Thomas Cook - £750m Recapitalisation & Debt Restructuring Plan

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Rupesh Tailor, Everest Research, 12 July 2019

- We outline below the key elements of Thomas Cook's £750m recapitalisation and debt restructuring plan announced this morning (see here). We will publish shortly our initial thoughts on implications for Thomas Cook's senior unsecured bonds, RCF and equity and how the proposed debt restructuring and corporate structure reorganisation might work, as well as prospects for the business given its resulting pro forma financial position

£750m Recapitalisation & Debt Restructuring Plan

- Proposal is in advanced discussions with Fosun Tourism Group ("FTG"), Fosun and Thomas Cook's core lending banks

- Proposal involves £750m of new money across FTG / Fosun and the banks, potentially with an option for existing shareholders to participate alongside FTG / Fosun. This £750m would replace the £300m 1st lien secured facility announced in May 2019 and would provide liquidity to trade through Winter 2019/2020 and financial flexibility to "invest in the business for the future"

- The proposal would require a "reorganisation of the ownership of the Tour Operator and Airline businesses which is expected to result in Fosun owning a significant controlling stake in the Group Tour Operator and a significant minority interest in the Group Airline". This requirement likely stems from ownership restrictions by non-EU investors in EU airlines. It is unclear how this reorganisation would be implemented. Would the two businesses be fully separated (with commercial services agreements governing business between them)? As part of any debt for equity plus new debt exchange, how much equity and debt in each of the Tour Operator and Airline would bond and RCF holders receive? We could also envisage a scenario where, whilst FTG / Fosun receives equity in each of the Tour Operator and Airline, bond and RCF holders end up with equity (and a limited amount of new debt) in the holding company, Thomas Cook Group Plc

- A "significant amount" of Thomas Cook's RCF and senior unsecured bonds would be converted into equity. Terms would need to be agreed with financial creditors though Thomas Cook states its core lending banks are supportive of this and engaged in “constructive discussions…to agree terms”. Trade creditors would not be involved in this restructuring. Our read of the wording “significant amount” is that financial creditors would receive a limited amount of new debt

- Existing shareholders would be “significantly diluted” but may be given the opportunity to participate in the recapitalisation alongside FTG / Fosun’s investment (on terms to be agreed)

- The strategic review to sell the Airline has been paused, pending the outcome of the proposed recapitalisation. Consistent with recent comments from Lufthansa about its expectations for its bid for Thomas Cook’s Airline, “the operating environment in the European travel market has become progressively more challenging. This has impacted the Group’s underlying financial position and its ability to execute a disposal of the Airline or the Tour Operator, either in whole or parts, in a way which returns satisfactory value to the Group and its stakeholders.”

Current Trading & Outlook

- Previously announced reporting dates (including the Q3 trading update scheduled for next week, 18/7/19) are now under review pending the outcome of the proposed recapitalisation

- Summer 2019 programme is 75% sold, slightly ahead of the same point last year. Group Tour Operator bookings are down 9%, broadly consistent with Thomas Cook’s capacity reduction, with the result that average selling prices are up 2%. Recent weeks have seen a “marked” improvement in bookings yoy, reflecting the annualisation of the Summer 2018 heatwave but margins remain weak reflecting intense competition and promotional activity

- Group Airline bookings are down 3%, with pricing up 2%. Excluding capacity reductions to the in-house tour operator, Group Airline bookings are up 11%

- Underlying EBIT in H2 2019 is guided to be behind the same period last year

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