

Exit Mobico: No update on the US sale

Company:	Mobico (MCG LN)	Market Cap:	£440mio
Industry:	Bus and railway operator	Net Debt:	£1,046mio (excl. leases)
Country:	US, Spain, UK, Germany	Revenue:	£3bn
Date:	29 th February 2023	Net Income:	£115mio (29%)
Dividend:	-	Free Cash Flow:	£160mio (40%)
Entry:	£492mio	Exit:	£480mio

Why exit Mobico?

- New uncertainty amidst £40-70mio provision in the German rail business, potentially making this part of the business unprofitable
- No update on the sale of the North American business, which was guided towards the beginning of this year
- Spoke to the former FirstGroup IR head, who said it took them 7-8 years until they sold their US business. If Mobico is unable to sell their North American business in the near-term it could pose some risks when their hybrid bond coupon resets

History teaches caution...

If there weren't so many other opportunities, I'd probably hold on to the position in Mobico due to the valuation. However, given the provision for the German rail business, on top of a lack of an update on the sale of the US school bus business, the whole situation looks eerily similar to what happened in 2008/09. Back then, FirstGroup and then later Stagecoach approached Mobico (National Express, before 2022 rebrand) for an offer, which ultimately didn't go through¹. The Cosmen family increased their stake and then also looked to take Mobico over together with CVC². In the end, however, the takeover proposal was

¹ <https://www.theguardian.com/uk/2009/oct/19/national-express-stagecoach-merger>

² https://www.heraldscotland.com/default_content/12500864.ailing-national-express-fresh-takeover-talks/

dropped, partly due to uncertainty regarding a £490mio loan maturing in September 2010³, about a year later back then. There was also discussion about selling the North American business back then as well as a provision for the London-Edinburgh rail contract⁴. In the end, a rights issue was launched at a whopping 70% discount⁵...

...Fast forward to today

This time around we have many similarities, yet in a somewhat reverse order. Mobico issued a hybrid bond in 2020⁶. There were also takeover approaches, just in a form of a merger with Stagecoach and led by Mobico⁷. The Cosmen family began buying shares towards 20% ownership when the valuation dropped⁸. The company is also trying to sell its North American school bus business⁹, but there seem to be some delays. The question is whether the Cosmen family will make an offer for the company again. But again, looking at history, back then it was the loan that matured 1 year later, which was a trigger of the Cosmen family dropping their bid. Now, we have a coupon reset of the hybrid bond in around 1.5 years' time. Without a solution of paying back the hybrid bond at the beginning of 2026, there are simply too many risks that could call for a re-valuation of the equity part. Finally, the German railway provision is also similar, although to a lesser degree to the railway provision in 2009 in regards to the London-Edinburgh contract. For this reason, I have reallocated the capital to more promising near-term investments and would revisit Mobico after more clarity or a valuation that is back at the £350mio level where it was last year.



³ <https://www.marketwatch.com/story/national-express-shares-slump-as-buyout-collapses-2009-10-16>

⁴ <https://www.theguardian.com/business/2009/jan/28/national-express-rail-contract>

⁵ <https://www.theguardian.com/business/2009/nov/11/national-express-rights-issue-cosmen-family>

⁶ https://www.morningstar.co.uk/uk/news/AN_1605613964178347700/national-express-plans-inaugural-hybrid-instruments-to-refinance-debt.aspx

⁷ <https://www.bbc.co.uk/news/uk-scotland-tayside-central-60675975>

⁸ <https://tools.eurolandir.com/tools/Pressreleases/GetPressRelease/?ID=4469493&lang=en-GB&companycode=uk-nex&v=r2023>

⁹ <https://tools.eurolandir.com/tools/Pressreleases/GetPressRelease/?ID=4389921&lang=en-GB&companycode=uk-nex&v=r2023>

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