%
- Average annual cost inflation of 2.5-3.0%
- Cost efficiency savings of £10m over the next three financial years
- No significant mileage growth
- Target is separate from any contribution from further acquisitions
- The impact of IAS 19 will be absorbed into the target

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