World Duty Free rides HY1 highs and lows

World Duty Free Group CEO Eugenio Andrades and CFO David Jiménez-Blanco both presented their HY1 post results reports to analysts and members of the media at last Friday's first-half results, highlighting both the positives and negatives and *TRBusiness.com* was present.

As reported by *TRBusiness,* the biggest negatives were, of course, the €52.8m/$58.3m losses incurred as WDFG literally paid the price for its premium bids for its AENA Spanish airports contract and Düsseldorf Airport businesses. Added to these were its restructuring costs related to the UK and Spanish corporate headquarters

SEVERAL POSITIVE GAINS

While he acknowledged it has 'not all been plain sailing' and these losses will surely be disappointing for shareholders, Andrades also pointed to several very positive gains, including the fact that the business continues to enjoy a diverse geographical footprint.

Favourable exchange rates have also helped the retailer recently, although he acknowledged that Russian numbers have fallen drastically at the airports of both Barcelona and Düsseldorf, while the UK pound sterling has appreciated significantly, while continued unrest in the Middle East has also impacted on results there.

Andrades told analysts and media at the meeting that WDF is nevertheless continuing on a path of strong growth in terms of revenues, general profitability and cash generation levels, however, with revenues in particular up by nearly 24% to nearly €1.3bn compared to the same time last year.

World Duty Free Group CEO Eugenio Andrades pointed to all of the loss-making influences on the HY1 results, but he also underlined several positive trends to analysts, including the much improved business environment in the Spanish DF&TR market.

New shop openings were completed at Eurotunnel France and in Los Angeles International Airport during the period, he said, and based on local currency levels WDF was still up a healthy 13%.

Despite the heavy losses reported in the first half, most of WDF's operations contributed to the positive revenues generated, but Andrades acknowledged that Düsseldorf Airport was 'the notable exception', although he was quick to point out that it only accounts for just 2% of WDF's global sales.

ONEROUS CONTRACT MADE A €17M LOSS

Andrades said: "The onerous contract here has led us to make provision of €17m, together with impairment losses of €9.2m." He added that the total HY1 net loss of just below €53m compared with a €28m profit in the exact same period last year.

He added that cash flow generation continues to be strong and this amounted to €86.5m compared to €75.7m in 2014, As a consequence, WDF was able to reduce its net debt further to €937m and in addition he said the retailer will also be delivering about €9m in budgeted savings for 2015.

"To do this we are working on three fronts. Firstly, the completion of the integration process. Secondly, the sales improvement in Spain and thirdly, working on the US opportunity," said Andrades.

London Stansted now boasts a really modern and bright walk-through DF&TR store.

"We are progressing on the integration process and by the end of the year we will deliver headcount reduction savings ahead of plan, opex [operational expenditure] savings in line with plan and one-off costs in line with guidance.

"The better performance in Spain was helped by the 5.3% traffic growth 'above the budget assumption of +3%. This positive trend in traffic – together with all of the commercial activities we have launched – drove an addition in the spend per head and our sales clearly continue to outperform traffic."

UK CUSTOMERS TARGETED WITH VALUE CAMPAIGNS

In particular, he said 'value campaigns targeting British customers' are now being run to highlight the exchange rate benefits and he qualified their importance by pointing out that half of the growth in Spain is being driven by these UK passengers.

Touching on the opportunity in the US, he said the business there 'is going well' and delivering the expected results and ahead of plan. Big changes are also taking place in IT, now that WDF has completely removed its previous reliance on the HMS Host network.

Meanwhile, back in the UK Andrades said sales remained generally positive, despite the strength of the pound, with WDF's sales up +2.3% in pound sterling, but +14.7% in euros. Sales at Heathrow were down by -2.5% in HY1 with traffic up +1.3%, but sales at other UK airports faired better, up 6.5% withe business driven mainly by positive traffic, although alongside a marginally lower spend per head.

Barcelona Airport has shown good sales improvement and all it needs now is a recovery in Russian tourist spending.

He emphasised that Heathrow remains impacted by the strength of the pound and WDF saw the European spend per head fall by -9.9%, although this was not surprising since he pointed out that the UK pound sterling has appreciated by 11% since last year.

The impact of world events has also been felt by non-EU travellers with spend per head at WDF stores falling by -1.7% due to both the Russian and oil crises.

BIG DEVELOPMENTS AT HEATHROW TERMINAL 5

He said: We are working hard with the airports to improve our retail concessions We are undertaking work to develop T5 and we expect this to be completed at the end of the summer."

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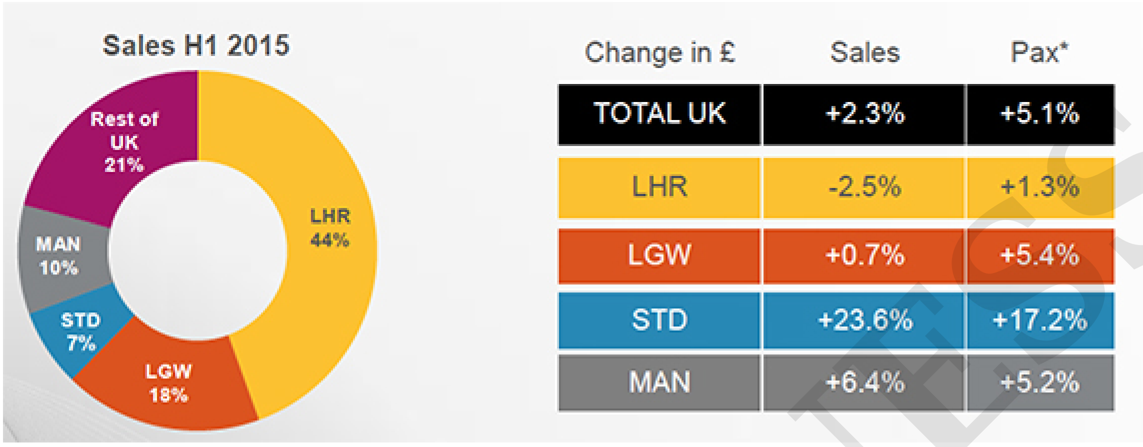
Perhaps some of the best news at this presentation included the fact that first half sales in Spain were up 19.4% compared with HY1 2014. Andrades said that on a like-for-like basis this growth is still very healthy compared with traffic of +5.3%.

This was helped by the Tenerife Sur business being annualised by April 2015 and sales up +17.5% at the main international Spanish airport in the capital, Madrid. This was driven mainly by increased traffic +11.4% with spend per head up by +5.5%.



Andrades pointed out that overall UK sales growth remains positive, despite a -2.5% sales decline at its flagship London Heathrow Airport location, which accounted for 44% of the UK DF&TR sales pie in HY1 2015.

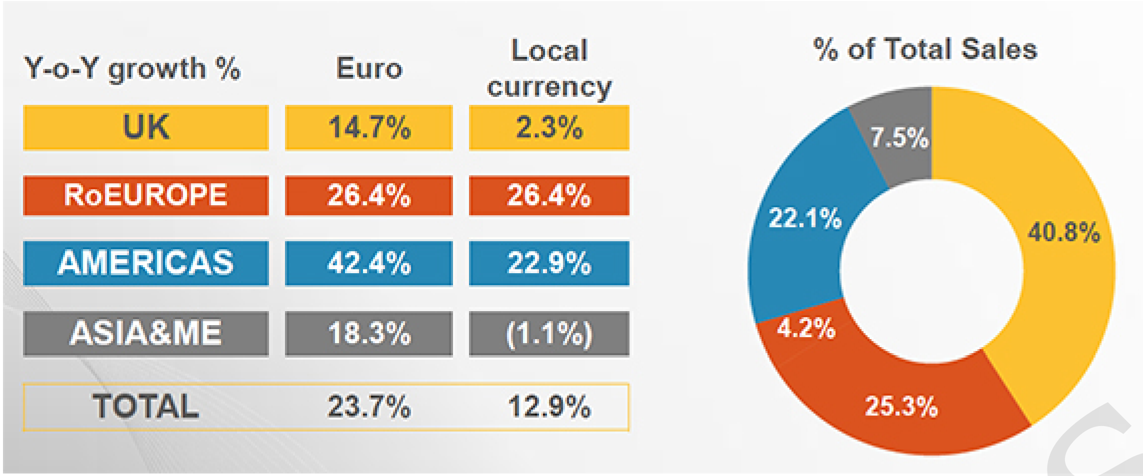
He said quite rightly that this traffic is now bouncing back strongly from the dark old days of recession in the Spanish market of only a few years ago. This trend was also typically reflected by sales at Barcelona Airport, which grew by +12.1%, with spend per head increasing by +6.9% and overall traffic up by +4.8%.

SPANISH AIRPORTS COME GOOD

However, he cautioned that the growth in Barcelona has been lower than average, with this caused mainly by the drop off in Russian spending. During the first half of 2014 Russian sales accounted for nearly 19% of total sales in Barcelona, whereas this dropped to 8% in HY1 2015.

The rest of the airports in Spain – especially tourist airports – also delivered ‘double-digit sales’ to targeted promotions. On this subject, Andrades said that in Malaga the retailer has been targeting Spanish domestic travellers and has seen ’very high double-digit growth’ as a result.

Last, but not least, Andrades said that the rest of Europe region has grown by 26.4%, with ‘a large chunk of this is coming from Spain’ and this also includes six months of positive sales at Helsinki Airport, which opened in March 2014). Excluding Helsinki, sales were up by +21.6%



Other Regions also maintained their positive contributions to sales growth, although the UK still dominated HY1 sales in 2015 with a 40.8% overall share.

In conclusion, Andrades said that Asia & ME region is the only business that is not growing on a local currency basis, with the retailer's Jordanian airports business down by -7.3%, in part due to Ramadan impacting the second quarter by 10 days compared with no impact in HY1 2014.

Also, WDF's shops are being refurbished and this is impacting on both arrivals and departures operations in Queen Alia international Airport in Amman.

[For details of the World Duty Free Group's full HY1 financial results as they were filed last week, click here: for details: http://www.trbusiness.com/regional-news/international/e52-8m-loss-for-world-duty-free-in-h1-2015/78383].