



30 Jun 2014

TUI TRAVEL (TT.): 402p Merger Presentation – 30 June 2014

Group says there is a compelling logic but why now, what are the execution risks and is trading coming under some pressure?

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	473.0	30.8	13.1	13.5	3.4
2014 (E)	490.0	31.7	12.7	14.5	3.6
2015 (E)	560.0	35.1	11.5	15.7	3.9

Source: Company & Broker Estimates, numbers pre-merger

Merger Presentation – 30 June 2014:

TUI Travel this morning hosted a presentation for analysts at which it outlined the benefits of its proposed merger with TUI AG. Our comments are set out below:

The Main Numbers:

- TUI Travel holders will receive 0.399 new TUI AG shares for each TUI Travel share that they currently own

Introduction:

- Why now? Peter Long says there is more clarity & a single mind re the future.
- Fritz Jousen points out that TUI AG had been losing money. He has now worked with Mr Long for 18mths & it was time to reconsider the future, remove the red-tape re separate structures etc.

Structure:

- Hapag Lloyds will be sold when appropriate. This is 'contractually underway'
- Merger will create global number one. Will bring more content under one roof.
- Joint CEOs? They are 'totally aligned' and they 'have the right balance'. Peter Long will move to chair the group from 2016.
- Will be German-domiciled but primary listing in the UK.
- Online Accommodation & Specialist & Activity businesses, almost 100 brands, will be deemed non-core. Synergies here are limited.

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Market Cap: £4.9bn
12m range 335p 450p

- 15% of beds and berths used by the tour operator will be owned by the group – this could rise
- Deal should be done by calendar year end, or latest spring next year

Rationale:

- The synergies 'are significant but need to be delivered' (Euro 45m by year 3) – IT, tech, corporate streamlining.
- Says 'this is not financial engineering' – group wants to control the process from end to end
- Group says this is 'all about growth' and simplification
- The group is 'very excited' and this is 'the start of the journey.'

Q & A:

- The dividend policy will be in line with that of TUI Travel.
- Group suggests this move will 'strengthen' differentiation.
- Will specialist be sold? Not necessarily. Businesses may be sold if they are not earning their cost of capital. Says 'just because they are non-core doesn't mean that we don't like them'
- Group won't comment on recent performance as it 'is in an offer period'
- Why is nil premium the right price? TUI Travel shareholders will be taking on more risk (i.e. assets) for no premium. The group disagrees with the risk point. Says hotels in the Caribbean are not cyclical but accepts that those in the Alps are.
- There was a degree of polite scepticism as to just what was in this deal for TUI Travel & its shareholders.

Langton Comment: The 'why now?' question is pertinent. The suggestion that the specialist and activity businesses may be de-emphasised was interesting but on the other hand the (somewhat modest) synergies seem deliverable – at least in the view(s) of the company(ies).

Much depends on whether shareholders in TUI Travel are being offered what they want to have. They will have more content and some synergies but they will also have Hapag Lloyd (for a little while) and a joint-listed company with two CEOs.

There are some execution risks and, with the UK market at least suffering from overcapacity (per ABTA) and other issues (DART Group, Easyjet, Ryanair etc.), we would be minded to lock in some profits at these levels.

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