



13 May 2014

TUI TRAVEL (TT.): 355p Q3 Trading Update

Group reports a 'strong Q3 result with underlying operating profit up 21%...on a LfL basis ...'

| Year to end-Sep | PBT (£m) | EPS (p) | PER (x) | DPS (p) | Yield (%) |
|-----------------|----------|---------|---------|---------|-----------|
| 2013 (A) | 473.0 | 30.8 | 11.5 | 13.5 | 3.8 |
| 2014 (E) | 493.0 | 31.4 | 11.3 | 14.5 | 4.1 |
| 2015 (E) | 571.0 | 34.9 | 10.2 | 15.7 | 4.4 |

Source: Company & Broker Estimates

Q3 Trading Update – 3m to end-June 2014:

TUI Travel has this morning updated on trading for its Q3, being the period to end-June, and our comments are set out below:

Summary:

- TUI Travel has reported 'strong Q3 result with underlying operating profit up 21% to £92m on a like-for-like basis'
- It says [we] 'remain pleased with progress in Summer trading' and, in contrast to TCG, it is seeing 'higher average selling prices across Mainstream'
- It maintains its 'flexible and resilient business model means that we are delivering sustainable, profitable growth and out-performing the market'

The Numbers:

- UK and German operating profits are up by 17% and 16% respectively (stripping out Easter movements and on a constant currency basis)
- On a reported basis, revenues are down by 2% at £3.797bn and operating profit is £92m against £76m last year
- For the cumulative nine months, revenues are down by 3% at £8.987bn and the operating loss is 13% better at £186m

Conclusion & Market Implications:

- TUI reports that 'mainstream bookings performance [remains] in line with previous trading update, with improvements in the UK and Nordics'

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Market Cap: £3.9bn
12m range 335p 450p

- It reports that its 'unique product' is helping it outperform the market and says 'accommodation Wholesaler continues to perform very well with Summer 2014 TTV up 16%'
- TUI CEO Peter Long reports 'we are pleased to have delivered another strong performance this quarter' and reminds observers that 'unique holidays' now account for over 70% of Summer sales
- Summer trading to date is 'pleasing' and prices are up.
- However, the group concedes that 'the trading environment in the commodity space has become more competitive and airline capacity continues to increase'
- The group gives no indication as to how trading has been in July and early August – but the tone of the statement is upbeat and the group will update further via a conference call at 9.15am

Langton Comment: Whilst the cumulative three quarters to end-June will always be loss-making and therefore give a limited view as to the outcome for the year as a whole, TUI Travel has put a significantly more positive spin on trading than did Thomas Cook only a week ago.

The group clearly believes that its more differentiated product will protect its business and it says that average prices are up. Thomas Cook said that they are down.

The group's shares, in common with many across the UK's leisure sector, have fallen by more than 20% since their March highs and the group's rating is now not demanding.

However, concerns with regard to a potential for stock-dumping towards the end of this season combined with a lingering disappointment that there is to be no control premium paid by TUI AG in order to effect a full takeover, continue to overhang the shares.

Whilst the company is likely to lose its independence before the end of this year, until we see greater clarity with regard to the current season, we would be inclined to avoid the shares.

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