

Saga Group

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Saga creaks to new low as travel woes offset insurance turnaround

Over-50s services specialist Saga PLC (LON:SAGA) said it was making "good early progress" with its new strategy of selling three-year fixed motor and home insurance policies, but travel sales and profit margins were creaking.

The FTSE 250 group, which launched the new insurance strategy in April after swinging to a loss last year, sold more than 60,000 three-year fixed price policies between February and 16 June, of which over 30,000 relate to new business.

READ: Saga Group slashes dividend as it warns insurance turnaround plan will hit profits

More than half of direct new business customers have chosen the fixed price product, which Saga said was in line with its business case assumptions and was leading to a return to its direct distribution model.

Overall, however, retail broking policy volumes were down 6% to 753,000 by the end of May, while gross profit margins for home and motor business were within the guided range of £71-£74 per policy, down from £80 last year.

Chief executive Lance Batchelor, who recently announced that he will retire at the end of next January, becoming one of the company's customers, was encouraged by the "early signs of progress in stabilising" in the retail broking business but noted that "it is very early days in the turnaround strategy" and that the insurance market "remains challenging".

Mixed travel

The tour operations business has seen a 4% decline in booked revenues as of 15 June, amid highly competitive conditions seen at other companies and affected by current political uncertainties, with margins under pressure due to discounting.

On the upside, Batchelor, in a statement put out ahead of the company's annual shareholder meeting, said bookings from Saga's two cruise ships have been "resilient" and in line with targets.

However an operating loss of around £3mIn is expected for the half year due to lost revenues from the sale of 'Saga Pearl II' in April and training, launch and marketing costs for the new Spirit of Discovery, which sets sail for the first time next month.

Digging itself out of a hole

"Having issued several profit warnings in the past few years, changed its insurance strategy, and announced plans to part ways with its chief executive, the business has come back with a patchy trading update," said analyst Russ Mould at AJ Bell.

"In its defence, the turnaround plan is still fairly new and it will take time to see if the strategy works," Mould said, adding

Price: 48

Market Cap: £538.56 m

1 Year Share Price Graph



December 2018 June 2019 December 2019

Share Information

Code: SAGA

Listing: LSE

52 week High Low
125.9 31.78

Sector: Leisure, gaming and gambling

Website: www.saga.co.uk

Company Synopsis:

Saga Group plc is a British company focused on serving the needs of those aged 50 and over. It has 2.7 million customers. Saga Holidays provides package holidays and tours across the globe. It owns and operates the cruise ships MS Saga Pearl and MS Saga Sapphire and also owns and operates the Bel Jou Hotel in St Lucia, as well as Titan Travel.

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that the three-year policies were a "brave move considering how claims inflation is really hurting the industry" and the real test is whether Saga makes any money from it.

After a warning from its travel business, he said the company is "in a sticky mess" and now "reliant on flawless execution to try and put the business back on track", though the depressed market valuation leaves Saga vulnerable to takeover interest regarding its valuable brand and large customer base.

Noting that the search for a new CEO has icked off, broker Peel Hunt said that while it was "still early days, the shares remain undervalued" on five times forecast earnings.

Shares in Saga, which were floated just over five years ago at 185p, tumbled 8% to 34.5p in early trade on Wednesday, earlier sinking to a new all-time low of 33.62p.

-- Broker comment added --

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