National Express – QuickView

13 March 2013

Investment summary: International strength

National Express' results demonstrated the business is building a strong base from which to provide sustained organic growth, despite significant headwinds endured in 2012, including the handover of the NXEA rail franchise. As a result, operating profit fell and there was a decline of one million elderly and disabled UK coach passengers following the removal of the concession scheme. However, with four of the five divisions performing strongly, a keen focus on operational efficiency and numerous contract wins achieved on the international stage, National Express has positioned itself to provide sustained growth. With consistent cash flow generation, the group has the flexibility to further invest and deliver shareholder returns.

Results show resilience in the face of significant headwinds

The 2012 results demonstrated that the group was able to deliver a robust underlying performance, with non-rail revenues up 6% to £1.6bn. Group margins progressed 150bp to a best-in-class 11.6%, with operating profit down only 6% to £211.9m (2011: £225.2m) despite c £50m of profit headwinds from the loss of NXEA rail profits, a reduction in the fuel duty rebate, an increase in the hedged price of fuel, adverse forex movements and the cut in concessionary coach passengers. The non-rail profit of £185.5m was a record, with a third successive year of progress as a result of acquisition, organic growth and a focus on efficiency.

Organic growth drivers in place and set to deliver

With over £3.6bn of revenues contracted or under exclusive concession and nearly £2bn of new revenue added in the last 12 months, the group is positioned to deliver future organic growth. 2013 will see the initial benefits of the transformation provided by investment in new buses and route optimisation, supported by access to new opportunities provided through acquisitions (Petermann, Transit) and strategic new contracts wins (German rail and coach, and US transit).

Valuation: Progress set to show through in rating

We feel the current rating of 9.4x CY13 EPS does not fully recognise the strategic progress made throughout 2012, despite the headwinds and the long-term potential of the group as a result of new strategic opportunities. With the full impact of headwinds set to bottom out in 2013 and with new contracts ramping up, there should be a potential re-rating of the shares as visibility improves.

Consensus estimates

Year End	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/11	2,238	180	26.9	9.5	7.7	4.6
12/12	1,831	164	25.4	9.8	8.1	4.7
12/13e	1,786	144	22.0	10.2	9.4	4.9
12/14e	1,789	150	22.9	10.8	9.0	5.2

Source: Bloomberg. Note: 2012 adjusted for £42.6m exceptional costs.

National Express is a client of Edison Investment Research Limited

Price	206.5p
Market cap	£1.1bn

Share price graph

Share details

Code	NEX
Listing	LSE
Sector	Transportation
Shares in issue	511.7m

Business

National Express provides transport services in the UK (bus, coach and rail), North America (school bus and transit) and Spain. The group employs 40,000 people and operates over 21,000 vehicles.

Bull

- Further transit and German rail wins.
- New cities/contracts in Morocco and Spain.
- Opportunities for extension of c2c, UK rail and other international rail.

Bear

- UK rail franchising delays continue.
- Slower offset of UK coach impact than anticipated.
- Potential stock overhang from remaining Elliot Advisors stake

Analyst

Roger Johnston +44 (0)20 3077 5722

industrials@edisoninvestmentresearch.co.uk

QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.

London +44 (0)20 3077 5700
Lincoln House, 296-302 High Holborn
London, WC1V 7JH, UK

New York +1 646 653 7026
245 Park Avenue, 39th Floor
NY 10167, New York, US

Wellington + 64 4894 8555
Level 15 HP Tower, 171 Featherston St
Wellington 6011, NZ

Sydney +61 (0)2 9258 1162
Level 33, Australia Square, 264 George St,
Sydney, NSW 2000, Australia