Centre of turbulence

Travel group hit for second profit warning in year

DREW CRATCHLEY
TRAVEL

ALMOST $600 million has been wiped from Flight Centre's market value after the travel agent issued its second profit warning in six months.

Weaker spending on holidays and competition for business travellers are weighing on the group.

The company is also facing major shifts in the travel industry thanks to online giant Expedia and a growing number of aggregator sites, with analysts questioning if the Brisbane-based group can respond.

Investors punished the company, wiping $595 million from its market value as its shares plunged 13.6 per cent to $37.51.

Flight Centre said sales growth in its Australian operations, the biggest part of its business, remains much slower than normal. A rebound in holiday travel demand had not been reflected in the company's sales, while competitive pricing in the corporate travel market was also a factor, it said.

Figures released by the Australian Bureau of Statistics yesterday show a record number of Australians went overseas in March — almost 800,000.

"Our international businesses will deliver solid profit growth, but the Australian business will not achieve its normal growth trajectory," managing director Graham Turner said.

Flight Centre expects a pre-tax underlying profit of between $355 million and $365 million in the year to June, down from the $360 million to $390 million it forecast when it last made a downgrade in December.

A $355 million underlying profit would be a fall of 6 per cent on the previous year's record result.

Flight Centre shares were up as much as 2.7 per cent yesterday before the downgrade was issued to the market, and they quickly nosedived.

IG market strategist Evan Lucas said multiple profit warnings in one year always delivered shockwaves.

"When investors see dual downgrades then they start to really doubt the stock and that's partly why you've seen this reaction," he said.

"What they're effectively saying is that they are very much beholden to market conditions and there's not much they can do about it until conditions improve."

AAP

Amaysim dials up listing bid

CAMERON ENGLAND
FLOATS

MOBILE service provider Amaysim is aiming to raise more than $200 million when it joins the stock exchange next month.

The company plans to issue shares at $1.80 each, giving it a market value on listing of $317.1 million.

Its founders will keep a stake in Amaysim, which provides mobile phone plans running on the Optus 4G network. They hope to raise $207 million in the initial public offering. Amaysim also confirmed yesterday it was appointing former Metcash chief Andrew Reitzer as chairman.

Mr Reitzer said the group had become one of Australia's fastest growing mobile service providers since its 2010 launch.

It was also the fourth biggest "independent mobile service provider in Australia by number of subscribers" he said.

"It's an impressive track record ... we are well-positioned to continue to build on this solid market position," he said.

It expects to list on the Australian sharemarket on July 16.

SHORT-TERM LEASE AS CHIEF DEPARTS

Tarek Robbiati, formerly a high-flying Telstra executive, has stunned FlexiGroup with news of his impending departure.

SHARES in finance and leasing company FlexiGroup have dived following chief executive Tarek Robbiati's sudden resignation.

FlexiGroup, which provides finance products through Australian retailers, says Mr Robbiati will step down from his post before the end of December and move overseas.

LEASING

"Tarek will remain as CEO whilst we undertake a search for his replacement and to allow a smooth transition," chairman Chris Beare said in a statement.

Shares in the company, which also leases equipment, dropped heavily on the revelation of Mr Robbiati's departure after just two and a half years in the top job.

The stock closed down 24c, or 7 per cent, at $3.19.

Mr Robbiati said now that FlexiGroup's transformation was well on track, it was time for him to leave.

"I believe FlexiGroup is extremely well positioned to deliver on its digital future," he said.

Since Mr Robbiati took over at FlexiGroup in January 2013 he has lifted earnings and overseen a string of buyouts of finance and leasing companies.

The company is on track to meet its forecast of $90 million to $91 million in cash earnings for the year to June. It delivered an $85 million cash profit a year ago.

Pathology sale funds expansion

HEALTHCARE

HOSPITALS operator Healthscope will sell its Australian pathology operations for $105 million to private equity house Crescent Capital Partners.

The deal is made up of $92.5 million in cash, with a further $12.5 million payable later, and will also include the transfer of Healthscope's six skin clinics to Crescent.

Healthscope chief Robert Cooke said the company's 550 collection centres and 31 pathology laboratories have been operating in challenging market conditions and the July sale would allow management to focus on its hospital business.

"(This is) where we have a strong pipeline of growth opportunities. We remain committed to our international pathology operations which have consistently performed well over time," Mr Cooke said.

Proceeds from the sale will fund Healthscope's expansion pipeline.

Healthscope shares closed up 9c, or 3.4 per cent, at $2.74.

Prada numbers game may disguise some poorer figures

THE SHORT CUT
with ROGER MONTGOMERY

YOU'D think a couture brand that is ranked 74th most valuable by Forbes and whose products are as popular with European fashion doyens as they are with American R&B rappers and Chinese TV personalities, would have everything going for it.

But we think this international company has many, if not all, the hallmarks of an opportunity to profit from a significant decline in the share price.

Floated on the Hong Kong Stock Exchange in 2011, Italian luxury brand Prada is suffering, it seems, from the crackdown on Chinese corruption.

To understand the potential impact this crackdown is having, recent Macau gambling industry figures revealed a 39 per cent decline in gross gaming revenue for April 2015 and this is now the eleventh consecutive month of declines.

This is while China's economy is apparently growing at 7 per cent.

To the Montgomery Fund, it appears the market is not sufficiently factoring in the true extent of the impact on Prada from the crackdown.

This may have something to do with the fact that Prada has been opening more stores.

More stores means more revenue but new stores appear to be masking falling same-store sales.

Imagine the company had just one store. In the scenario we are proposing, that store is generating lower revenue than a year ago, but by opening a second store and then a third, we can show more attractive revenue (a gentler decline) and perhaps disguise the deteriorating business on an individual store basis.

Adding to the opportunity to benefit from a declining price is the fact that analysts may be propping up the share price with overly optimistic projections for a recovery in both revenue and profits.

History suggests analysts are slow to adjust their expectations but when they do, the impact on the share price can appear terminal.

In February this year the company announced that China was to blame for a 1 per cent decline in sales in the year to January 2015, to €3.6 billion ($5.29 billion).

This is in stark contrast to the 29 per cent revenue growth the company reported just two years earlier in 2012.

Most worrying, however, is that profit plunged 28 per cent and yet the company is pressing on with its rapid expansion and store openings.

It seems hard to accept that only China is to blame for the company's woes when Prada's selling, general and administrative costs hit 43.5 per cent of sales last year, up from 39.2 per cent in 2013, suggesting some of the pain is self-inflicted.

Prada opened a net 54 stores in 2014 on a base of more than 600 and while some restraint appears to be reflected in the 30 store openings planned this year, it still seems to be too many.

We think that not only are the earnings forecasts too optimistic but the share price is too optimistic as well.

In other words, the shares are expensive compared with earnings expectations, and the earnings expectations are vulnerable to a fall.

We also note that the company has almost 240 days of inventory, up from 175 days the previous year, which means it is not selling its handbags and other accessories as fast as before.

If the trend continues the company should be recording a loss on the value of the inventory that isn't selling but it hasn't done so as yet.

A final flourish comes from the 80 per cent family-owned structure, which has raised concerns in the market about governance and related party undertakings.

All in all you might like to buy the Prada handbag, but we reckon it could be wise to avoid displaying as much enthusiasm for the stock.

Roger Montgomery is chief investment officer at the Montgomery Fund