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Rupesh Tailor, Everest Research, 8 June 2019

Fosun

- Sky News has this morning reported that **Fosun is in talks to buy Thomas Cook's Group Tour Operator business** and is being advised by JP Morgan. Discussions are said to be at an early stage and it is not certain a bid will emerge. Any bid would naturally exclude Thomas Cook's Group Airline owing to EU airline ownership restrictions

- **As set out in our detailed note earlier this week, we see a going concern break-up of Thomas Cook as still more likely than a near-term debt restructuring** (whether through an administration of company voluntary arrangement): "Our going-concern break-up scenarios entail all or part of (1) a sale of all or part of the Group Airline (net sale proceeds of £940m to Thomas Cook in our base valuation); (2) a sale of the Northern European business (our base valuation £798m including the Scandinavian airline – clearly this cannot be sold twice; if sold as part of the Northern European business, then the remaining Group Airline sale proceeds would be £781m); (3) a rights issue; and/or (4) **a sale of all or part of the Group Tour Operator to Fosun, Thomas Cook's largest shareholder**"

- **We set out in our note why Fosun (which last reported a total holding of c. 18.1% in Thomas Cook as at 25/4/19 through its Fosun Tourism Group (FTG) and Fidelidade entities) sees a compelling opportunity to own both Thomas Cook's Group Tour Operator and its Club Med resorts business** – essentially accelerating Thomas Cook's access to the *exclusive, differentiated and desirable* hotel offering it so desperately needs to stand out in a world where traditional pre-packaged holidays are losing market share to dynamic packaging and where online travel agencies provide gross margin-constraining price transparency. Club Med's occupancy levels, as we set out in our note, are also low relative to the industry and Thomas Cook would provide the distribution capability to transform this, particularly given its success in attracting newer customers and high occupancy with its new/refurbished own brand Cook's Club and Casa Cook formats

- **Recommendation. As per our note earlier this week, we continue to recommend investors buy Thomas Cook's € 6.25% 2022 senior unsecured notes which closed on Friday at a price of 35.25 (c. 56% yield to worst). Given the multiplicity of scenarios still in play (see our note), we would not expect the notes to jump massively higher on Monday though clearly the story on**

the Fosun talks lends further credence to the going-concern break-up scenario we see as most likely and we would expect the notes to move higher. We see recovery downside from here as limited in most scenarios and even more so given the clarification we received this week from the company regarding the security package that would be offered for the new £300m 1st lien secured facility (as well as for the existing £650m RCF and £225m bonding facility on a 2nd lien basis) – see below

- **Recommendation. As per our note earlier this week, we also see Thomas Cook's equity (share price close of 16.1p per share on Friday 7 June) as a speculative buy. We maintain this view following this morning's story**

Priming / Recovery Rate

- In our note we looked at recovery rates and sensitivity in three administration / CVA scenarios: (1) where restructuring occurs *before* priming (by the new secured facility and elevation of the existing RCF and bonding facility which are are currently senior unsecured and pari passu with Thomas Cook's 2022 and 2023 bonds); (2) where restructuring occurs *after* priming *and* the security package is not truly capped at the £300m communicated by the company; and (3) where restructuring occurs *after* priming but where the *value of any pledged assets above the £300m cap is not available on any preferred basis for 1st lien or 2nd lien lenders*

- **We estimate recovery in our note in scenario (1) at 28% with plausible upside to 33% to 44%; in (2) at zero with very little scope to recover more; and in (3) at 19% with plausible upside to 24% to 36% (and potentially much higher in any case where senior unsecured bonds are equitised pre-priming and achieve a material ownership of the post-reorganisation equity – we would expect, given the severity of the situation facing Thomas Cook and the prospects of priming, such discussions to be going on amongst senior unsecured bondholders and potentially any restructuring counsel they use)**

- The company has now confirmed to us the following:

1. **that no security package has, as yet, been provided for the planned new £300m 1st lien secured facility, nor to the existing RCF and bonding facility** (which would be elevated to 2nd lien secured in the same security package as the 1st lien secured facility);
2. the security package available to the secured creditors would be capped at £300m in total (across the 1st lien and 2nd lien parts), **i.e. in any scenario where these assets are sold as part of a**

liquidation and fetch more than the £300m security cap, the excess would form part of the general estate available for recovery for unsecured claims

3. the pledged assets would include assets other than those in the Group Airline

- **This means that, from a recovery perspective, scenario (2) of zero recovery owing to essentially full priming, is likely to be off the table in our view and we are looking at recoveries north of 19% in a situation where the going-concern break-up fails**

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