

Go Ahead Group

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Go-Ahead reverses as HSBC downgrades to 'hold' from 'buy' on valuation grounds in mixed sector review

HSBC has cut its stance for Go-Ahead Group PLC (LON:GOG) to 'hold' from 'buy' on valuation grounds in a mixed review of the UK Bus and Rail sector.

The global bank still raised its target price for the FTSE 250-listed stock to 2,010p from 1,970p, with the shares currently trading at 1,877p, down 2% on Monday's close.

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In the note to clients, HSBC's analysts pointed out that Go-Ahead shares have performed well but they can "no longer see a clear value case". They also added, for Go-Ahead: "International expansion is interesting, but beware execution risks."

Looking at the sector overall, the analysts noted that changes to IFRS 16 reporting will "optically change the sector's debt profile and have a varying impact on earnings, depending on where operators are in a rail franchise's life."

They argue, however, that investors should not get too hung up on this - a focus on metrics used by ratings agencies suggests plenty of financial headroom - and they continue to think that cash is the best way of measuring an operator's investment case.

Value opportunities becoming more limited

But, the analysts added, through this lens, value opportunities in the sector are becoming more limited.

They said: "If we strip cash generation down into rail/non-rail components, share prices look up with events, and all except National Express are starting to attribute some value to rail. Given the volatility in this sector, and the short-dated nature of some remaining rail franchises, that might be an issue."

The analysts added: "Arguably it's better to be growing internationally instead of bidding for new rail franchises, where it's still not clear a lot of value can be added, and where management teams have been prone to overpay in the past, storing up problems for the future."

They concluded: "While UK bus divisions seem over the worst of the downgrades, we shouldn't expect much in the way of growth."

Other transport players assessed

Among other stocks in the sector, the HSBC analysts think National Express PLC (LON:NEX) has "most obvious value".

The analysts said: "We think the share price is more than justified from the existing businesses. Additional value should

Price: 2212

Market Cap: £955.04 m

1 Year Share Price Graph



Share Information

Code: GOG

Listing: LSE

52 week	High	Low
	2247.04	1480

Sector: Transport

Website: www.go-ahead.com

Company Synopsis:

Go-Ahead Group is a United Kingdom-based company engaged in the provision of passenger transport and aviation services. The company operates in three divisions: Bus, Rail and Aviation Services.

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come from M&A."

They reiterated a 'buy' rating and 475p target price on National Express shares which were trading at 401.40p, down 1%.

The analysts retained a 'hold' rating on Stagecoach with a reduced target price of 135p, down from 165p, as they said it "looks unduly dependent on the UK and on winning rail". Stagecoach shares shed 3.6% at 132.30p.

But the analysts raised their target price for Firstgroup PLC (LON:FGP) to 90p from 80p, while keeping a 'hold' rating, as they think the stock "could be of greater interest in time".

However, they added, "its poor track record means we are reluctant to attribute much value to the turnaround story yet." Firstgroup shares rose 0.9% to 96p.

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