

Mobico: A sale of the US business would pave the way for a strong turnaround

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:	14 th December 2023	Net Income:	£115mio (29%)
Dividend:	-	Free Cash Flow:	£160mio (40%)
Entry:	£440mio	Target:	£1bn

Why Mobico?

- Strong demand in discount airline travel benefits UK National Express
- Railway strikes and cost-of-living crisis increases demand for coach travel
- ALSA maintains a monopoly in Spain and National Express is the primary coach operator in the UK
- US business is to be sold in 2024, which could fetch between \$1-2bn, eliminating their hybrid, bank loans and private placement debt
- ALSA owner upped their stake by 1% in the company

Risks

- Continuous wage cost pressure with minimum wages set to climb next year in the UK
- Spanish free and discounted bus travel could stop in the future
- Sale of US school bus business falls through

About Mobico

Mobico is an international bus and train operator with operations in the UK, US, Spain, Morocco and Germany as well as smaller operations in other countries. The company maintains two types of business strategies, capital intensive private bus operations that have exposure to passenger numbers (National

Express in the UK and ALSA in Spain and Morocco), and low capital maintenance in the public bus and train sector (West Midland bus, Germany rail and US school bus businesses). The business has struggled after some government grants and incentives were removed with the lifting of lockdowns, while labour cost inflation has led to losses. This is set to turn around with a potential sale of their US school bus business.

Mobico's financials by division

Unit	2022		
	Revenue	Operating profit	Operating margin
ALSA	962.5	103.9	10.8%
North America	1,048.2	68.4	6.5%
UK	528.3	25.6	4.8%
Germany	268.5	17.6	6.6%
All	2,807.5	197.3	7.0%
Central		-18.2	

Source: Mobico

Valuation appears attractive

Back in 2008/09 Mobico lost nearly 85% of their equity valuation, as the group appeared over levered and any decline in profitability would hence hit the equity disproportionately. In 2009, the company got back on its feet by issuing 357mio new shares – 3.3x their 2008 share count. When the pandemic hit in 2020, Mobico was once again in a similar situation, but instead of raising equity only, the company raised equity equivalent to only 20% of the market capitalization and issued a £500mio hybrid bond, which pays a £21mio annual dividend and can be called by 2025 for the first time before the coupon adjusts higher according to interest rates at that time. However, the current valuation shows that underlying operating profit/enterprise value including the hybrid bond would equate to 8%, which is not particularly compelling compared to its history, but with the potential sale of the US school bus business, which is currently barely profitable, the enterprise value could be cut by between \$1-2bn (which needs to be exchanged into £). The key is that the company has positive cash flow, which means naturally the enterprise value will decline with capital allocation towards debt reduction and the potential cash received from the US school bus business would reduce the debt burden and also the interest expense, especially on the hybrid.

Mobico's enterprise value over history (in £mio)

Year	Share count (incl equity raise)	Equity valuation	Valuation + Hybrid	Net debt	Enterprise value	Underlying operating profit	Profit/EV
2023 (now)	614	442	942	1,258	2,200	175	8%
H1 2022	614	1,977	2,477	1,150	3,627	197	5%
Jul-20	512	768	768	1,050	1,818	-50	-3%
Jul-19	512	2,047	2,047	1,242	3,288	295	9%
Dec-09	512	947	947	658	1,605	116	7%
Jun-09	155	144	144	978	1,121	110	10%
Dec-07	155	1,005	1,005	911	1,916	177	9%

Source: Mobico

The debt profile

The current equity valuation appears like Mobico is struggling to have a valid business model in the future. However, the company maintains an investment grade credit rating and has over £500mio headroom in their RCFs (Revolving Credit Facilities). If they are able to repay the hybrid bond, this alone could save Mobico £21.3mio in annual interest expense (5% of market cap). Hence, the story of Mobico will be debt reduction and as a result an equivalent increase in market cap, which could double its valuation.

Mobico's enterprise value over history (in £mio)

Type	Utilised	Interest expense	Headroom
Core RCFs	-	-	527
2031 bond	431	21	
2028 bond	221	16.3	
2027-32 Private placements	404	8	
Bank loans	139	5.1	
Leases	176	4.9	
Debt	<u>1,371</u>	<u>54</u>	
Debt excl. leases	1,195		
Cash	310		
Net debt	<u>885</u>		
Hybrid	500	21.3	
Total	<u>1,385</u>	<u>76</u>	

Source: Mobico

What are the concerns?

The main concerns lie around whether and for how much Mobico is able to sell their US school bus business and how the labour market develops. Both is supportive, since infrastructure funds, which can buy Mobico's US school bus business, are growing rapidly¹, and the labour market, while still tight, seems to be moderating somewhat as latest data in the US and UK suggest. Competitors, such as Stagecoach and FirstGroup, which both have sold their US business prior to the pandemic, have flourished since and were able to provide strong shareholder returns. While 2019 profitability for Mobico's US school bus division is perhaps the wrong parameter to use as a potential valuation today, anything between \$1-2bn appears fair in respect to adjusting to current profitability. With \$1bn receipts, Mobico would be able to repay their bank loans, the hybrid bond and some of their private placements, which alone would save \$30mio in annual interest expenses and lift the equity valuation instantly.

Mobico's enterprise value over history (in £mio)

North America sold	Revenue in \$mio	Operating Profit in \$mio	Cash received in \$mio	Multiple
Stagecoach	619	22	271	12.49x
FirstGroup	3,800	180	3,066	17.03x
Mobico*	1,570	157	1,500	9.55x

Figures use 2019 numbers and exchange rates

*to be sold scenario

Source: Mobico



¹ <https://www.funds-europe.com/insights/the-surge-in-infrastructure-investment>

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