

### Fat Prophets take some Profits

Shares of Dart Group gained 35% in altitude just over a week ago when the tour operator and budget airline reported a surge in pre-tax profit to £134.6 million for the year ended March 2018. In addition, the company, which also owns the Fowler Welch haulage business, provided its third profit upgrade in less than a year.

We remain positive on the company, which has a track record of delivering for shareholders and has built a good rapport and brand satisfaction with customers. However, in our view the strong recent price action justifies taking some more profits off the table at this juncture. We first recommended Dart Group at 259 pence and our most recent recommendation in February 2018 was at 798 pence.

**Therefore, as we noted in our brief mid-week alert following the recent update, we recommend Members sell-half their holding in Dart Group.**

Dart Group Plc - DTG (LSE) - 1 Day CandleStick Chart - GBP



Dart Group's preliminary unaudited results for the financial year ended 31 March 2018 show group revenue increased 38% to £2,391.8 million, driven by strong passenger growth for both the Jet2 airline and the Jet2holidays business. The Distribution & Logistics business, Fowler Welch, also chipped in a bit of revenue growth.

Flown passengers in the Leisure Travel business increased 46% to 10.38 million one-way

passenger sectors in fiscal 2018. It was a challenging period for pricing though, especially in summer 2017. Net ticket yields improved in the second half of the year. Overall, the average net ticket price per passenger declined by 15% to £73.65. Positively, the load factor increased 0.7 percentage points to a solid 92.2%, which was more impressive given the company operated out of two new bases during the year.

The percentage of customers taking shorter duration holidays increased, while the percentage taking all-inclusive holidays was constant at 41%. The cost of acquiring hotel rooms increased, driven by a stronger Euro. The business absorbed some this to increase package holiday customer volumes and market share. The overall average price of a package holiday increased about 2.6% to £633. Non-ticket revenue per passenger edged up 1% to £33.25. The net result was total Leisure Travel revenue increased 42% to £2,223.2 million. Distribution & Logistics revenue increased £5.1 million, or 3.1% to £168.6 million.

| Leisure Travel Key Performance Indicators           | Unaudited | Audited   | Change     |
|---|-----------|-----------|------------|
|   | 2018      | 2017      |            |
| Number of routes operated during the year           | 306       | 235       | 30%        |
| Leisure Travel sector seats available (capacity)    | 11.27m    | 7.76m     | 45%        |
| Leisure Travel passenger sectors flown              | 10.38m    | 7.10m     | 46%        |
| Leisure Travel load factor                          | 92.2%     | 91.5%     | 0.7 ppts   |
| Flight-only passenger sectors flown                 | 5.37m     | 3.64m     | 48%        |
| Package holiday passenger sectors flown             | 5.01m     | 3.46m     | 45%        |
| Package holiday customers                           | 2.50m     | 1.73m     | 45%        |
| Net ticket yield per passenger sector (excl. taxes) | £73.65    | £86.65    | (15%)      |
| Average package holiday price                       | £633      | £617      | 3%         |
| Non-ticket revenue per passenger sector             | £33.25    | £33.01    | 1%         |
| Average hedged price of fuel (per tonne)            | \$516     | \$467     | 10%        |
| Fuel requirement hedged – next 12 months            | 90%       | 97%       | (7.0 ppts) |
| Advance sales made as at 31 March                   | £1,455.7m | £1,078.0m | 35%        |

Source: Dart Group

The mix of higher margin package holidays decreased by about 0.4 percentage points to 48.3% of overall passengers in the FY18 year, largely because of stronger flight-only demand in 2H18 and the impact from the first season of operations from the company's two new operating bases at London Stansted and Birmingham. Dart Group started flying from these new airport bases at the end of March 2017. In summer 2017 the company's airline, Jet2, operated 75 aircraft, up from 64 aircraft in summer 2016.

The company also continued to invest in various initiatives to support its expanded summer 2018 flying programme. The aircraft fleet has increased to 90 aircraft for the summer 2018 period, along with the associated increase in pilots, engineers and cabin crew. The average hedged price of fuel per tonne increased about 10% to \$516.

This pressured the group operating profit margin, which contracted by 0.5 percentage points year-on-year to 5.5% and this compression results in operating profit increasing by a lesser 27% to £130.6 million.

Net financing costs increased from £2.0 million a year earlier to £16.3 million in FY18, because of borrowings to fund the acquisition of the group's new Boeing 737-800NG aircraft deliveries.

Group profit before foreign exchange revaluations and tax was up 13% to £114.6 million. In FY18 though Dart Group benefitted from a £20 million foreign exchange revaluation, whereas a year ago it cost the business £10.9 million. This was a swing factor that helped FY18 group profit before tax surge 49% year-on-year to £134.6 million. That equated to margin of 5.6%, up from 5.2% in FY17.

| Summary Income Statement                          | Unaudited  | Audited    | Change |
|---|------------|------------|--------|
|   | 2018<br>£m | 2017<br>£m |        |
| Revenue   | 2,391.8    | 1,729.3    | 38%    |
| Net operating expenses                            | (2,261.2)  | (1,626.3)  | (39%)  |
| Operating profit                                  | 130.6      | 103.0      | 27%    |
| Net financing costs                               | (16.3)     | (2.0)      |        |
| Profit on disposal of property, plant & equipment | 0.3        | -          |        |
| Group profit before FX revaluations and taxation  | 114.6      | 101.0      | 13%    |
| Net FX revaluation gains / (losses)               | 20.0       | (10.9)     |        |
| Group profit before taxation                      | 134.6      | 90.1       | 49%    |

Source: Dart Group

The effective tax rate in the period was approximately 18%, which was marginally lower than the headline rate of corporation tax due to the recognition of deferred tax at 17%. Basic earnings per share increased 44% to 74.59 pence. The Board recommended a final dividend of 6.0 pence per share, taking the total proposed dividend to 7.5 pence, marking an increase of 42% over the 2017 dividend. The final dividend is subject to shareholder approval at the AGM scheduled for September.

Dart Group had net cash flow from operating activities of £414.9 million during the year, propelled by the Leisure Travel business trading. Total capital expenditure was £411.1 million as the group invested in new aircraft, mid-life aircraft and pre-delivery payments.

The group stated net cash after borrowings of £806.6 million (FY17: £520.5m) was £202.0 million (FY17: £168.5m).

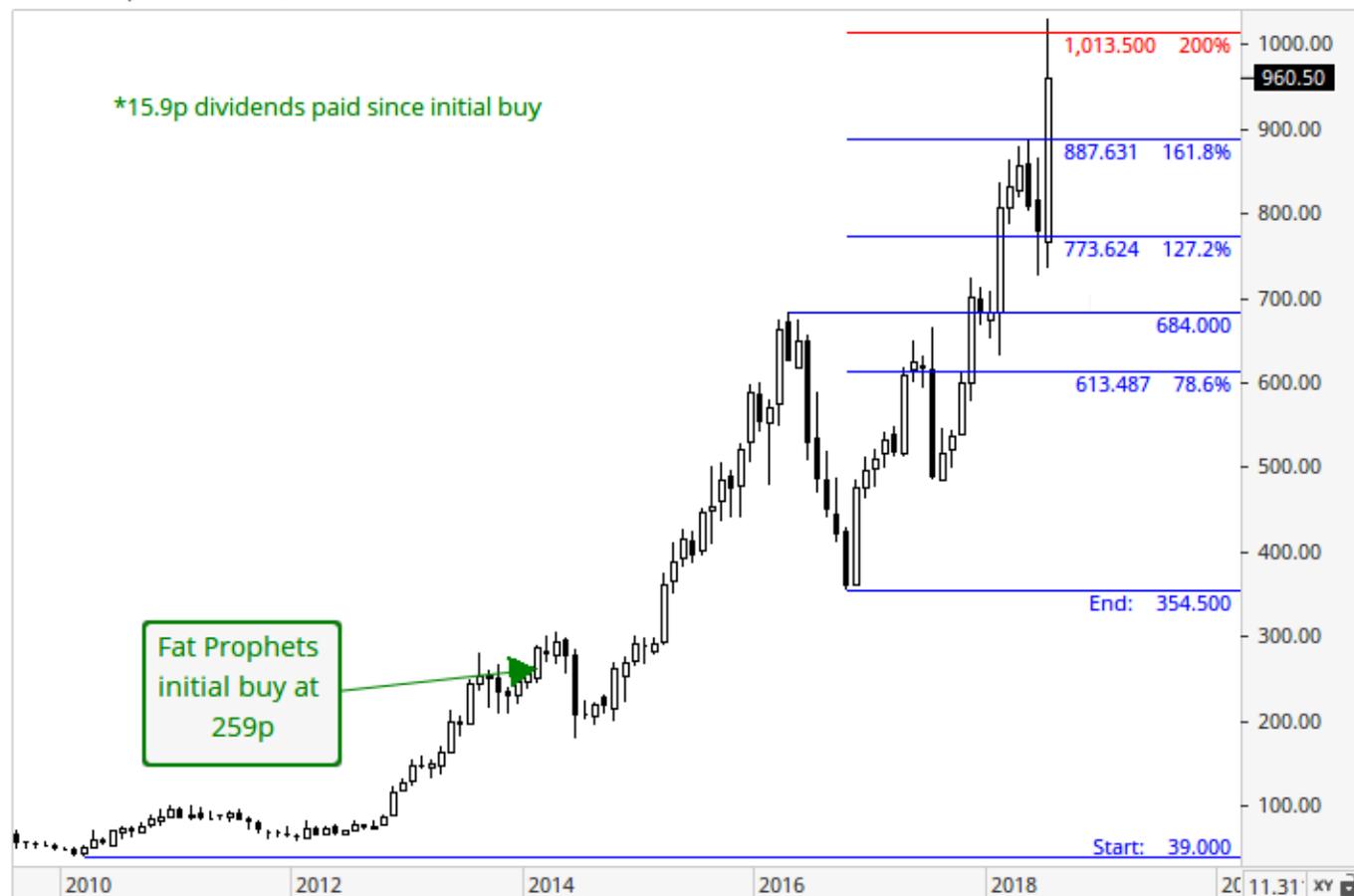
We note that the group continues to be funded in part by payments that it receives in advance of travel from its customers. At the end of March 2018 these amounted to £747.5 million, up from £553.9 million a year earlier. Only £80.3 million were considered restricted by Dart's merchant acquirers as collateral against a proportion of forward bookings paid for by cards.

## Outlook

Dart provided an upbeat outlook for the new financial year based on current forward bookings, saying that the group expects profit before foreign exchange revaluations and tax for the year ending March 2019 will likely "substantially exceed current market expectations." This was a major factor in the surge in the shares

following the update. The company did caution that emerging cost pressures and uncertain UK economic outlook based on Brexit may impact consumer spending over the medium-term.

Dart Group Plc - DTG (LSE) - 1 Month CandleStick Chart - GBP



## Summary

Dart Group has been a strong performer in the UK leisure travel market becoming one of the largest package holiday operators and a successful budget airline operator. The failure of other groups seems to have supported the business.

Dart Group trades on 11.2 times forecast FY19 earnings. It is not a high yielder at a projected 0.9%, but that can be expected given the dynamics of the industry.

We remain positive on the company, which has a track record of delivering for shareholders, while building good rapport and brand satisfaction with customers. However, in our view the strong recent price action along with an upward reset of market expectations after three profit upgrades justifies taking some more profits off the table at this juncture.

**Therefore, as we noted in our brief mid-week alert following the recent update, we recommend Members sell-half their holding in Dart Group.**

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## Snapshot DTG

### Dart Group

**Latest Closing Price: £9.795**

Dart Group PLC is a Leisure Airline, Package Holidays and Distribution and Logistics company. The Leisure Airline brand is Jet2.com which specialises in scheduled and charter flights to European destinations. The holiday brand is Jet2holidays which offers ATOL protected package holidays. The logistics business is Fowler Welch.

**Market Capitalisation:£1.44b**

|                      | FY1  | FY2  |
|----------------------|------|------|
| Price to Earnings    | 11.2 | 10.1 |
| Dividend Yield (%)   | 0.9  | 0.9  |
| Price to Book        | 2.3  | -    |
| Return on Equity (%) | 22.9 | -    |
| EV/EBITDA            | 5.1  | 3.8  |

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