

National Express: The recovery in travel pays dividends

Company:	National Express (NEX LN)	Market Cap:	£675mio
Industry:	Bus and railway operator	Net Debt:	£1,143mio (incl. leases)
Country:	US, Spain, UK, Germany	Revenue:	£2.8bn
Date:	31 st May 2023	Net Income:	£115.6mio (15.4%)
Dividend:	£41mio (5.5%)	Free Cash Flow:	£160.5mio (21.4%)
Entry:	£735mio	Target:	£1bn

Why National Express?

- Recovery 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 school bus business is recovering from driver shortages and wage inflation, although with a lag
- Valuation shows significant upside if debt is being cut

National Express goes beyond UK's National Express

National Express 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). To avoid confusion when bidding for public sector contracts internationally, the parent company National Express will change its name to Mobico.

National Express'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: National Express

Valuation appears attractive

Back in 2008/09 National Express 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, National Express 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 underlying operating profit/enterprise value including the hybrid bond would equate to 10%, which is around its all-time high from December 2007, hence the equity valuation has further upside.

National Express's enterprise value over history

Year	Share count (incl equity raise)	Equity valuation	Valuation + Hybrid	Net debt	Enterprise value	Underlying operating profit	Profit/ EV
2023 (now)	614	718	1,218	1,258	2,476	247	10%
H1 2022	614	1,382	1,882	1,150	3,032	197	7%
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	224	224	978	1,202	110	9%
Dec-07	155	897	897	911	1,808	177	10%

Source: National Express

What takes the valuation down and how it can recover

The US school bus business is struggling in recouping driver shortages and wage inflation and due to its nature of readjusting the contracts by the school year, profitability will remain below normal for FY 2023. Nonetheless, the pricing recovery will continue into FY 2024 and is expected to recover over the following years. In contrast, ALSA and UK's National Express are outperforming historic profitability and a newly won railway contract in Germany is improving profitability further for the group. Although margins will remain below pre-pandemic levels, the recovery is holding on with a delay in the US school bus business. Furthermore, Ryanair is experiencing record demand with 116% of pre-Covid operated capacity in 2023¹ while Easyjet is approaching 82% of pre-Covid capacity. Passengers use National Express, especially, to reach the Ryanair airports. And finally, with the cost-of-living crisis gripping families and individuals, coach travel is the preferential way of getting from A to B, in particular for national journeys, not the least due to strikes in the railway sector.

Relative Value

While the key will be to cut debt, National Express also appears attractively valued compared to the rest of the travel industry. While a 5-year comparison shows that On The Beach Plc has the highest upside from here, National Express has lost the most value over the last year. Other public sector bus and railway operators, such as Go-Ahead Group Plc, were taken over and M&A activity has been high in this sector due to governments trying to achieve net zero targets, which can most easily be achieved by bringing more people to travel with public services and coaches, rather than individually by car. Overall, this leaves significant upside for a turnaround in the valuation of National Express and the sector as a whole.

¹ <https://otp.tools.investis.com/clients/uk/ryanair/rns/regulatory-story.aspx?cid=901&newsid=1689126&culture=en-GB>

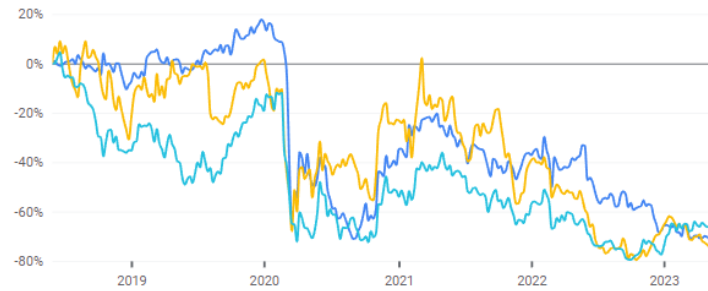
5yr valuation comparison: Travel industry

National Express Group PLC

GBX 107.10 ↓ 73.49% -296.90 5Y

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1D 5D 1M 6M YTD 1Y 5Y MAX



Source: Google Finance

1yr valuation comparison: Travel industry

National Express Group PLC

GBX 107.10 ↓ 59.68% -158.50 1Y

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1D 5D 1M 6M YTD 1Y 5Y MAX



Source: Google Finance

