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Thomas Cook break-up looms as Fosun plots tour operator bid

BYLINE: Mark Kleinman, City editor

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HIGHLIGHT: The Chinese owner of Club Med is in secret talks to buy Thomas Cook's‎ tour operating business, paving the way for the potential break-up of the 178 year-old British travel company.

Sky News can exclusively reveal that Fosun Tourism Group - which is listed in Hong Kong and is already Thomas Cook's biggest shareholder with an 18% stake - has indicated in recent days that it is preparing to make an offer for the bulk of the business.

Fosun is working with bankers at JP Morgan on an offer for Britain's best-known tour operator.

Sources cautioned this weekend that a formal bid from Fosun was not yet guaranteed to emerge, and that discussions were at an early stage.

If successfully completed, it would rank among the most significant and prominent acquisitions of a British business by a Chinese rival to date.

It would hand control to Fosun of a business boasting almost £7.4bn in revenues last year, serving 11 million customers and employing the majority of its 21,000-strong workforce.

A formal bid, which could come within weeks, would not include Thomas Cook's airline business, since Fosun would not be allowed to buy it under EU aviation ownership rules.

Thomas Cook, which has been enduring a torrid time as it battles to shore up its finances, has already launched an auction of its airline operations, which analysts believe could fetch around £1bn.

The terms of a potential offer from Fosun - an arm of which owns the Premier League football club Wolverhampton Wanderers - were unclear this weekend.

While Fosun knows Thomas Cook's business and management extremely well, a deal could be complex to execute and was likely to take months, even after any agreement with Thomas Cook's board.

Nevertheless, the approach by Fosun, which is likely to prohibit it from adding to its 18% stake while talks are ongoing, means the independence of one of Britain's best-known companies is likely to be nearing an end.

Thomas Cook was founded in 1841 by a 32 year-old cabinet-maker and former Baptist preacher who began offering one-day rail excursions from Leicester to loughborough for a shilling.

From there, it went on to become one of the world's largest holiday companies, marking its 175th anniversay three years ago.

The Chinese group has been a shareholder in Thomas Cook since April 2015, doubling its stake to 10% by the beginning of 2017.

It listed the entity which owns Club Med in Hong Kong last year, and has continued to build its stake in the London-listed company ever since.

Thomas Cook and Fosun have a joint venture in China which is showing strong growth, with an eightfold increase in customers last year.

The introduction of own-brand resorts in the world's second-largest economy has also opened up the domestic Chinese market to Thomas Cook.

One source said the approach from Fosun underlined the range of options open to Thomas Cook's board as it seeks to resolve questions about its future.

Nevertheless, agreeing a transaction with its Chinese investor will be complicated by separate interest from Triton, a private equity firm, in acquiring Thomas Cook's airline and tour operating assets in northern Europe - revealed by Sky News last month.

Triton, which bought the travel company Sunweb Group last December, is seeking to buy a portion of Thomas Cook that collectively employs roughly 20% of Thomas Cook's workforce.If a deal is struck between those parties, it would have a bearing on both Fosun's interest in the tour operating division and other talks that are taking place between Thomas Cook and suitors for its remaining airline operations.The company's shares have fluctuated wildly in the past month amid severe turbulence prompted by a £1.5bn half-year loss.Credit rating agencies have downgraded Thomas Cook, warning that the company's current debt structure is unsustainable as it seeks to expand its higher-margin own-hotel concepts and its online business.Thomas Cook's travails have been exacerbated by demands from payment firms to hold onto millions of pounds of customers' money owed to Thomas Cook.Its recent loss largely stemmed from a £1.1bn goodwill writedown relating to its 2007 merger with MyTravel.Shares in the travel group have slumped by more than 85% during the last 12 months, and faced a further battering last month when analysts at **Citi ascribed zero value to its equity**.EY, Thomas Cook's auditor, provided a going concern opinion on its accounts but warned that it faced "material uncertainty" without a deal to sell its airline business.A new £300m winter debt facility - aimed at providing liquidity through the period when Thomas Cook's cash generation is at its annual low-point - has been offered by lenders, but only on the basis that it demonstrates progress selling the airline.The company insists that that extra headroom will protect it in "a worst-case scenario".Thomas Cook has become embroiled in an increasingly frantic bid to shore up confidence among consumers and lenders as it pointed to the absence of a Brexit deal's impact on customers' willingness to book overseas holidays during the crucial summer period.Peter Fankhauser, chief executive, said the trading environment was "weak", and that "continued competitive pressure resulting from consumer uncertainty is putting further pressure on margins"."This, combined with higher fuel and hotel costs, is creating further headwinds to our progress over the remainder of the year," he added.Shares in Thomas Cook stand at just 16.11p, giving its equity a value of only £247m.Prospective bidders, including Virgin Atlantic Airways, Lufthansa and Indigo Partners, a prominent aviation investor, are among those to have submitted non-binding offers for parts of its airline business.Talks about the airline sale are complicated by the need to strike a deal for Thomas Cook's holiday customers to travel on its planes.The company is working with advisers from AlixPartners on its balance sheet and cost reduction plans, while its syndicate of more than a dozen lenders is being advised by FTI Consulting.Thomas Cook recently said it **would close 21**

high street shops and pare back its retail workforce as part of an attempt to exert a tighter grip on costs.A much larger proportion of its 566-strong chain is likely to disappear in the coming years.The entire sector is being ravaged by a brutal price war, while industry executives say uncertainty about the timing and nature of Brexit is prompting consumers to delay booking overseas holidays.

Thomas Cook declined to comment on Saturday, while Fosun did not respond to a request for comment.

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