Investors' Chronicle | Alpha

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Alpha shares analysis

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National carriers

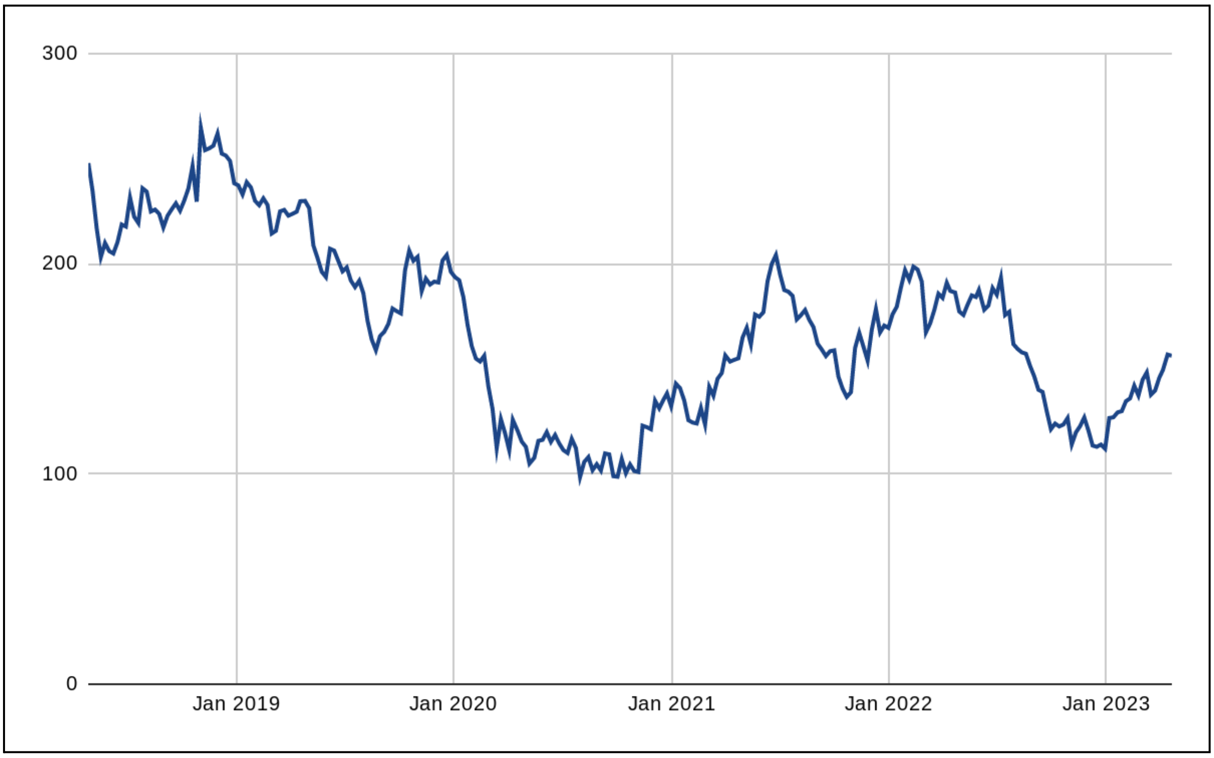
This week we look at two national institutions and national carriers, one physical and the other digital. Both stocks are on a low rating.

- BT Group (BT.A) – the former telecoms monopoly remains a dominant force in the UK's telco market owning and operating the vast majority of the core and local networks. However, regulation now allows intense competition in the 'local loop' or last mile connections and with mobile still gnawing away at fixed line services (phone and internet) there is scant growth for BT. Debt is high, there is a large pension deficit and BT is undertaking a heavy capex programme to replace the 'local loop' with fast fibre that does more good for the competition than for itself. The shares have rallied recently but from an oversold position following a steep de-rating but it is hard to see that momentum continuing. The income credentials do look a little more interesting, however.

- National Express (NEX) – this is a business that was hit hard by Covid (and the various travel bans) and is still reeling somewhat from that. Passenger volumes remain depressed and there is a major driver shortage which has led to some eye watering wage settlements - staffing accounts for two-thirds of total costs. NEX does have a strategy for growth but too much of it either relies on transport policy changes (which are a very slow burn) or reflects underlying market evolutions rather than moves that will create shareholder value. NEX also has something of a debt burden and one solution to help lower it (leasing rather than owning) could make a major dent in profits. The rating appears very cheap but as a business with high operational gearing there could be more shocks ahead - consensus has already been falling steadily for the last year.

Analyst: **Robin Hardy**

BT Group - struggling for growth



Source: FactSet

Snapshot

BT (BT.A) is the former state telecoms operator for the UK, privatised in 1984. This £15bn FTSE 100 stock generates revenues of almost £20bn, making Ebitda (earnings before interest, taxes, depreciation and amortisation) of close to £8bn and generating EPS (earnings per share) of around 20p. As the former nationalised carrier, BT owns most of the UK's core telecoms network: the trunk which connects exchanges and major switching infrastructure and the 'local loop' which connects customers to the trunk. The UK's phone system is today almost exclusively digital using fibre for the trunk but still predominantly copper wires for the local loop.

The latter creates a capacity pinch point in the network as much of the local copper was only designed to carry 64Kbit voice traffic although it has been pushed to offers thousand times that in data capacity (only close to the exchange - data capacity drops off steeply with distance from the exchange) but is now at its limit. BT, through its Openreach division, is replacing the local loop with a new 'fibre to the premises' full fibre or FTTP network which will initially offer data speeds 15-20x faster than copper. FTTP is, in effect, a £15bn wholesale replacement of the now largely obsolete copper wiring.

BT is heavily regulated by OFCOM primarily in its operation of the local loop and access for third party communications providers such as Sky or TalkTalk. This process is unknown as 'unbundling the local loop'.

Market

The telephony and internet market (by customer count) in the UK is very mature and shows relatively little growth. Fixed line telephony in the consumer market is in terminal decline, losing market share steadily to mobile and IP services. The enterprise fixed line market is more robust but is also losing out to mobile and internet based communication (Business Skype, Zoom calls etc). The market is very price competitive and customer churn (or the threat of it) has led to relatively flat pricing for all telephony services for some years and sharply falling long-distance calling (technology rather than competition). As services have become more inclusive (bundled packages) there is far less variability in customers' bills and typically today very little unitary pricing.

There are some evolutions that have scope to push some more pace into revenues, mainly through the roll out of fast data services, such as 5G and FTTP. However, it is likely that as these faster services become the norm, pricing will re-base to end up closer to today's levels. The skill for providers will be to retain premium pricing but this should not be counted on. Already 5G services on mobile cost the same as 4G and the pricing of fast full fibre (up to 900 Mbits) is already little higher than fast fibre (around 60-70 Mbits).

In the fixed line market BT is obligated to make the improvements to the core national network in order to allow all internet providers to offer full fibre. The capital expenditure falls to BT and the plan is to connect 25 of the UK's 28 million homes to the upgraded network by 2026. It will then have to recoup the cost through the charges it makes to other providers, but this network will also allow the old copper and switched networks to be shut down. These older networks account for a material amount of operating cost for Openreach, so large savings should be possible with lower maintenance.

The offering of faster and higher priced services comes at a bad time with many households looking to lower their communications cost, especially in the face of the unloved policy pushing through to all providers the inflation plus 3.9 per cent escalator. Many customers are facing bill increases of 16-17 per cent in the next few weeks and many are likely to retrench rather than upgrade.

The market penetration of both fixed line broadband and mobile in the UK is already very high with broadband above 95 per cent and mobile broadband at around 92 per cent. This makes the market very mature with the only routes to growth being through market share gains, persuading users to pay for more expensive services and/or to adopt 'convergence', the combination of multiple services (mobile, landline, broadband, TV) into a single package.

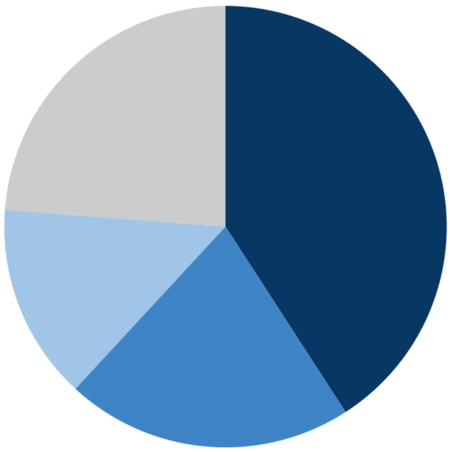
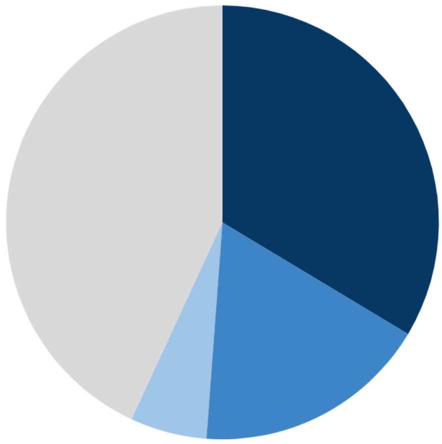
Operations and divisions

BT has, essentially, four operating divisions across the spectrum of telecoms consumption and carriage services :

> **BT** - the UK's leading fixed line telephony and broadband provider as well being the owner and operator of the UK's telephone exchanges, trunk network and local loop connections. BT serves consumers (very competitive), enterprises (limited competition) and global services (borderless security, cloud and networking services). BT also provides TV and sport coverage services over internet, satellite and cable.
>
> **EE** - this is one of the UK's 'big four' (O2, 3, Vodafone, EE) mobile carriers, formed in 2012 from the UK operations of t-mobile and Orange, bought by BT in 2015. It is a full service service provider running a national carrier network and provider service contracts to consumers, smaller businesses and enterprises. It is the UK market leader controlling over 25 per cent by subscriber count; the 'big four' still account for more than three quarters of the UK market, although this is shrinking.
>
> **Plusnet** - this is a Mobile Virtual Network Operator (MVNO) and 'triple play' (broadband, landline and mobile) operator. MVNOs are the fastest growing segment in mobile offering both cheaper and more flexible options for UK consumers and small businesses. MVNOs (such as Smarty, Tesco, Sky, Virgin or GiffGaff) piggy back off one of the big four to provide 'contractless' contracts, which are an evolution of older pay-as-you-go (PAYG) contracts that are primarily SIM only contracts. They are actually cut down services using the less robust and reliable frequencies, are likely to be slower and lack features such as wifi calling, 5G and often have poor customer service. BT bought this in 2007.
>
> **Openreach** - this business manages, maintains and operates the cables, ducts, cabinets and exchanges that form the UK's telecommunications infrastructure. Its customers are the 668 telecom providers that sell fixed line phone and internet services and is a highly regulated business to ensure a level playing field for all telecommunications providers.

This is not, however, how BT reports its results: while Openreach is separated out, the reporting lines are segmented by customer type: consumer, enterprises (small and large businesses and public bodies in the UK) and global services.

BT business split - FY 2022

Revenue	**Ebitda**
	

Source: BT Group

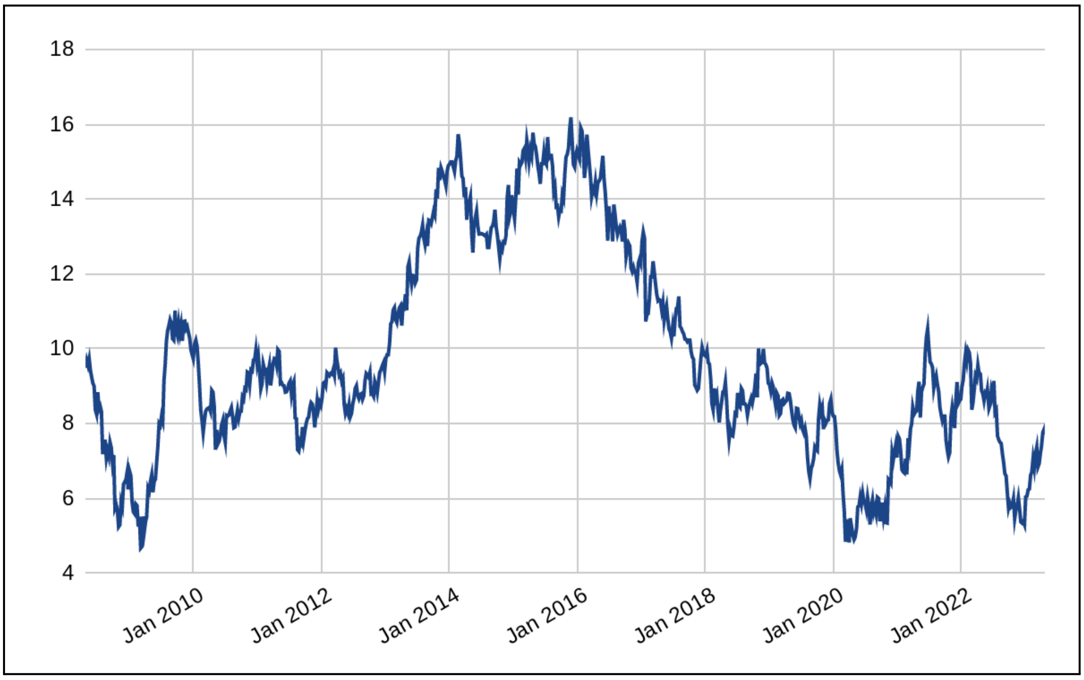
Issues and valuation

BT is certainly a lowly rated stock but as a dominant and heavily regulated utility in a very mature market, that is understandable. BT does not really exhibit any material growth (see below) but does offer a high level of stability, is unlikely to be challenged in its market dominance, people are unlikely to stop using its services (barring mobile drift) and is profitable enough/has high enough free cash flow to fund a dividend that returns a 5 per cent yield. The shares are on a forward PE of 8x, having recently been through a steep rally that took the share price from around 110p to above 150p. Is that cheap?

At 110p earlier in 2023, yes, this was a cheap stock when, following a sharp de-rating (from 175p), the shares were trading at below 6x year 1 PE (share price to earnings per share ratio). However, it is hard to determine a meaningful, long-term trend for BT's rating as the shares in the last 15 years have traded as high as 16x and as low as 4.5x (see chart below). The highs of the mid-2010s were due to BT's return to the mobile market, which helped to plug the yawning gaps then opening up in its fixed line market, and gave a better growth profile (mobile was then still an expanding market). This was also the time that BT Sport came onto the scene looking to challenge Sky, adding another growth dimension. After initial success, however, BT Sport has gone into decline moving from a peak of 3.5m subscribers in 2016 to today just 1.7m, although its fortunes may reverse after the formation of a JV with Warner, the rebranding to TNT Sports and the release of £633mn for BT.

Arguably, too much was expected from the move into mobile and streamed services and as trading since has shown, this move brought in stability rather than growth. Perhaps this means that we can look to history for the rating, but the time we need to focus on is that period before the 2013 re-rating: the rating then was similar to that of today.

Long trend of BT year 1 PE ratio



Source: Factset

So why should BT have such a low rating? There are a number of issues that would naturally drag on the rating.

Pension fund hole - Like many very long-established companies (especially utilities), BT has something of a hole in its pension fund. The £47bn fund, which pays out £2.5bn each year to retirees, was £4.4bn underfunded at the end of 2022 (but a big improvement from the £8bn shortfall in 2020), although there is a plan agreed with the trustees to put the pension fund on an even keel by 2034 - BT pays in £1bn each year on top of staff contributions. There is, however, a potential new problem. The trustees were severely spooked by the Truss/Kwarteng Budget in September 2022 having seen the sudden rise in interest rates hit the fund value by £11bn; this caused them to propose a more cautious investment approach. In other words, the fund is potentially going to need more money from the PLC than today's £1bn per annum (funded out of the £8bn of Ebitda). This would be another unwelcome strain on the free cash flow.

Debt mountain - BT has around £18bn in total net debt or £12bn, excluding leases, and this is slowly increasing as investment in FTTP progresses: the consensus is for £14bn of core debt by 2025. Note that this is broadly equal to the group's market cap although it is less than 2x Ebitda. The heavy capex programme at £5bn will continue until at least 2025 and debt may begin to fall back thereafter. The main problem, however, is not the debt per se but its interest cost. £1.25bn of BT's debt is index linked, €2bn of very low coupon (1 per cent or less) European bonds mature within 18 months and $675mn of US debt matures at the end of this year. That means close to £4bn of debt is going to become more expensive, perhaps docking £100mn or c.4½ per cent from profit before tax (PBT).

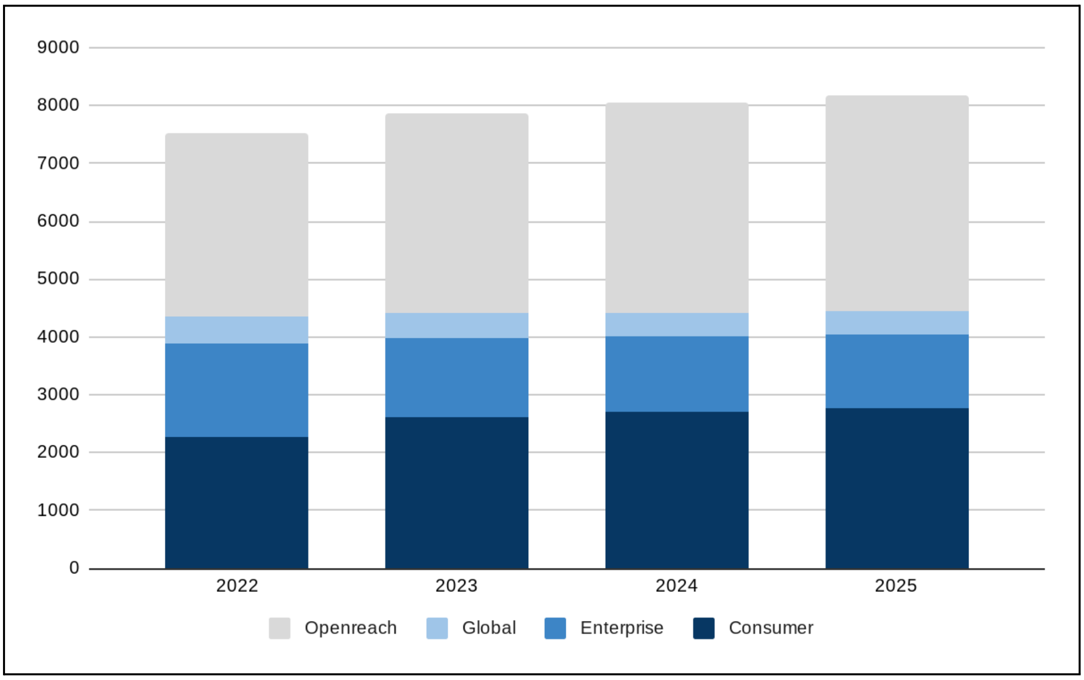
Low growth - overall BT is just about growing its profits - c.2½ per cent compound annual growth rate (CAGR) at best - but the growth is skewed. Enterprise and global is falling while the consumer division is edging ahead but largely thanks to both the aggressive inflationary consumer escalators (that may not stick) and the hope that FTTP can boost revenues. The latter might prove harder than analysts expect, given consumer headwinds that are likely to slow take-up, and BT has already noted that the market has had to 'sharpen prices' . It is still a big question of whether most households need FTTP - at 900 Mbits a notable practical statistic is that at this speed, you can stream ultra-HD video on 36 devices at the same time.

Data use is rising through the internet of things etc but these are low bandwidth, as are xbox gaming (3 Mbits), Netflix in full HD (3 Mbits) or Spotify at highest quality (0.3 Mbits). While the copper local loop needs to be replaced, it is hard to see many households moving to ultrafast internet. Perhaps they will, but only if the price increases are minimal.

Growth is forecast to be led by Openreach, largely again on the assumption that FTTP take up is fairly high and the copper loop can be shut down quickly. Even if the roll-out and take-up targets are hit, the return on the £15bn that BT will have spent on FTTP is quite low - around £525mn of additional Ebitda by 2025 is forecast, a return on the network investment of just 3.5 per cent.

Cost savings plan - BT does have a major cost saving plan in place with a plan to deliver annual cost savings of £3bn per annum by the end of 2025; this figure was recently increased from 2.5bn. This is a great ambition and the results show that £1.7bn has already been delivered. However, these are not savings that are set to accelerate growth, but rather to prevent the business being overwhelmed by increasing costs. The difference between profits in 2020 and the target end date in 2025 is only around £300mn or £900mn if we used pre-covid 2019 as the base line. That over £2bn of the cost savings are likely to be re-consumed by rising costs has to be a concern. Will the steeply rising costs end in 2025 or is BT facing a long-term war of attrition with its operating costs just to keep the profits flat to edging ahead?

Profit breakdown - historic and forecast consensus



Source: BT Group

Competition - there is growing competition in ultrafast networks with 5G potentially offering speeds equal to FTTP, but arguably superior as it is also available on the go. There are already 5G home broadband services opening up with the advantage of highly flexible use (you can take the router on holiday with you). BT is in the 5G game, but does risk cannibalising its fixed line internet base. There are also rival FTTP services from Virgin, City Fibre, Vodafone (using a hybrid of Openreach and City Fibre), Nex Fibre, Hyperoptic, G-Network or Community Fibre. There is also a vast amount of 'dark' or 'unlit' fibre infrastructure in the ground in the UK that could be taken up by new carriers operating outside BT infrastructure.

Own investment for competitors' advantage - a big disadvantage BT has is that it has had (under regulation) to install the FTTP network yet the bulk of the benefit goes to its competitors. Other providers have had to make only moderate investment (servers and switching) yet have the ability now to offer more expensive services.

Flat dividend, little chance of capital returns - while the dividend is good at around 7¾p to give a c. 5 per cent yield, there is no growth in the forecast. However, the payment is well covered by EPS and free cash flow. Debt is relatively high and with a committed capex programme (enforced by regulation) there is almost no scope for a capital return or special dividend before the end of FY 2026 at the earliest. Even after that the scope is limited as the focus will need to be on debt reduction.

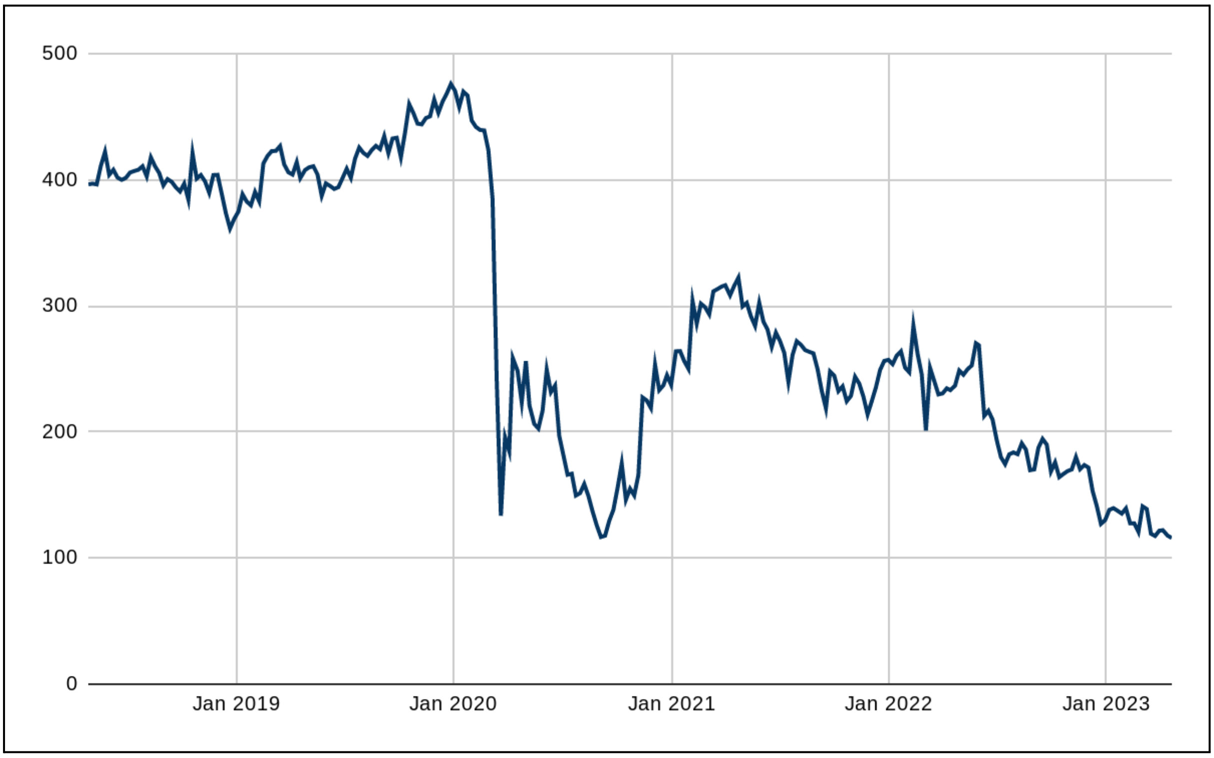
Not even a bond proxy - Most of the UK's utilities can be viewed as bond proxies, but I'm less certain this is true for BT. It certainly ticks many of the boxes although it does have high pressure from regulation that has imposed heavy investment requirements that can compete in the battle for capital and could make paying a dividend more difficult.

Conclusion

Overall, BT is on a low rating for all of the right reasons. Low growth, very mature markets, a tight regulatory environment, capex at its own cost that boosts the competition, large cost savings simply to stand still, no dividend growth, a pension overhang and too much debt. Its end markets, especially high speed internet might look dynamic, but there is something of a Moore's Law vibe about this market - speeds double every two years but the prices (per unit of speed) halve. Again leaning on the experience of the semiconductor market, things are getting faster and more powerful at a rate that customers simply do not need. Also BT is still dominated by fixed line connectivity and the market is progressively pushing towards mobile and cloud topologies.

The stock was oversold, but now feels about right balancing the potential positive and negative, and it looks pretty for a decent level of passive income with a good measure of capital protection for now. However, unlike other larger utility businesses, BT does not really feel like a bond proxy. So, potentially a buy for income at this level, but not for growth.

National Express - the wheels on the bus



Source: FactSet

Snapshot

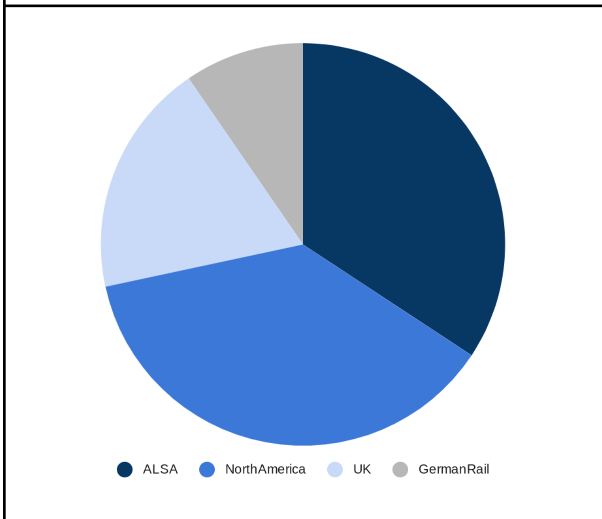
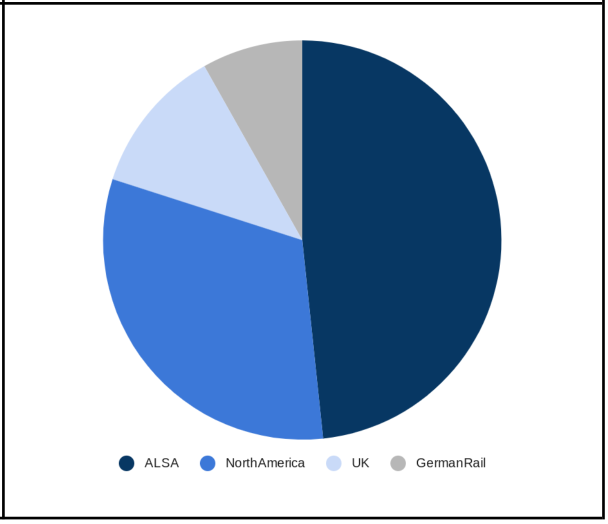
National Express (NEX) is a FTSE 250 stock sitting in the lower quartile of that index with a market cap of £750mn. Prior to Covid, which hit hard and continues to impact the group, this was a £2.5bn stock. Revenues total close to £3bn but as an inherently low margin business, PBT is around £140mn (adjusted basis - statutory profits are typically materially lower due to a fairly consistent stream of exceptional provisions and write offs), EPS around 15p (2023 forecast) and a dividend of around 6p.

National Express was the subject of the somewhat disparaging 1999 song by the group The Divine Comedy in which it implied that only those down on their luck would deign to use this well-known bus company. That feels like a common view of this business - is it fair or has this once single line business diversified like the other major bus operators, such as First Group, Stagecoach or Go-Ahead, into wider and better regarded fields?

Today's National Express

NEX today is a global business with businesses in the UK, Germany (rail rather than road), Iberia, Switzerland, France, Morocco and, its largest segment, North America. Annually NEX provides around 1 billion passenger journeys.

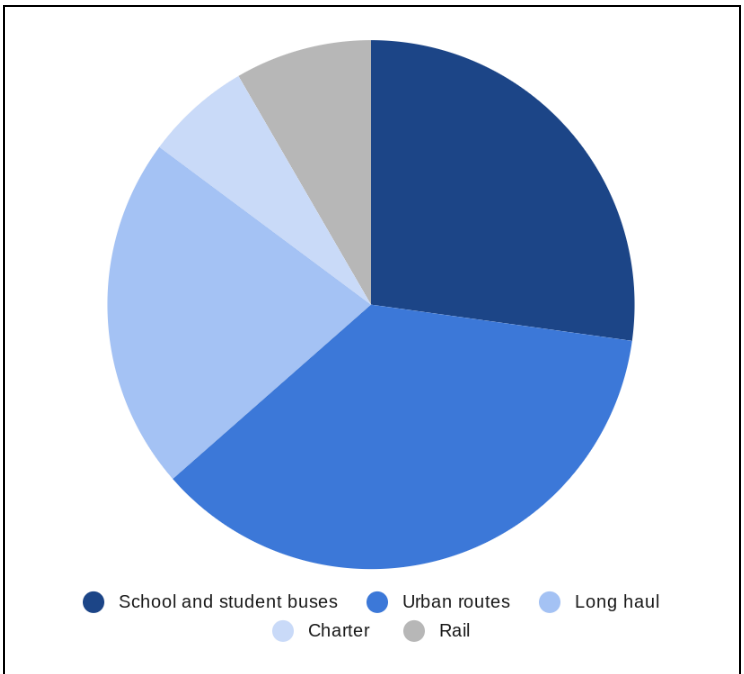
Revenue and EBIT split - FY 2022

Revenue	EBIT
	

Source: National Express

Another way to look at how the business shapes up is to examine the relative size of the various disciplines or end markets, which is summarised in the chart below.

National Express' revenues by channel



Source: National Express

Covid clout

Naturally Covid hit transport companies very hard with travel fully outlawed for long periods from 2020 to 2022 and a severe dent in total miles travelled by the public even today. Working from home is impacting local bus service demand and there are fewer chartered services (such as school outings), which means lower revenues for what is essentially a fixed cost business. Whether the bus is full or half full, the cost is largely constant (accepted fuel consumption will be a little lower) but staffing, fuel and depreciation remain the same.

On top of this, there seems to have been a slower than anticipated re-starting of school bus services in many parts of the US which impacts a large portion of the group. There have been problems with budget allocations by local school boards, deferred decision on outsourcing, budget cuts, on-going covid distancing/capacity issues, growing use of hybrid schooling especially for more remote students and there is also a shortage of qualified drivers, many of whom have declined to return to work out of safety fears. The latter point has added to already high inflationary pressures on staffing costs and heightened safety risks as part qualified drivers have had to be used.

Still feeling the pinch

Transport is a heavy user of energy and with little confidence in the stability of future energy prices, this issue for NatExp's margins is likely to remain solidly in place. The group does run a three-year rolling fuel hedging policy which means that, to date, it has largely avoided the pressure from fuel that started rising in May 2020. Although market prices are now dropping, the hedge is likely to act in the opposite direction (or incur a write-off). This risks putting some pressure on margins from H2 of this year, however, with fuel only around 15 per cent of total costs the impact is unlikely to be severe.

A high debt burden

A big issue bearing on the valuation of NatExp is its balance sheet. Already, high debt and collapsed profitability through Covid drove the need to renegotiate banking covenants - which would have been breached in 2020 and 2021. The waiver entailed allowing greater operational examination by lenders and cancelling the dividend. Key debt ratios have improved but at the end of 2022, net debt was still 3.4x EBITDA (although the board prefers to highlight covenant debt levels which stand at 2.8x). In 2022, debt actually increased despite much higher profits mainly due to adverse foreign exchange (FX) movements.

In November 2023, NatExp has a £400mn bond to refinance. The existing facility has a coupon of 2.5 per cent, but the indicative rate for the group's current debt rating (Fitch BBB, the bottom of investment grade) is around 5.5 per cent. So, debt servicing is set to increase. The board could decide to take up a much smaller bond and use some of its largely undrawn revolving credit facility (RCF) but this may not be cheaper. RCFs are typically priced against market interest rates such as LIBOR which have risen faster than base rates. The RCF itself expires in 2025 along with another 'hybrid' debt facility. NEX will need to renew close to £1.5bn of debt within three years and overall, the group's interest bill is set to increase materially through 2025.

There is a drive to lower debt through a shift to a so-called 'asset light model', namely that NEX will own fewer buses and coaches and lease more. While this lowers capex requirements it also impacts margins and, most likely, revenues. The group's own example (summarised in the table below) shows how a similar contract needing 600 buses would differ with an asset light approach. Rather than own the vehicles and pay the staff, NatExp would only pay for actual use as a rental plus a fee for a flexible right of access to the fleet. There is less pricing and cost risk, but at a heavy price. Capital cost is swapped for revenue cost leading to lower margins and profits but allowing for a very high return on capital employed.

Asset light versus asset heavy

	Light	Heavy
Revenue	£550m	£700m
EBIT	£28m	£100m
Margin	5%	14%
Capex	£10m	£150m

Source: National Express

This would allow the group to avoid high capex, which would reduce debt more quickly but offsetting that would be a lower level of cash flow. This does mean that capital allocation would improve and the current low return on capital employed (ROCE) would improve, which could lead to a higher rating. But to what level of profit would that better rating be applied? Profits would be little more than a quarter of the alternative - would the rating improve threefold to fourfold? That feels doubtful and the valuation overall could suffer.

This also begs the question of whether the business would be being run for the banks in order to reduce the debt or the shareholders by producing smaller but higher quality earnings. It feels more in the banks' favour.

Valuation issues

National Express has all of the hallmarks of a classic value trap. The rating looks to be low with a year 1 PE ratio based on the market consensus less than 8x and EV/Ebitda of 4x (to December 2023). The share price could also look alluring following a steep de-rating - the shares have barely one quarter of the value they had just before Covid. Profits are lower than in 2019 still, but Ebitda is 2023 is forecast to come reasonably close to those pre-pandemic levels: £433mn forecast against the historic £483mn. Look at the EPS, however, and it is quite a different story. The 2023 forecast is at 15p while the 2019 figure was 34.5p. Part of the difference is the higher UK tax rate but there are also 20 per cent more shares in issue due to expansion which has also increased depreciation. This means that the quality of earnings has dropped along with the quantum.

But then again….this looks like a business with high fixed costs and high operational gearing (a large amount of every extra pound of revenue drops through to profits) and with margins at pretty low levels, the potential rebound in profits if/when demand and/or pricing picks up and better pricing stops being consumed by higher fuel and wages.

This makes National Express an interesting two-way pull from an investment perspective. The PE is telling you that profits risk still coming close to halving from here and that is a risk (operational gearing cuts both ways) but the board and analysts following the stock dismiss this and believe that there is going to be pretty robust growth, although forecasts have been slipping for the last year especially as wage settlements have run out worse than anticipated. Why the optimism?

Modal shift - The great hope for the business has to be the modal shift with more people using public rather than private transport. Organically it feels like consumers are generally reluctant to give up their cars, but there are positives. Car ownership amongst younger members of populations globally is low as they appear less inclined to drive (or perhaps struggle to afford to run a car) and the recent surge in the price of second-hand cars in many parts of the world will not have helped. The transition to electric vehicles adds an additional cost burden. Then there is the help from government policy. This comes in both carrot and stick formats: the likes of restrictions on urban road use and parking is looking to push people away from car use; travel subsidy such as the UK's £2 max bus fare, Germany's €9 train passes and Spain's recent extension of selected free travel on long-haul bus travel could all bring about accelerated change.

The evolve strategy - NEX wants to harness the modal shift: analysts and management want to believe they can through 'evolve'. However, there is too much focus on changing operational issues that don't necessarily generate value for shareholders - too much 'build it and they will come' - too much reliance on others to make the change. Also, a shift to clean vehicles is less of a strategy, just the way that the market is going organically and driving digital capability is also not a strategy but a necessity in doing business today. These feel like investments in keeping up, not moving ahead.

Corporate activity in the sector - there has been some corporate activity in this sector that the bulls of this stock will point to in order to suggest a target valuation. Each of these transactions has taken place at a materially higher rating than one on which NatExp currently stands (10-11x historic enterprise value to EBIT) with the exit multiples reaching as high as 16x. The inference is that if others believe it is worth paying up for these businesses, there has to be under-valued growth there. That may be so, but there are lots of other reasons for buying, such as generating 'marriage value' with other businesses the buyer owns. It does not automatically point to under-estimated growth.

Recent corporate activity in road passenger transport

Target	Buyer
Nobina Sverige	Ride BidCo, private equity
Stagecoach	Varient, private equity
Go-Ahead	Kinetic / Globavia JV, private equity

Source: Company websites

The Stagecoach deal has a particular sting for NEX because it had itself planned to undertake a £1.9bn merger with a view to accelerating 'evolve' and make some sort of attack on the effective level of debt. When a combination fails to materialise management can often struggle to refocus a business and, as seems to have happened here, shareholders lose faith.

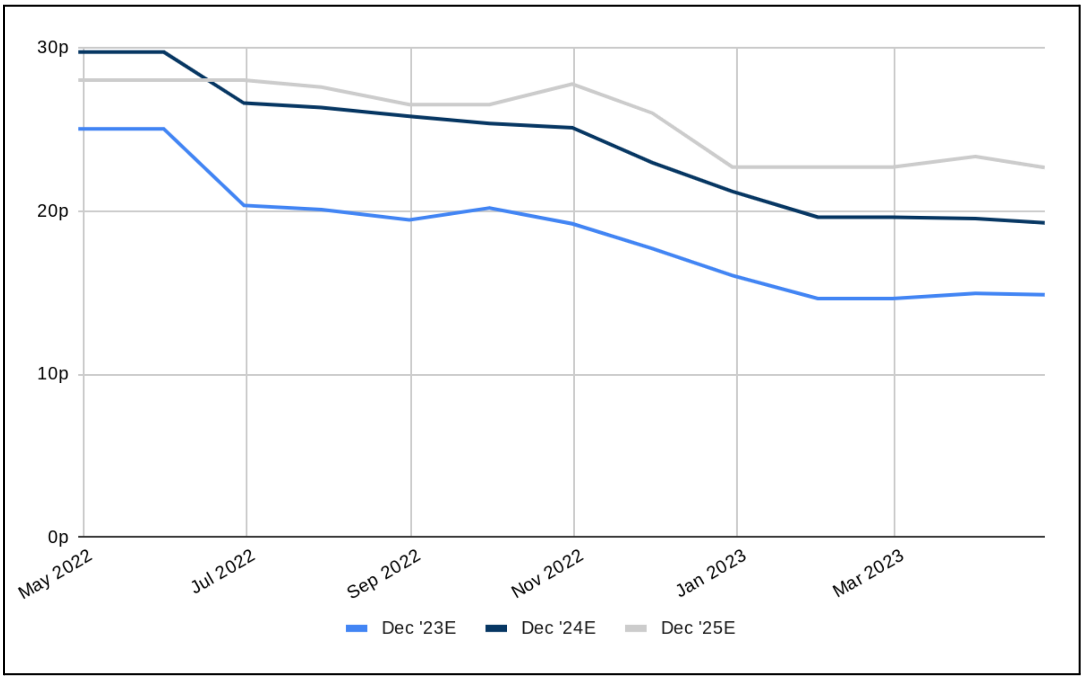
Defensiveness - there is a solid income visibility with contracted revenue totalling 70 per cent (and on a rising trend) but 30 per cent remains variable and relies on passenger numbers which for a higher fixed overheads business can mean greater volatility in profits. In addition around 40 per cent of contracts have full 'pass through' inflation protection but again more than half of the contracts leave NEX exposed to the sort of extreme settlements we saw recently in the UK. This looks also to be an industry still very prone to strike action.

Margins - NEX has a 9 per cent EBIT margin objective through to 2027, a pick-up from the current 7 per cent. In the consensus, analysts are pencilling in a drop in margins this year to 6.7 per cent and by 2025 estimates, 8.2 per cent. There is still a good measure of rebound in these improvements and analysts seem to question whether the 9 per cent target is achievable. Given the lower margins that the asset light approach seems to deliver, reaching this target could be tough. Forecasts are dropping as shown in the chart below.

But there are counterpoints. NEX has a low ROCE (only 7.7 per cent in 2022), which means it is eroding shareholder value - assuming a weighted average cost of capital (WACC) above 8 per cent although it could be lower because debt is high. The drive to move to a capital light operating structure would improve this but as above at a heavy price on profits. Sweating the assets more and using the operational footprints for a wider range of activities would also help here but overall, it does feel as if NEX will struggle to materially exceed its WACC in the short to medium term.

Forecasts are also still on a declining trend. Cost pressures are immediate and are outpacing the positive attributes in the group's strategy which are all longer-term in nature.

Trend in consensus EPS forecasts



Source: FactSet

The dividend is also a fraction of pre-Covid levels when the payout was 15p/share. The forecast is now 6.25p for 2023 but it is notable that the expectations for the dividends in the consensus are dropping faster than for EPS. A year ago, the forecast divided was almost 11p/share for 2023.

Conclusion

Whether this stock is a buy or not is not an easy call. There are positives and negatives, although perhaps too many of the positives are macro and rely on unreliable local and national government policy actions. Returns are low, debt is high, the shift to asset light could cost a lot of profit and the last year has highlighted that the business is very vulnerable to rising costs despite having reasonably higher levels of protection built into its contracts. There is a lot of risk here and that will drag on the rating but is that risk correctly priced? If consensus is reached, by 2025 the PE will be just 5.3x. Is that cheap or a value trap? I think the latter and it is more likely that the consensus is materially too high and there is more woe to come here on both costs and the impact of shifting to the 'asset light' approach. There will be a time to take a more serious look at this stock but not until the forecasts come down quite a bit more. That said, the worst of the stock's de-rating is probably now behind us.

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