J.P.Morgan

North America Corporate Research
03 November 2014

Ryanair

FQ2:15 Results - 60 Second Update - ALERT

Neutral

RYA.I, RYA ID
Price: €7.62
31 October 2014

US & European Airlines/Equity
Jamie Baker AC
([redacted]
[redacted]
Bloomberg JPMA BAKER <GO>
J.P. Morgan Securities LLC
Wenchang Ma, CFA
([redacted]
[redacted]
J.P. Morgan Securities plc
Nishant Mani
([redacted]
[redacted]
J.P. Morgan Securities LLC
European Credit Research
Danielle Ward, CFA
([redacted]
[redacted]
J.P. Morgan Securities plc

RYA FQ2 (fiscal year ends March) Net Income missed JPMe and company consensus by a touch on the back of in-line Revenue. Management lifted F15 Net Income guidance, which implies an average of 13% upside to JPMe and 10% upside to consensus, reflective of stronger volume outlook, and better cost control than we previously expected.

- **Net Income of €598m was 2% below JPMe and 1% below consensus,** on the back of €2.04bn Revenue (+7% yoy), which was in line with JPMe and 4% ahead of consensus. Both passenger revenue and ancillary revenue were as we expected. Fuel cost in FQ2 was 2% less than JPMe while 7% higher than consensus.

- **F15 Net Income guidance is lifted by an average of 17%** to €750m-770m from €650m. The updated guidance implies upside of 12-15% to current JPMe of €671mn, and 8-11% to consensus €694mn. Upside from guidance is driven by stronger H2 traffic outlook and better unit cost – Ryanair management now sees 16% yoy H2 traffic growth vs. JPMe 9% yoy; F15 unit cost is expected to be -4% yoy (vs. JPMe -0.5%), or flat ex-fuel (JPMe +3.5%).

- **Valuation:** RYA currently trades on 2015e EV/EBITDAR of 7.5x and P/E of 13.6x, vs. EZJ multiples of 6.6x and 11.3x, and 5.1x/8.1x for legacy peers average.

- **Credit perspective:** Ryanair's net cash position improved from €158m at FYE14 to €618m as of 30-Sep, with lease-adjusted leverage now 0.1x (flat from Q1). Ryanair's board has approved the payment of a €520m special dividend (announced with FQ1 results), to be paid in Feb'15. Capex over H114 was €293m (flat YoY), primarily relating to aircraft pre-delivery payments, spare engine purchases and two aircraft deliveries. The group's order for 200 additional Boeing Max aircraft (100 firm + 100 options, to be delivered from 2019) is subject to EGM approval in November, as part of the group's policy to maintain a young (average <5yrs) and cost-efficient fleet. We are Overweight Ryanair credit, 2021 notes mid-price 101.5, Z-spread 98bp, close 31-Oct.

- **Conf call at 11:00 GMT.** Dial-in: [redacted]; Pin 5995 2585.

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Ryanair (RYA.I, RYA ID) Price Chart

Date	Rating	Share Price (€)	Price Target (€)
03-Mar-05	OW	4.22	7.00
01-Mar-10	OW	3.50	--
21-Jun-10	N	3.66	--
28-Sep-11	N	3.28	3.60
09-Nov-11	N	3.60	3.80
01-Feb-12	N	4.24	4.00
05-Jun-12	UW	3.93	4.25
05-Nov-12	UW	4.89	4.75
17-Jul-13	OW	7.07	8.50
04-Sep-13	OW	6.00	8.00
25-Nov-13	OW	6.01	7.00
27-May-14	OW	7.22	8.15
06-Oct-14	N	7.53	8.50

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Mar 01, 2010 - Jun 21, 2010.

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J.P.Morgan

Global Corporate Research
30 April 2015

IAG

60 Second Update - ALERT

Neutral

IAG.MC, IAG SM
Price: €7.76
29 April 2015

Airlines & Aircraft Leasing/Equity

Jamie Baker AC
([redacted]
Bloomberg JPMA BAKER <GO>
J.P. Morgan Securities LLC

Nishant Mani
([redacted]
J.P. Morgan Securities LLC

Naa-Sakle Akuete
([redacted]
J.P. Morgan Securities LLC

European Airlines - Credit

Danielle Ward, CFA AC
([redacted]
J.P. Morgan Securities plc

IAG beat relatively low expectations this morning, though by a wider margin than peer, AF (which is down pre-market on the results). The press conference call seemed to have focused on fuel, capacity and Aer Lingus, but we look for the analyst call at 9am BST for more details on guidance.

- **IAG Q1 results beat.** IAG's €25m of operating profits beat our lower end estimate of -€25m and consensus at -€3m. Higher than expected revenues for all segments drove a top line beat, including 8.1 points of positive currency impacts. Meanwhile expenses, which saw improved employee unit costs and productivity in the face of lower average number of employees and lower fuel costs, rose by a lower proportion relative to our forecasts.

- **IAG Guidance**. Though the rate of improvement in Q2 will be slower than Q1 (due in part to FX related fuel increases), expect full year operating profit over €2.2bn (slightly below consensus at ~€2.3bn). Management maintains that while Aer Lingus talks are ongoing, they are not a distraction for the group, which instead touched on its Iberia transformation and best-in-group margins at Vueling. Note that IAG has not joined the chorus of Gulf carrier opposition, and at least for now, fuel remains the bright spot in a region hard hit by revenues pressured by Middle East expansion. Walsh reiterates an emphasis on long term fleet/capacity plans (especially in light of potential Q2 fuel increases), guiding to a 5.5% increase in 2015 ASKs.

- **Credit Review:** IAG further improved its adjusted net leverage position to 1.7x as of 31-Mar, from 1.9x at 31-Dec-14. BA's cash position was €4.0bn (of the group's total; cash of €6.0bn). We are Neutral British Airways CDS (5y mid 120bp, close 29-Apr) and expect CDS spreads to continue to reflect uncertainty over future issuance plans from British Airways PLC after the maturity of the 8.75% Aug-2016 notes. We note that British Airways' rating was upgrade by Moody's earlier this month to Ba2/Stable (from Ba3), reflecting the group's improved operating performance. Moody's commented that it continues to rate BA on a standalone basis but takes into account the potential for more debt at the IAG holding level owing to the offer to acquire Aer Lingus, which Moody's considers could reduce debt capacity at British Airways.

- **Conference Call Details**: 9am BST +44 (0) 20 3427 1909; ID: 3615768

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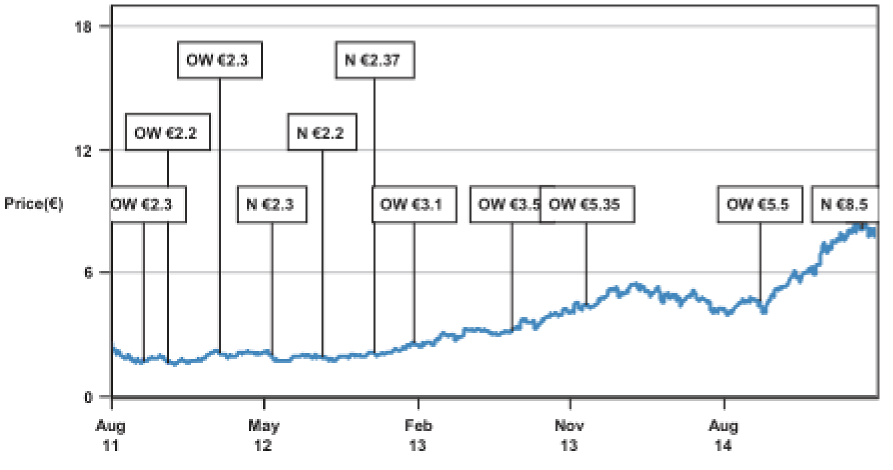

Date	Rating	Share Price (€)	Price Target (€)
28-Sep-11	OW	1.77	2.30
10-Nov-11	OW	1.67	2.20
09-Feb-12	OW	2.15	2.30
14-May-12	N	2.00	2.30
10-Aug-12	N	1.90	2.20
13-Nov-12	N	2.11	2.37
24-Jan-13	OW	2.59	3.10
17-Jul-13	OW	3.18	3.50
25-Nov-13	OW	4.48	5.35
06-Oct-14	OW	4.66	5.50
06-Apr-15	N	8.16	8.50

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Sep 28, 2011.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
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J.P. Morgan Global Equity Research Coverage	43%	44%	13%
IB clients*	55%	49%	37%
JPMS Equity Research Coverage	44%	48%	9%
IB clients*	75%	68%	54%

*Percentage of investment banking clients in each rating category.
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	Date	Action	Rating/Designation	Ticker/ISIN
Issuer	10 May 13	Downgrade	Neutral	IAGLN
5yr CDS	10 May 13	Initiate	Neutral	—

The table(s) above show the recommendation changes made by J.P. Morgan Credit Research Analysts in the subject company and/or instruments over the past 12 months (or, if no recommendation changes were made during that period, the most recent change). Notes: Effective September 30, 2013, J.P. Morgan changed its Credit Research Ratings System. Please see the Explanation of Credit Research Ratings below for the new definitions. The previous rating system no longer should be relied upon. For the history prior to September 30, 2013, please call 1-800-447-0406 or e-mail research.disclosure.inquiries@jpmorgan.com.

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J.P.Morgan

Priceline.com

Solid 1Q Beat w/ 29% FXN Int'l Bookings Growth but Lower 2Q Profit Outlook; Recommend Buying Any Pullback, Reiterate OW

Overweight

PCLN, PCLN US

Price: $1,264.15

Price Target: $1,352.00

Internet

Doug Anmuth AC
([redacted]

Bloomberg JPMA ANMUTH <GO>

Diana R Kluger, CFA
([redacted]

James (Zhaokun) Ma
([redacted]

J.P. Morgan Securities LLC

Priceline reported better-than-expected 1Q results with 26% ex-FX gross bookings growth, 19% gross profit growth, and non-GAAP EPS of $8.12 (vs our $7.96). 2Q guidance for 15%-22% FXN gross bookings growth—driven by 17%-24% FXN growth in Int'l bookings—was in line with expectations and suggests continued strong trends despite FX. We note that the EBITDA outlook ($715M-765M) was softer than our/consensus $851M/$865M, driven by advertising spend (including lower online ROIs and spend in new markets), while non-advertising OpEx deleverage is expected to diminish in 2H15. ***We continue to be impressed by momentum in bookings growth, room nights, and property count (+40% Y/Y). We remain confident in PCLN's ability to drive further global share gains reiterate our Overweight rating. We believe the current sell-off is overdone and recommend buying the pullback in shares.*** Our EBITDA estimate goes down 3.5% in 2015 and comes up 1% in 2016, and our Dec-15 PT of $1,352.00 is based on ~20.5x 2016E PF EPS of $66.17.

- **Solid 1Q results.** Priceline reported 1Q FXN gross bookings growth of +26% Y/Y, ahead of our +22% Y/Y estimate, with Domestic bookings growth of +2.4% Y/Y and International FXN growth of +29% Y/Y, as Booking.com continues to gain share with +40% Y/Y accommodations growth in a healthy European travel environment. Room nights reached 100M+, up +25% Y/Y from +24% Y/Y in 4Q. Rental car days accelerated to +18% Y/Y from +16% in 4Q14. ADRs grew +2% Y/Y ex-FX. 1Q EBITDA of $532M (32% margin on gross profit) was 3.4% ahead of our $514M, as a strong top-line beat drove earnings, despite higher S&M spend.
- **Outlook**. 2Q guidance implies continued FXN bookings growth strength, including 15-22% FXN globally and 17-24% FXN internationally (in line with our 24% Y/Y estimate). We note that the guided FX impact on bookings growth of 1,500bps is worse than our previous expectation for ~1,154bps. 2Q EBITDA guidance of $715M-$765M was below our/consensus $851M/$865M and implies ~550bps of deleverage in non-GAAP operating margin Y/Y. However, PCLN expects non-advertising OpEx pressure on margins to significantly diminish in 2H15. ***Assumptions in PCLN's 2Q guide include 1) continued FX pressure***, including 2Q EUR rates -19% Y/Y vs. the USD and GBP -11% Y/Y, ***2) marketing spend*** assumes lower online net ROIs and increased investment in offline advertising, including rolling out campaigns in new markets, **3)** FXN ADR growth of <2% Y/Y, **4)** no substantial change to take rates, and **5)** continued declines in Name Your Own Price.

Price Performance

	YTD	1m	3m	12m
Abs	10.9%	6.7%	23.6%	8.2%
Rel	9.9%	6.7%	22.4%	-3.2%

Priceline.com (PCLN;PCLN US)

FYE Dec	2013A	2014A	2015E *(Prev)*	2015E *(Curr)*	2016E *(Prev)*	2016E *(Curr)*
EPS - Reported ($)						
Q1 (Mar)	5.76	7.81	7.96	8.12A	-	-
Q2 (Jun)	9.70	12.51	12.86	11.56	-	-
Q3 (Sep)	17.30	22.16	22.70	22.30	-	-
Q4 (Dec)	8.85	10.85	11.43	11.53	-	-
FY	41.62	53.33	54.95	53.51	64.40	66.17
Bloomberg EPS FY ($)	41.12	52.60	-	56.69	-	67.63

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	1,264.15
Date Of Price	06 May 15
52-week Range ($)	1,329.90-990.69
Market Cap ($ mn)	66,928.53
Fiscal Year End	Dec
Shares O/S (mn)	53
Price Target ($)	1,352.00
Price Target End Date	31-Dec-15

See page 9 for analyst certification and important disclosures.

What we liked:

- ***International bookings growth.*** Priceline's 1Q international FXN bookings growth of +29% was strong and above guidance for +17-24% and our +25% estimate. PCLN also provided some positive color around the health of the European market and continues to feel optimistic about its business there.

- **Solid increase in property count and vacation rentals.** Priceline ended 1Q with 635k hotels and other accommodations (+40% Y/Y) on its platform, and vacation rentals nearly doubled Y/Y to 275k instantly bookable and confirmable properties. We believe vacation rentals represent a large opportunity for PCLN over time, but it is still very early and the company is working on reaching single owners (a very different type of customer for PCLN) and balancing out the supply and demand.

- **Booking.com.** Booking.com continues to increase its worldwide supply, with over 635K hotel and other accommodations (+40% Y/Y). While the property continues to make progress in the US, we believe it is still very early. In 1Q, Booking.com launched its Booking Now mobile app for spontaneous bookers, and BookingSuite, a partner-facing software services platform.

- **Solid room night and rental car day growth.** In 1Q room nights booked were up +25% Y/Y, slightly accelerating from +24% in 4Q and rental car days grew +18% Y/Y, also accelerating from +16% in 4Q.

- **1Q adj. EBITDA upside.** 1Q EBITDA of $532M represented a 32% margin on gross profit, in line with the 32% margin in 1Q14. EBITDA came in 3.4% ahead of our $514M estimate and 8.0% ahead of the mid-point of the guide, as a strong top-line beat drove earnings despite higher S&M spend.

What concerned us:

- **2Q operating deleverage.** 2Q EBITDA guidance implies ~550bps of deleverage in non-GAAP operating margin Y/Y, driven in part by online marketing deleverage (online advertising came in at 38.5% of gross profit in 1Q15, up from 37.0% in 1Q14). Priceline expects to continue advertising investments in 2Q with a focus on L-T sustainability, though we believe the cost of growth is slowly increasing. 2Q advertising expectations include assumptions for continued pressure in online advertising net ROIs and increased offline advertising investments, including campaigns in new markets. However, we note that PCLN expects non-advertising OpEx pressure on margins to significantly diminish in 2H15.

- **Increasing competition.** We believe competition is increasing from EXPE, where PCLN 1Q global room nights growth of 25% Y/Y came in slightly below EXPE's organic ~28% Y/Y. We acknowledge that the global TAM is significant (~$1-1.3T) and both players together still represent <10%. Further, we highlight that PCLN is often setting the low bar on take rates in Europe (PCLN's commissions are typically in the teens and EXPE may sometimes be 20%+), and we expect that expect EXPE will continue to lower its own take rates going forward to be more competitive.

- ***Name Your Own Price softness.*** Priceline noted that its opaque travel business "Name Your Own Price" was once again down year over year due to limited availability of discounted rates. PCLN expects the headwind form NYOP to continue to negatively impact revenue growth rates in Q2.

Summary of the Quarter

Figure 1: Priceline 1Q Performance vs. J.P. Morgan Estimates

per share data)	1Q15		Difference (%)
	JPME	Actuals	
Gross bookings	13,580	13,776	1.4%
Domestic bookings	1,693	1,672	-1.3%
Intl bookings	11,887	12,104	1.8%
Revenue	1,823	1,841	1.0%
Gross profit	1,614	1,672	3.6%
EBITDA	514	532	3.4%
PF EPS	$7.96	$8.12	2.0%

Source: J.P. Morgan estimates, Company data.

Adjusting Estimates

Given Priceline's 1Q15 results, we are adjusting our estimates as follows:

Figure 2: Adjusting J.P. Morgan Estimates

Priceline	2Q15 JPME		3Q15 JPME		4Q15 JPME		2015 JPME		2016 JPME	
(in millions)	Old	New	Old	New	Old	New	Old	New	Old	New
Gross Bookings	14,334	14,289	14,857	15,072	11,526	11,736	54,296	54,874	64,350	65,104
Y/Y Growth	*5.9%*	*5.5%*	*7.5%*	*9.0%*	*8.1%*	*10.1%*	*7.9%*	*9.1%*	*18.5%*	*18.6%*
% change vs. old		-0.3%		1.4%		1.8%		1.1%		1.2%
Domestic Bookings	1,993	1,892	1,903	1,836	1,558	1,511	7,147	6,910	7,771	7,068
Y/Y Growth	*7.4%*	1.9%	*9.2%*	5.3%	*9.3%*	5.9%	*7.3%*	3.7%	*8.7%*	2.3%
% change vs. old		-5.1%		-3.5%		-3.1%		-3.3%		-9.0%
International Bookings	12,341	12,397	12,954	13,236	9,967	10,226	47,149	47,963	56,579	58,036
Y/Y Growth	5.6%	6.1%	7.2%	9.6%	8.0%	10.8%	8.0%	9.9%	20.0%	21.0%
% change vs. old		0.5%		2.2%		2.6%		1.7%		2.6%
Net Revenue	2,284	2,263	3,000	3,082	2,004	2,028	9,111	9,214	10,623	11,171
Y/Y Growth	*7.5%*	*6.6%*	*5.8%*	*8.7%*	*8.9%*	*10.2%*	*7.9%*	*9.1%*	*16.6%*	*21.2%*
% change vs. old		-0.9%		2.7%		1.2%		1.1%		5.2%
PF EBITDA	851	758	1,482	1,431	749	729	3,597	3,450	4,292	4,337
Y/Y Growth	*5.2%*	*-6.4%*	*3.7%*	*0.1%*	*5.2%*	*2.5%*	*3.8%*	*-0.4%*	*19.3%*	*25.7%*
Margin on Gross Profit (%)	*41.9%*	*37.7%*	*53.4%*	*50.1%*	*41.2%*	*39.6%*	*43.7%*	*41.2%*	*44.7%*	*42.9%*
% change vs. old		-11.0%		-3.5%		-2.6%		-4.1%		1.0%
PF EPS	**$12.86**	**$11.56**	**$22.70**	**$22.30**	**$11.43**	**$11.53**	**$54.95**	**$53.51**	**$64.40**	**$66.17**
Y/Y Growth	*2.8%*	*-7.6%*	*2.5%*	*0.6%*	*5.3%*	*6.3%*	*3.0%*	*0.3%*	*17.2%*	*23.7%*
% change vs. old		-10.1%		-1.8%		0.9%		-2.6%		2.8%

Source: J.P. Morgan estimates.

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Investment Thesis, Valuation and Risks

Priceline.com *(Overweight; Price Target: $1,352.00)*

Investment Thesis

We continue to believe Priceline is the best-positioned company in the online travel space and will continue to gain share in international markets. We look for strong International bookings growth in 2015, driven by Booking.com, Agoda, KAYAK and Rentalcars.com, along with a more stable European macro environment. We believe there is still meaningful room for European hotel share gains, as Booking.com likely has ~10%+ of total European hotel nights, and we look for greater contribution from high-growth opportunities in LatAm and APAC.

Valuation

We remain Overweight with a year-end 2015 price target of $1,352 per share. We believe Priceline deserves a higher multiple that reflects the underlying momentum in the business, as the reported EPS numbers are impacted by unfavorable FX impact. Our price target of $1,352 is based on 20.5x our 2016E PF EPS of $66.17, which we believe is reasonable given a 2014-17E PF EPS CAGR of 16%. We expect Priceline to trade at a premium to its OTA peers given its higher growth profile and our forecast for margin expansion. Priceline continues to gain material share of the hotel reservations business, particularly through Booking.com in Europe, APAC, and in the U.S., and is expected to be a primary beneficiary of an improving global travel market.

Risks to Rating and Price Target

Downside risks. Priceline shares could underperform other companies in our coverage universe if 1) international bookings growth decelerates dramatically; 2) Priceline is pressured by competition from other OTAs or suppliers; 3) marketing costs increase due to competition; 4) Priceline is unable to obtain supply of inventory; and 5) macro or security-related risks impact the overall travel environment.

Figure 3: Priceline Income Statement

	2013A	3/14A	6/14A	9/14A	12/14A	2014A	3/15A	6/15E	9/15E	12/15E	2015E	2016E
Gross Bookings	**39,172**	**12,280**	**13,538**	**13,823**	**10,659**	**50,300**	**13,776**	**14,289**	**15,072**	**11,736**	**54,874**	**65,104**
Revenue margin	17.3%	13.4%	15.7%	20.5%	17.3%	16.8%	13.4%	15.8%	20.4%	17.3%	16.8%	17.2%
Total Revenues	**6,793**	**1,642**	**2,124**	**2,836**	**1,840**	**8,442**	**1,841**	**2,263**	**3,082**	**2,028**	**9,214**	**11,171**
Cost of Revenues	1,077	235	241	217	165	858	168	253	228	189	839	1,061
Gross Profit	**5,716**	**1,406**	**1,883**	**2,620**	**1,675**	**7,584**	**1,672**	**2,009**	**2,854**	**1,840**	**8,375**	**10,110**
Operating expenses:												
Advertising - offline	127	53	58	72	48	231	64	84	97	63	307	354
Advertising - online	1,799	521	640	700	500	2,360	643	718	822	580	2,763	3,296
% of total spent online	93.4%	90.7%	91.7%	90.7%	91.2%	91.1%	91.0%	89.5%	89.5%	90.2%	90.0%	90.3%
Total advertising	1,926	574	698	771	548	2,592	707	803	919	642	3,070	3,650
Sales and marketing	236	64	75	86	85	311	82	84	97	96	359	425
Personnel	558	156	187	213	208	764	205	217	248	234	904	1,062
General and administrative	253	73	91	98	91	353	100	113	123	105	440	516
Information technology	72	23	24	25	25	97	25	30	31	29	116	121
Stock compensation expense	141	39	35	46	66	186	54	46	63	81	244	283
Depreciation & amortization	118	38	40	58	72	208	65	61	62	76	264	291
Total operating expenses	3,303	968	1,150	1,297	1,096	4,511	1,238	1,354	1,542	1,263	5,397	6,347
GAAP Operating income (loss)	**2,412**	**439**	**733**	**1,322**	**579**	**3,073**	**434**	**656**	**1,312**	**577**	**2,978**	**3,763**
PF Operating income (loss)	**2,586**	**478**	**768**	**1,368**	**645**	**3,259**	**515**	**702**	**1,374**	**658**	**3,249**	**4,046**
Total other income (expense)	(116)	(23)	(17)	(17)	(27)	(74)	(27)	(48)	(48)	(48)	(170)	(151)
Earnings (loss) before taxes & minority interes	2,297	416	716	1,305	552	2,998	407	608	1,264	529	2,808	3,612
Income tax benefit (expense)	(404)	(85)	(139)	(243)	(100)	(568)	(74)	(109)	(227)	(95)	(506)	(651)
Effective tax rate	17.6%	20.4%	19.5%	18.6%	18.2%	18.9%	18.2%	18.0%	18.0%	18.0%	18.0%	18.0%
Equity in income/(loss) of investees & minor	(0)	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	1,893	331	576	1,062	452	2,431	333	498	1,036	434	2,302	2,961
Pref. stock div./Net inc. attr. to non-controlli	-	-					-					
GAAP Net Income (loss)	**$1,893**	**$331**	**$576**	**$1,062**	**$452**	**$2,431**	**$333**	**$498**	**$1,036**	**$434**	**$2,302**	**$2,961**
GAAP Net Income (loss) per share - Diluted	**$36.16**	**$6.25**	**$10.89**	**$20.03**	**$8.56**	**$45.91**	**$6.36**	**$9.51**	**$19.77**	**$8.28**	**$43.92**	**$56.22**
Weighted average common shares:												
GAAP Basic	50.9	52.2	52.4	52.4	52.2	52.3	51.9	51.9	51.9	51.9	51.9	52.2
GAAP Diluted	52.3	53.0	53.0	53.0	52.8	52.9	52.4	52.4	52.4	52.4	52.4	52.7
PF Adjusted Net Income (loss)	**2,197**	**416**	**667**	**1,183**	**577**	**2,843**	**429**	**607**	**1,166**	**600**	**2,801**	**3,502**
PF Adjusted Diluted EPS	**$41.62**	**$7.81**	**$12.51**	**$22.16**	**$10.85**	**$53.33**	**$8.12**	**$11.56**	**$22.30**	**$11.53**	**$53.51**	**$66.17**
PF Adjusted diluted shares outstanding	53	53	53	53	53	53	53	53	52	52	52	53
Pro Forma EBITDA	**2,682**	**513**	**809**	**1,429**	**712**	**3,464**	**532**	**758**	**1,431**	**729**	**3,450**	**4,337**
	2013A	**3/14A**	**6/14A**	**9/14A**	**12/14A**	**2014A**	**3/15A**	**6/15E**	**9/15E**	**12/15E**	**2015E**	**2016E**
Y/Y GROWTH												
Gross Bookings	***37.7%***	***34.2%***	***33.8%***	***28.4%***	***16.7%***	***28.4%***	***12.2%***	***5.5%***	***9.0%***	***10.1%***	***9.1%***	***18.6%***
Revenue	***29.1%***	***26.1%***	***26.4%***	***24.9%***	***19.4%***	***24.3%***	***12.1%***	***6.6%***	***8.7%***	***10.2%***	***9.1%***	***21.2%***
Cost of revenues	*-8.5%*	*-19.5%*	*-18.8%*	*-22.9%*	*-20.4%*	*-20.4%*	*-28.4%*	*5.3%*	*5.3%*	*14.0%*	*-2.2%*	*26.6%*
Gross profit	***40.0%***	***39.3%***	***36.1%***	***31.7%***	***25.6%***	***32.7%***	***18.9%***	***6.7%***	***8.9%***	***9.9%***	***10.4%***	***20.7%***
Advertising - Offline	*259.1%*	92.8%	*80.6%*	*79.5%*	*74.0%*	*81.5%*	*18.9%*	*45.0%*	*35.0%*	*30.0%*	*32.7%*	*15.2%*
Advertising - Online	*41.2%*	29.2%	*38.1%*	*31.3%*	*25.2%*	*31.2%*	23.5%	*12.3%*	*17.4%*	*15.9%*	*17.1%*	*19.3%*
Delta between online ad growth and GP	*1.3%*	-10.1%	*2.0%*	*-0.4%*	*-0.4%*	*-1.5%*	*4.6%*	*5.6%*	*8.5%*	*6.1%*	*6.6%*	*-1.4%*
Total Advertising	*47.1%*	*33.3%*	*40.9%*	*34.6%*	*28.4%*	*34.5%*	*23.1%*	*15.0%*	*19.1%*	*17.2%*	*18.5%*	*18.9%*
Sales and marketing expense	*20.4%*	*23.1%*	*25.4%*	*31.9%*	*46.3%*	*31.8%*	*27.4%*	*12.5%*	*12.7%*	*11.9%*	*15.5%*	*18.3%*
Personnel	*41.2%*	*38.4%*	*42.2%*	*40.5%*	*28.0%*	*36.8%*	*31.6%*	*16.3%*	*16.4%*	*12.3%*	*18.4%*	*17.4%*
General & administrative expense	*46.1%*	*45.5%*	*40.3%*	*55.1%*	*21.6%*	*39.5%*	*37.3%*	*23.6%*	*25.3%*	*15.3%*	*24.8%*	*17.1%*
Information technology expense	*64.6%*	*75.6%*	*41.8%*	*33.8%*	*9.7%*	*35.6%*	*9.2%*	*25.4%*	*26.6%*	*14.4%*	*19.0%*	*4.6%*
Total Operating expense	*46.6%*	*38.3%*	*38.7%*	*37.7%*	*31.6%*	*36.5%*	*28.0%*	*17.7%*	*18.9%*	*15.2%*	*19.6%*	*17.6%*
PF Operating Income	*32.7%*	*40.1%*	*30.3%*	*25.6%*	*13.8%*	*26.0%*	*7.8%*	*-8.6%*	*0.4%*	*2.0%*	*-0.3%*	*24.5%*
PF Adjusted Net Income	*36.3%*	*40.1%*	*31.3%*	*28.5%*	*22.4%*	*29.4%*	*2.9%*	*-9.0%*	*-1.4%*	*4.0%*	*-1.5%*	*25.0%*
PF Adjusted EPS (diluted)	***33.0%***	***35.5%***	***29.0%***	***28.1%***	***22.5%***	***28.1%***	***3.9%***	***-7.6%***	***0.6%***	***6.3%***	***0.3%***	***23.7%***
EBITDA	***35.9%***	***39.4%***	***30.3%***	***28.3%***	***23.1%***	***29.2%***	***3.6%***	***-6.4%***	***0.1%***	***2.5%***	***-0.4%***	***25.7%***

Source: J.P. Morgan estimates, Company data.

Doug Anmuth
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Figure 4: Priceline Revenue Analysis

	2013A	3/14A	6/14A	9/14A	12/14A	2014A	3/15A	6/15E	9/15E	12/15E	2015E	2016E
Gross Bookings by Geography												
Domestic Bookings	5,873	1,637	1,856	1,743	1,426	6,662	1,672	1,892	1,836	1,511	6,910	7,068
Y/Y growth	15.5%	19.5%	20.7%	9.9%	3.4%	13.4%	2.1%	1.9%	5.3%	5.9%	3.7%	2.3%
Q/Q growth		18.7%	13.4%	-6.1%	-18.2%		17.3%	13.1%	-3.0%	-17.7%		
% of total bookings	15.0%	13.3%	13.7%	12.6%	13.4%	13.2%	12.1%	13.2%	12.2%	12.9%	12.6%	10.9%
International Bookings	33,299	10,643	11,682	12,080	9,233	43,638	12,104	12,397	13,236	10,226	47,963	58,036
Y/Y growth	42.5%	36.7%	36.2%	31.6%	19.0%	31.0%	13.7%	6.1%	9.6%	10.8%	9.9%	21.0%
Y/Y growth, ex-FX impact	42.5%	38.0%	35.0%	32.0%	27.0%	33.0%	29.0%	25.0%	25.0%	24.0%	25.8%	21.0%
Q/Q growth		37.2%	9.8%	3.4%	-23.6%		31.1%	2.4%	6.8%	0.0%		
% of total bookings	85.0%	86.7%	86.3%	87.4%	86.6%	86.8%	87.9%	86.8%	87.8%	87.1%	87.4%	89.1%
Total Gross Bookings	39,172	12,280	13,538	13,823	10,659	50,300	13,776	14,289	15,072	11,736	54,874	65,104
Y/Y growth	37.7%	34.2%	33.8%	28.4%	16.7%	28.4%	12.2%	5.5%	9.0%	10.1%	9.1%	18.6%
Y/Y growth, ex-FX impact	37.6%	35.2%	32.8%	28.7%	23.4%	30.1%	25.4%	21.8%	22.5%	21.6%	22.8%	18.6%
Q/Q growth		34.4%	10.2%	2.1%	-22.9%		29.2%	3.7%	5.5%	-22.1%		
Gross Bookings by Agency/Merchant												
Agency Bookings	32,672	10,516	11,581	11,821	8,974	42,892	11,908	12,247	12,923	9,865	46,943	55,803
Y/Y growth	40.3%	37.5%	37.5%	31.0%	18.5%	31.3%	13.2%	5.8%	9.3%	9.9%	9.4%	18.9%
Q/Q growth		38.8%	10.1%	2.1%	-24.1%		32.7%	2.9%	5.5%	-23.7%		
% of total bookings	83.4%	85.6%	85.5%	85.5%	84.2%	85.3%	86.4%	85.7%	85.7%	84.1%	85.5%	85.7%
Merchant Bookings	6,501	1,764	1,957	2,002	1,685	7,408	1,867	2,042	2,149	1,872	7,930	9,301
Y/Y growth	25.7%	17.2%	15.7%	14.9%	7.9%	14.0%	5.8%	4.3%	7.3%	11.1%	7.1%	17.3%
Q/Q growth		12.9%	10.9%	2.3%	-15.8%		10.8%	9.4%	5.3%	-12.9%		
% of total bookings	16.6%	14.4%	14.5%	14.5%	15.8%	14.7%	13.6%	14.3%	14.3%	15.9%	14.5%	14.3%
Total Gross Bookings	39,173	12,280	13,538	13,823	10,659	50,300	13,776	14,289	15,072	11,736	54,874	65,104
Y/Y growth	37.7%	34.2%	33.8%	28.4%	16.6%	28.4%	12.2%	5.5%	9.0%	10.1%	9.1%	18.6%
Q/Q growth		34.4%	10.2%	2.1%	-22.9%		29.2%	3.7%	5.5%	-22.1%		
Revenue by Agency/Merchant												
Agency Revenue	4,411	1,041	1,474	2,099	1,231	5,845	1,199	1,527	2,289	1,410	6,425	7,785
Y/Y growth	40.3%	35.2%	38.5%	33.1%	23.1%	32.5%	15.2%	3.6%	9.0%	14.6%	9.9%	21.2%
Q/Q growth		4.1%	41.6%	42.4%	-41.4%		-2.5%	27.3%	49.9%	-38.4%		
As % of Agency bookings	13.5%	9.9%	12.7%	17.8%	13.7%	13.6%	10.1%	12.5%	17.7%	14.3%	13.7%	14.0%
% of total revenue	64.9%	63.4%	69.4%	74.0%	66.9%	69.2%	65.2%	67.5%	74.3%	69.5%	69.7%	69.7%
Merchant Revenue	2,211	527	567	614	478	2,194	495	572	616	474	2,230	2,375
Y/Y growth	5.1%	-0.3%	-2.2%	-1.2%	-0.7%	-0.8%	-6.1%	0.8%	0.4%	-0.9%	1.6%	6.5%
Q/Q growth		9.4%	7.6%	8.2%	-22.0%		3.4%	15.6%	7.7%	-23.0%		
As % of Merchant bookings	34.0%	29.9%	29.0%	30.6%	28.4%	29.6%	26.5%	28.0%	28.7%	25.3%	28.1%	25.5%
% of total revenue	32.6%	32.1%	26.7%	21.6%	26.0%	26.0%	26.9%	25.3%	20.0%	23.4%	24.2%	21.3%
Advertising/Kayak/ Other (excl OPEN)	171	74	82	82	72	310	147	164	177	144	632	1,011
Y/Y growth	1178.1%	1992.6%	131.6%	13.5%	21.0%	81.2%	99.1%	100.0%	115.0%	100.0%	103.8%	60.0%
Q/Q growth		23.4%	11.2%	0.5%	-12.3%		103.2%	11.7%	8.0%	-18.4%		
% of total revenue	2.5%	4.5%	3.9%	2.9%	3.9%	3.7%	8.0%	7.2%	5.7%	7.1%	6.9%	9.1%
Total Revenue	6,793	1,642	2,124	2,836	1,840	8,442	1,841	2,263	3,082	2,028	9,214	11,171
Y/Y growth	29.1%	26.1%	26.4%	24.9%	19.4%	24.3%	12.1%	6.6%	8.7%	10.2%	9.1%	21.2%
Q/Q growth		6.5%	29.3%	33.6%	-35.1%		0.0%	22.9%	36.2%	-34.2%		
Revenue by Geography												
Domestic Revenue (estimate)	1,749	432	524	536	505	1,997	473	579	547	495	2,094	2,367
Y/Y growth	2.7%	5.8%	9.0%	14.1%	29.2%	14.2%	9.6%	10.6%	2.0%	-2.1%	4.9%	13.0%
Q/Q growth		10.4%	21.3%	2.4%	-5.7%		-6.3%	22.3%	-5.6%	-9.4%		
Take Rate of Domestic bookings	29.8%	26.4%	28.2%	30.8%	35.4%	30.0%	28.3%	30.6%	29.8%	32.8%	30.3%	33.5%
% of Total revenue	25.8%	26.3%	24.7%	18.9%	27.5%	23.7%	25.7%	25.6%	17.7%	24.4%	22.7%	21.2%
International	5,044	1,210	1,600	2,300	1,335	6,445	1,367	1,684	2,535	1,533	7,120	8,804
Y/Y growth	41.8%	35.3%	33.3%	27.8%	16.1%	27.8%	13.0%	5.3%	10.2%	14.9%	10.5%	23.7%
Y/Y growth, ex-FX impact	39.8%	37.0%	34.0%	27.1%	16.1%	28.0%	28.0%	5.3%	10.2%	14.9%	10.5%	23.7%
Q/Q growth		5.2%	32.2%	43.8%	-42.0%		2.4%	23.2%	50.5%	-39.5%		
Take Rate of Int'l bookings	15.1%	11.4%	13.7%	19.0%	14.5%	14.8%	11.3%	13.6%	19.2%	15.0%	14.8%	15.2%
% of revenue	74.2%	73.7%	75.3%	81.1%	72.5%	76.3%	74.3%	74.4%	82.3%	75.6%	77.3%	78.8%
Total Revenue	6,793	1,642	2,124	2,836	1,840	8,442	1,841	2,263	3,082	2,028	9,214	11,171
Y/Y growth	29.1%	26.1%	26.4%	24.9%	19.4%	24.3%	12.1%	6.6%	8.7%	10.2%	9.1%	21.2%
Y/Y growth, ex-FX impact	27.8%	27.2%	26.9%	24.4%	19.4%	24.4%	23.2%	6.6%	8.7%	10.2%	9.1%	21.2%
Q/Q growth		6.5%	29.3%	33.6%	-35.1%		0.0%	22.9%	36.2%	-34.2%		

Source: J.P. Morgan estimates, Company data.

Priceline.com: Summary of Financials

Income Statement - Annual	FY14A	FY15E	FY16E	FY17E	Income Statement - Quarterly	1Q15A	2Q15E	3Q15E	4Q15E
Revenues	8,442	9,214	11,171	-	Revenues	1,841A	2,263	3,082	2,028
Operating income	3,073	2,978	3,762	-	Operating income	434A	656	1,312	577
D&A	208	264	291	-	D&A	65A	61	62	76
EBITDA	3,281	3,242	4,054	-	EBITDA	499A	717	1,373	653
Net interest income / (expense)	(74)	(151)	(151)	-	Net interest income / (expense)	(22)A	(43)	(43)	(43)
Other income / (expense)	(74)	(170)	(151)	-	Other income / (expense)	(27)A	(48)	(48)	(48)
Pretax income	2,998	2,808	3,611	-	Pretax income	407A	608	1,264	529
Income taxes	(568)	(506)	(651)	-	Income taxes	(74)A	(109)	(227)	(95)
Net Income	2,431	2,302	2,961	-	Net Income	333A	498	1,036	434
Weighted average diluted shares	53	52	53	-	Weighted average diluted shares	53A	53	52	52
Diluted EPS	53.33	53.51	66.17	-	Diluted EPS	8.12A	11.56	22.30	11.53
Balance Sheet and Cash Flow Data	**FY14A**	**FY15E**	**FY16E**	**FY17E**	**Ratio Analysis**	**FY14A**	**FY15E**	**FY16E**	**FY17E**
Cash and cash equivalents	3,149	5,169	8,637	-	Sales growth	24.3%	9.1%	21.2%	-
Accounts receivable	644	721	979	-	EBITDA growth	29.2%	(0.4%)	17.5%	-
Other current assets	333	625	625	-	EPS growth	28.1%	0.3%	23.7%	-
Current assets	5,267	7,895	11,621	-					
PP&E	199	202	181	-	EBITDA margin	41.0%	37.4%	36.3%	-
Total assets	14,941	18,585	22,054	-	Net margin	33.7%	30.4%	31.3%	-
Total debt	1,144	5,304	5,304	-	Debt / EBITDA	0.3	1.5	1.3	-
Total liabilities	6,374	8,162	8,676	-					
Shareholders' equity	8,567	10,423	13,378	-	Return on assets (ROA)	22.4%	16.7%	17.2%	-
					Return on equity (ROE)	36.7%	29.5%	29.4%	-
Net Income (including charges)	2,422	2,302	2,961	-					
D&A	208	264	291	-	Enterprise value / EBITDA	19.9	19.4	15.7	-
Change in working capital	(25)	(491)	(27)	-	Enterprise value / Free cash flow	24.2	28.1	17.7	-
Other	-	-	-	-	P/E	27.7	28.8	22.6	-
Cash flow from operations	2,914	2,358	3,569	-					
Capex	(132)	(92)	(101)	-					
Free cash flow	2,843	2,390	3,592	-					
Cash flow from investing activities	(2,349)	(1,202)	(101)	-					
Cash flow from financing activities	1,429	1,214	0	-					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

EFTA01103720

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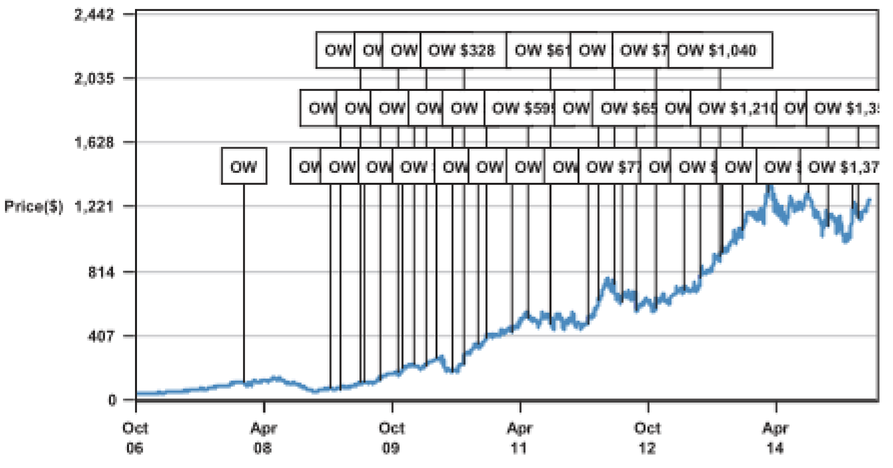
Priceline.com (PCLN, PCLN US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jan 02, 2008.

Date	Rating	Share Price ($)	Price Target ($)
02-Jan-08	OW	115.24	-
05-Jan-09	OW	75.00	86.00
19-Feb-09	OW	68.74	91.00
12-May-09	OW	108.88	120.00
05-Jun-09	OW	116.32	135.00
10-Aug-09	OW	131.32	179.00
27-Oct-09	OW	171.98	210.00
10-Nov-09	OW	204.22	216.00
04-Jan-10	OW	223.96	260.00
18-Feb-10	OW	212.87	263.00
07-Apr-10	OW	259.81	300.00
09-Jun-10	OW	176.73	280.00
04-Aug-10	OW	230.67	328.00
30-Sep-10	OW	348.13	413.00
09-Nov-10	OW	388.58	484.00
24-Feb-11	OW	425.99	496.00
06-May-11	OW	519.03	599.00
04-Aug-11	OW	483.34	610.00
05-Aug-11	OW	527.81	682.00
13-Jan-12	OW	482.43	672.00

28-Feb-12	OW	632.76	730.00
07-May-12	OW	736.06	810.00
06-Jun-12	OW	619.83	770.00
08-Aug-12	OW	562.32	650.00
02-Nov-12	OW	586.10	740.00
27-Feb-13	OW	695.91	835.00
10-May-13	OW	765.41	830.00
05-Aug-13	OW	908.36	1040.00
09-Aug-13	OW	933.75	1130.00
08-Nov-13	OW	1073.20	1210.00
21-Feb-14	OW	1315.65	1450.00
11-Aug-14	OW	1309.28	1575.00
04-Nov-14	OW	1097.70	1225.00
19-Feb-15	OW	1218.05	1375.00
18-Mar-15	OW	1153.57	1352.00

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IB clients*	55%	49%	37%
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*Percentage of investment banking clients in each rating category.
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North America Equity Research
19 May 2015

TripAdvisor, Inc.

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Neutral

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TripAdvisor, Inc. Steve Kaufer, CEO, presented today at our J.P. Morgan Global Technology, Media and Telecom Conference. Key takeaways:

- **Instant Book progress.** TRIP noted that Instant Book has been fully rolled out to U.S. mobile users and currently includes 70+ connectivity partners, but acknowledges that the pace of adoption has been somewhat mixed and that challenge remains with persuading large hotel chains and OTAs. Management pointed to the reluctance among some large chains to accept TRIP as another distribution channel with the current offer, though it expects negotiations to continue as TRIP rolls out IB. Management also believes that, although TRIP welcomes the potential adoption by large OTAs, Instant Book can be successful without their presence as TRIP believes it can get a similar properties footprint through other partners. Kaufer acknowledged that his initial expectation for the time for securing major chains may have been aggressive, but not in his view for how the product would work over time.

- **Hotel shoppers.** Management was pleased with the strong 26% Y/Y hotel shopper growth in 1Q15, but indicated it came off a large base and may be difficult to sustain going forward. However, management noted that the mobile shopper tailwind has been particularly strong. TRIP also explained that top line can still be healthy without the mid-20s hotel shopper growth as it focuses on monetizing its existing shopper base further down the funnel.

- **Pricing and auction bidding.** As TRIP laps the meta search benefits, management expects to roll out new products over time to enhance pricing and conversion. TRIP notes that it is still early in working to improve search personalization to support higher booking conversion and auction pricing. Management discussed that hotel auction bids are usually lower than those from large OTAs, since hotels lack the ability to cross-sell different properties. TRIP believes that IB could help to change the dynamics by increasing conversion on hotel properties and provide a higher value (and in turn price) per bid.

- **Opportunities around other travel verticals.** TRIP highlighted its optimism around the restaurant and attraction opportunities with its recent acquisitions of LaFourchette and Viator. Management believes that LaFourchette is well positioned to capture the European online restaurant bookings market while Viator could become a major OTA for attractions, where competition is nascent and supply is highly fragmented.

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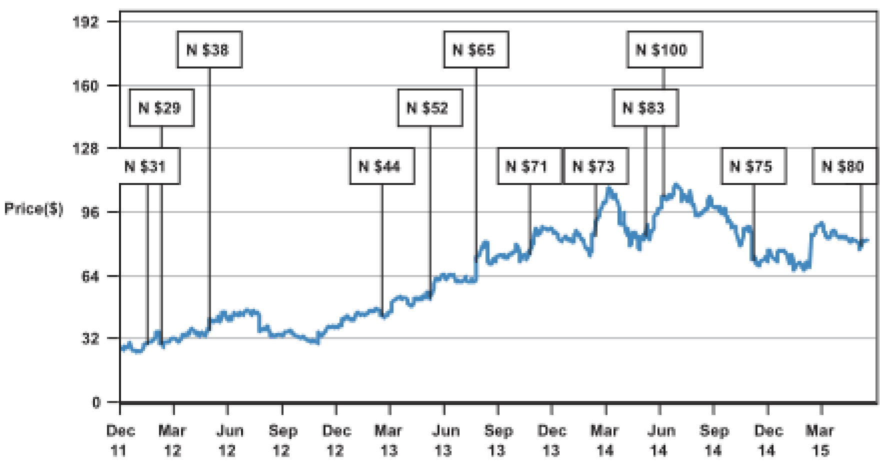
TripAdvisor, Inc. (TRIP, TRIP US) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
18-Jan-12	N	29.03	31.00
09-Feb-12	N	29.34	29.00
02-May-12	N	36.53	38.00
14-Feb-13	N	43.55	44.00
08-May-13	N	52.49	52.00
25-Jul-13	N	71.10	65.00
24-Oct-13	N	74.85	71.00
12-Feb-14	N	84.20	73.00
07-May-14	N	83.99	83.00
06-Jun-14	N	104.05	100.00
05-Nov-14	N	71.95	75.00
07-May-15	N	78.47	80.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jan 18, 2012.

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J.P. Morgan Global Equity Research Coverage	43%	44%	13%
IB clients*	55%	49%	37%
JPMS Equity Research Coverage	44%	48%	9%
IB clients*	75%	68%	54%

*Percentage of investment banking clients in each rating category.
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"Other Disclosures" last revised March 28, 2015.

Accor

Pace, breadth, and depth of restructuring improving

Overweight

ACCP.PA, AC FP

Price: €49.33

Price Target: €54.00

Accor today announced the sale and franchise-back of 29 hotels in Germany and the Netherlands to Event Hotels, one of its existing fanchisees. The selling price of €209m amounts to €62k/room, which is in the range of previous Ibis/Mercure transactions and in line with the combined carrying amount of c.€206m. This acceleration of the restructuring should be taken positively by the market, in our view.

- **Pace.** Recall that Accor's Q115 revenue release on 16th April showed a relatively slow start to the year in terms of restructuring, with only 10 hotels restructured at the time vs a target of 100 for FY15.
- **Breadth.** This is the first material sale and franchise-back deal under CEO Sebastien Bazin and, in our view, confirms the breadth of options being evaluated by management and their agnostic/opportunistic approach to restructuring. Recall that Accor initially considered a total of 600 hotels in its portfolio for restructuring.
- **Depth.** Note that 27 of the 29 hotels sold today were acquired in June 2014 as part of a deal with Moor Park, where Accor bought back properties previously operated under lease contracts. These hotels were classified as held for sale with carrying amounts of €125m (Germany) and €81m (Netherlands). An MGallery property in Zurich acquired as part of another 2014 portfolio deal with Axa had already been sold-and-managed back earlier this year for €32m vs a carrying amount of €25m. Accor's ability to quickly churn those assets is very supportive, in our view.
- **Valuation.** Accor currently trades on a CY16e P/E of 20.8x vs European hotel peers on 20.6x, and on a CY15e EV/EBITDA of 9.9x vs peers on 11.7x. Our DCF Apr-16 PT indicates 10% upside potential to the current share price.

European Beverages, Hotels & Leisure

Jaafar Mestari AC
[redacted]

Bloomberg JPMA MESTARI <GO>

Mike J Gibbs
[redacted]

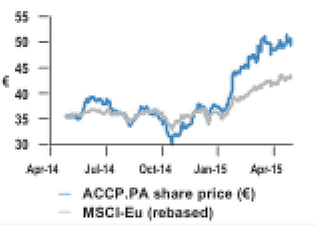
J.P. Morgan Securities plc

For Specialist Sales advice, please contact:

Helena C Sykes
[redacted]

Sophie L Warrick
[redacted]

Price Performance



	YTD	1m	3m	12m
Abs	32.1%	1.3%	12.6%	39.8%
Rel	13.7%	-0.2%	2.8%	18.6%

With this note we transfer coverage of Accor to Jaafar Mestari

Accor SA (ACCP.PA;AC FP)

FYE Dec	2014A	2015E	2016E	2017E
Adj.EPS FY (€)	1.89	2.02	2.37	2.73
Bloomberg EPS FY (€)	1.59	1.83	2.12	2.36
Adj.P/E FY	26.1	24.5	20.8	18.1
Revenue FY (€ mn)	5,454	5,751	6,283	6,729
EBITDA FY (€ mn)	923	1,050	1,189	1,323
EBIT FY (€ mn)	602	701	812	923
Net Income FY (€ mn)	223	466	548	632
DPS FY (€)	0.95	1.06	1.19	1.36

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price (€)	49.33
Date Of Price	28 Apr 15
Price Target (€)	54.00
Price Target End Date	28-Feb-16
52-week Range (€)	51.65-28.87
Market Cap (€ mn)	11,228.17
Shares O/S (mn)	228

See page 4 for analyst certification and important disclosures, including non-US analyst disclosures.

Investment Thesis, Valuation and Risks

Accor *(Overweight; Price Target: €54.00)*

Investment Thesis

Accor generates c.60% of group EBIT from the Eurozone, where Real RevPAR remains close to trough levels. In our view, it is well placed to benefit from any upswing in European GDP growth and any improvement could drive upgrades to our undemanding RevPAR growth forecasts for FY15/16 of 4%/5% (following 4% in FY14).

In time, we see further upside as the company continues with its asset restructuring strategy, cleaning up its asset-heavy HotelInvest division. We see 16% upside to our FY17 EBIT forecast and 5% upside to our FY17e EPS from the restructuring, which we believe could also drive a further re-rating by significantly improving profitability and reducing cyclicality and the cost of expansion. We remain OW.

Valuation

Our DCF-derived Apr-16 Price Target is €54. We use a WACC of 7.6%, 4.0% medium-term growth, 2.0% terminal growth, flat margins at 14.2% after 2018e, and fade our capex in line with depreciation in the terminal period (vs 1.4x higher in FY16e).

Risks to Rating and Price Target

The key risks are:

- **European economic recovery.** The biggest risk to our estimates and rating is macro-related, i.e. the recovery in hotel demand in the short term is related to the GDP cycle in Europe, particularly France. Our forecasts assume an acceleration in RevPar growth from 2015 to 2016, and a downturn would have significant negative implications for RevPAR.
- **Restructuring.** Accor's management has provided only very limited targets for the asset restructuring programme, so our scenario analysis of it is heavily based on our assumptions. If these prove to be incorrect, or if management does not succeed in carrying out the restructuring, this could be disappointing.
- **Disclosure.** Among the asset-light hotel stocks covered by J.P. Morgan and which we use as valuation benchmarks, there are several differences in the way in which income from franchisees and hotel owners is accounted for (particularly around contributions for capex and the loyalty programme). This somewhat limits visibility on a possible post-restructuring valuation for Accor.

Accor: Summary of Financials

Profit and Loss Statement					
€ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Revenues	5,425	5,454	5,751	6,283	6,729
% change Y/Y	(4.0%)	0.5%	5.4%	9.3%	7.1%
EBITDA	846	923	1,050	1,189	1,323
% change Y/Y	(0.5%)	9.1%	13.8%	13.2%	11.3%
EBITDA Margin (%)	15.6%	16.9%	18.3%	18.9%	19.7%
EBIT	521	602	701	812	923
% change Y/Y	(1.0%)	15.5%	16.5%	15.8%	13.7%
EBIT Margin (%)	9.6%	11.0%	12.2%	12.9%	13.7%
Net Interest	(90)	(52)	(59)	(55)	(49)
Earnings before tax	256	419	671	785	902
% change Y/Y	7.1%	63.7%	60.1%	17.0%	14.9%
Tax	(120)	(175)	(188)	(220)	(253)
as % of EBT	46.9%	41.8%	28.0%	28.0%	28.0%
Net Income (Analyst)	126	223	466	548	632
% change Y/Y	55.6%	77.0%	109.0%	17.7%	15.3%
Shares Outstanding	228	230	231	231	232
EPS (Analyst)	1.59	1.89	2.02	2.37	2.73
% change Y/Y	5.1%	18.5%	6.8%	17.5%	15.2%

Cash flow statement					
€ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
EBIT	521	602	701	812	923
Depreciation & amortization	325	321	349	377	400
Change in working capital	136	103	41	73	61
Taxes	-	-	-	-	-
Other operating cash flows	187	189	(11)	(11)	(11)
Cash Flow from Operations	843	870	845	988	1,083
Capex	(454)	(1,575)	(507)	(534)	(542)
Net Interest	(90)	(52)	(59)	(55)	(49)
Free Cash Flow	771	(547)	380	494	577
Disposal/(purchase)	334	128	0	0	0
Equity raised	13	993	0	0	0
Equity repaid	-	-	-	-	-
Debt raised					-
Debt repaid	(129)	716	(108)	(197)	(255)
Other	(227)	37	0	0	0
Dividends Paid	(187)	(197)	(219)	(246)	(276)
DPS	0.80	0.95	1.06	1.19	1.36

Balance sheet					
€ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Cash and cash equivalent	1,910	2,677	2,677	2,677	2,677
Others	519	475	500	545	583
Current Assets	2,893	3,613	3,662	3,751	3,825
Intangible assets	-	-	-	-	-
Net Fixed Assets	2,731	3,440	3,598	3,754	3,896
Total Assets	7,016	8,755	8,962	9,207	9,422
Liabilities					
ST Loans	496	82	82	82	82
Others	964	966	1,019	1,113	1,192
Total Current Liabilities	2,071	1,738	1,828	1,990	2,125
Long Term Debt	1,718	2,784	2,445	2,247	1,993
Other Liabilities	471	366	366	366	366
Total Liabilities	4,260	4,888	4,639	4,603	4,484
Shareholders' Equity	2,539	3,654	4,110	4,391	4,725

Ratio Analysis					
€ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
EBITDA Margin (%)	15.6%	16.9%	18.3%	18.9%	19.7%
EBIT Margin (%)	9.6%	11.0%	12.2%	12.9%	13.7%
Net Profit Margin (%)	6.7%	8.0%	8.1%	8.7%	9.4%
Dividend payout	144.5%	98.1%	52.7%	50.3%	49.8%
Capex/sales	8.4%	28.9%	8.8%	8.5%	8.0%
Capex/Depreciation	1.4	4.9	1.5	1.4	1.4
Net Working Capital/Sales	0.2	0.3	0.3	0.3	0.3
Interest Coverage (x)	9.4	17.8	17.9	21.7	27.0
Net Debt/EBITDA	0.4	0.2	-0.1	-0.3	-0.5
Net Debt to Equity	11.0%	4.9%	(3.5%)	(7.5%)	(12.2%)
Sales/Total Assets	0.7	0.7	0.6	0.7	0.7
ROCE	7.8%	6.2%	7.7%	8.8%	9.8%

Source: Company reports and J.P. Morgan estimates.

Jaafar Mestari
[redacted]

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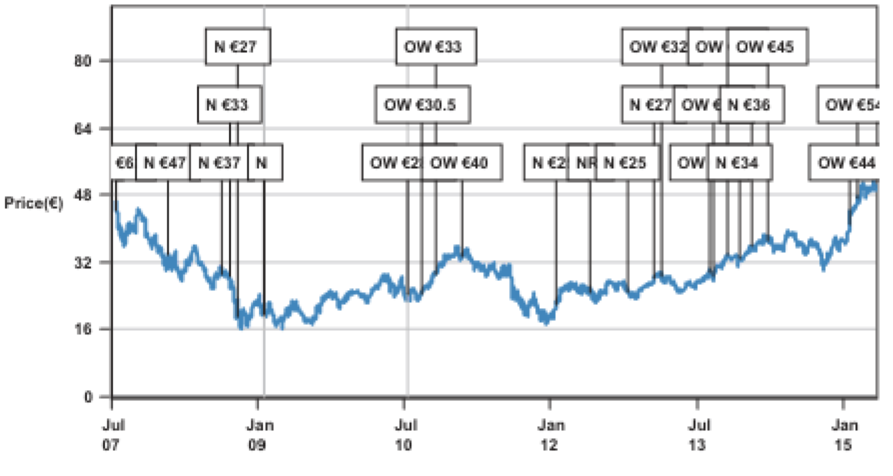
Accor (ACCP.PA, AC FP) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Jan 23, 2009 - Jul 15, 2010.

Date	Rating	Share Price (€)	Price Target (€)
19-Jul-07	N	44.25	62.00
28-Jan-08	N	33.83	47.00
19-Aug-08	N	29.20	37.00
11-Sep-08	N	28.65	33.00
17-Oct-08	N	18.84	27.00
23-Jan-09	N	19.35	--
15-Jul-10	OW	24.25	28.90
31-Aug-10	OW	24.21	30.50
28-Oct-10	OW	29.22	33.00
28-Jan-11	OW	33.58	40.00
19-Jan-12	N	21.97	25.00
22-May-12	NR	24.60	--
17-Oct-12	N	24.97	25.00
18-Jan-13	N	28.32	27.00
18-Feb-13	OW	28.84	32.00
15-Aug-13	OW	29.75	34.00
29-Aug-13	OW	28.80	33.00
21-Oct-13	OW	33.82	37.00
06-Dec-13	N	33.12	34.00
23-Jan-14	N	35.75	36.00
24-Mar-14	OW	37.18	45.00
22-Jan-15	OW	40.86	44.00
20-Feb-15	OW	47.17	54.00

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

EFTA01103733

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J.P. Morgan Equity Research Ratings Distribution, as of March 31, 2015

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	43%	44%	13%
IB clients*	55%	49%	37%
JPMS Equity Research Coverage	44%	48%	9%
IB clients*	75%	68%	54%

*Percentage of investment banking clients in each rating category.
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"Other Disclosures" last revised March 28, 2015.

TUI AG

Back to basics: 12% EBITA growth CAGR to 2018e is well backed. Remain OW.

TUIGn.DE, TUI1 GR
Overweight
Price: €16.56

Price Target: €18.00

TUIT.L, TUI LN
Overweight
Price: 1,173p

Price Target: 1,275p

European Beverages, Hotels & Leisure

Jaafar Mestari [AC]
([redacted]

Bloomberg JPMA MESTARI <GO>

Mike J Gibbs
([redacted]

J.P. Morgan Securities plc

For Specialist Sales advice, please contact:

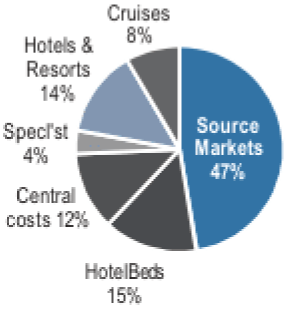
Helena C Sykes
([redacted]

Sophie L Warrick
([redacted]

The relative stock underperformance since the 13th May investor day offers an attractive entry point in TUI shares, in our view (TUI -6% vs FTSE +1%). While expectations of cash returns are on hold for now, and investments to date may appear underwhelming, the underlying earnings growth potential remains solid. We model 12% EBITA CAGR by 2018e vs guidance of "at least 10%", and see a 16% bull case. We raise our Jun-16 Price Targets to €18.0 / 1,275p (+3% in EUR terms), reflecting a net of 7% higher EBITA forecasts and lower expected cash position. This offers 9% upside potential to the current share price, with TUI trading on 14.0x CY16e P/E.

- **CMD guidance offers EBITA upgrades, but cash story suspended.** Following TUI's Capital Markets Day earlier this month, we upgrade our 2015e-2018e EBITA forecasts by 7%, to reach a 12% CAGR vs new guidance of "at least 10%" EBITA growth in the next 3 years. On the negative side, investments to date, as well as a higher medium-term capex and interest guidance, mean that our FY17e net cash position is now only €277m (previously €1.7bn).
- **Better visibility than feared on growth plans.** The focus on Hotels and Cruises, in our view, de-emphasizes the critical importance of Source Markets, HotelBeds, Cost savings, and Specialists - together 78% of absolute EBITA growth by 2018e. Within Source Markets, management's decision to remove explicit targets for Online and Unique holidays mix, as well as the lower degree of granularity by country, could have conveyed a sentiment of lower visibility. But we estimate that 57% of the EBITA improvement should still stem from Passenger growth, Online mix, and cost savings plans - all proven recipes.
- **Low implied returns: upside from investments in Hotels & Cruises.** The remaining 22% of EBITA growth in our forecasts assumes returns of only 8.0% - 8.8% on investments in Hotels and Cruises (vs internal cost of capital hurdle of 11.0%). Three years of above-trend capex spend allow for €530m of total hotel growth capex by 2017e without putting pressure on Source Markets capex.
- **Valuation is attractive.** Our new DCF-derived June-16 Price Targets of €18.0 / 1,275p (prev. €17.50/1,325p, Jan-16) leave 9% potential upside to the current share price. TUI trades on a CY16e P/E of 14.0x, compared to small-cap Tour Operators on 11.3x and to FTSE 100 Leisure peers CPG, WTB, IHG, MERL on 19.4x - 21.2x. TUI also offers a dividend yield of 3.9% vs FTSE 100 Leisure peers on 1.7% - 2.7%.

Figure 1: EBITA growth contribution
% of total +€410m EBITA, 2015e-2018e



Source: J.P. Morgan estimates

Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price CCY	Price	Rating Cur	Rating Prev	Price Target Cur	Price Target Prev
TUI AG Germany	TUI1 GR	10,699.12	EUR	16.56	OW	n/c	18.00	17.50
TUI AG UK	TUI LN	10,722.57	GBp	1,173	OW	n/c	1,275	1,325

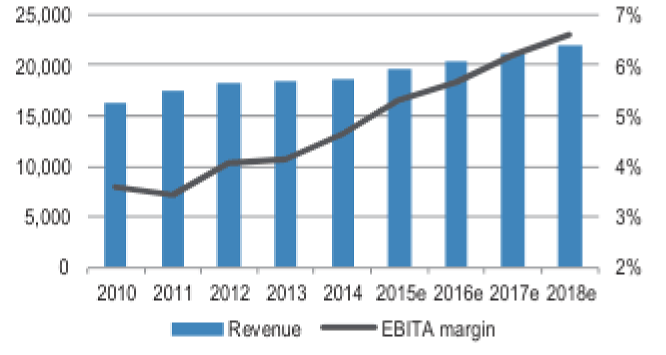
Source: Company data, Bloomberg, J.P. Morgan estimates. n/c = no change. All prices as of 27 May 15.

See page 19 for analyst certification and important disclosures, including non-US analyst disclosures.

TUI AG – company overview

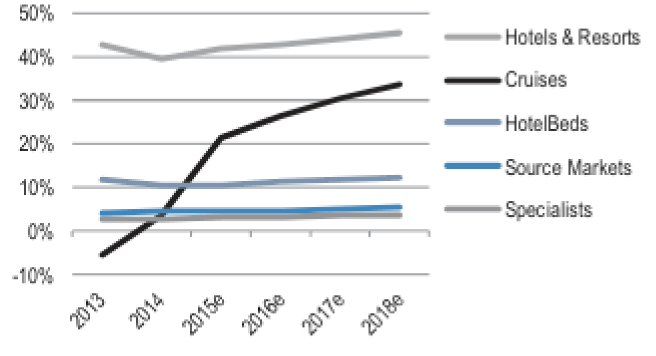
TUI AG is the world's largest integrated tourism group, combining Tour Operating businesses catering for a total 21m passengers per annum, with 265 hotels and resorts operated under brands such as Riu, Robinson, and Iberotel, as well as 8 cruise ships under the Hapag Lloyd Kreuzfahrten and TUI Cruises brands (the latter a JV with Royal Caribbean). Outside of its main Tourism segment, TUI is also active in the niche Specialist & Activity segment, as well as in the BtoB accommodation wholesaler business (HotelBeds). Stakes in shipping company Hapag Lloyd, as well as online travel agent LateRooms.com, have been identified as non-core assets.

Figure 2: Revenue and EBIT margins
EURm, %



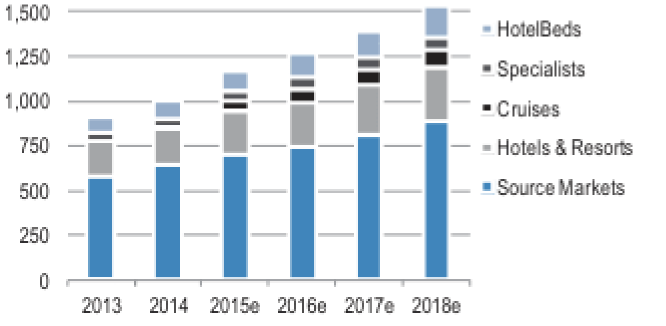
Source: company data, J.P. Morgan estimates

Figure 3: EBIT margins by division
%



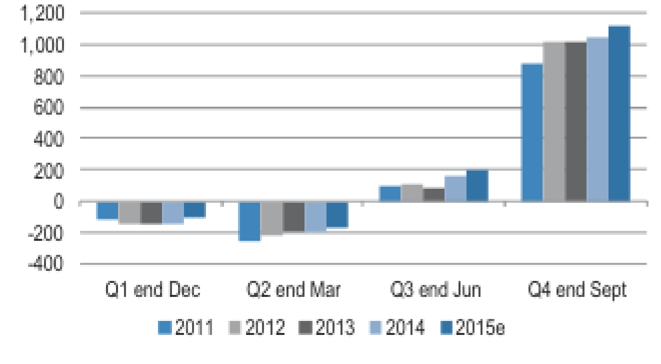
Source: company data, J.P. Morgan estimates

Figure 4: EBIT contribution by division
EURm



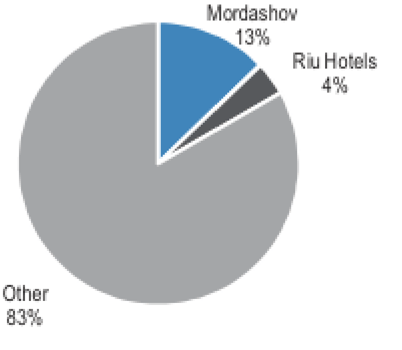
Source: company data, J.P. Morgan estimates

Figure 5: EBIT by quarter
EURm



Source: company data, J.P. Morgan estimates

Figure 6: Shareholders
%



Source: Bloomberg as of 26 May 2015

TUI AG – German listing

Overweight

Company Data	
Price (€)	16.56
Date Of Price	27-May-15
Price Target (€)	18.00
Price Target End Date	30-Jun-16
52-week Range (€)	17.93-9.38
Market Cap (€ bn)	9.84
Shares O/S (mn)	594
Fiscal Year End	Sep

TUI AG (TUIGn.DE;TUI1 GR)

FYE Sep	2014A	2015E *(Prev)*	2015E *(Curr)*	2016E *(Prev)*	2016E *(Curr)*	2017E *(Prev)*	2017E *(Curr)*
Adj.EPS FY (€)	0.60	0.67	0.95	0.92	1.13	1.04	1.35
Revenue FY (€ mn)	18,715	19,010	19,662	19,491	20,343	19,991	21,173
EBITDA FY (€ mn)	1,208	1,367	1,399	1,490	1,524	1,591	1,698
EBITDA Margin FY	6.5%	7.2%	7.1%	7.6%	7.5%	8.0%	8.0%
EBIT FY (€ mn)	869	1,022	1,042	1,137	1,154	1,228	1,313
EBIT Margin FY	4.6%	5.4%	5.3%	5.8%	5.7%	6.1%	6.2%
Net Profit FY (€ mn)	105	402	348	572	543	639	720
P/E (x) FY	53.1	24.7	28.3	17.9	18.1	16.0	13.7

Source: Company data, Bloomberg, J.P. Morgan estimates.

TUI AG – UK listing

Overweight

Company Data	
Price (p)	1,173
Date Of Price	27-May-15
Price Target (p)	1,275
Price Target End Date	30-Jun-16
52-week Range (p)	1,284-1,055
Market Cap (£ bn)	6.97
Shares O/S (mn)	594

TUI AG UK (TUIT.L;TUI LN)

FYE Sep	2014A	2015E *(Prev)*	2015E *(Curr)*	2016E *(Prev)*	2016E *(Curr)*	2017E *(Prev)*	2017E *(Curr)*
Adj.EPS FY (€)	0.60	0.67	0.95	0.92	1.13	1.04	1.35
Revenue FY (€ mn)	18,715	19,010	19,662	19,491	20,343	19,991	21,173
Adjusted EBITDA FY (€ mn)	1,208	1,367	1,399	1,490	1,524	1,591	1,698
EBITDA Margin FY	6.5%	7.2%	7.1%	7.6%	7.5%	8.0%	8.0%
EBIT FY (€ mn)	869	1,022	1,042	1,137	1,154	1,228	1,313
EBIT Margin FY	4.6%	5.4%	5.3%	5.8%	5.7%	6.1%	6.2%
Net Profit FY (€ mn)	105	402	348	572	543	639	720
P/E (x) FY	53.2	24.7	28.4	18.0	18.2	16.0	13.7

Source: Company data, Bloomberg, J.P. Morgan estimates.

Relative valuation

Table 1: European Tour Operators valuation

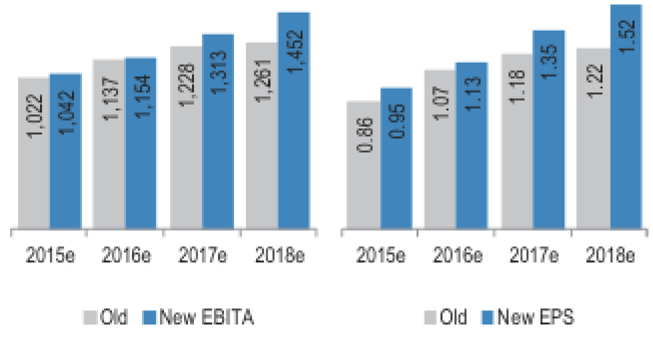
Calendarised, as of 27th May closing price

	P/E		EV/EBIT		Dividend yield		FCF yield		EPS growth	
	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
TUI AG	16.6x	14.0x	10.2x	8.7x	3.5%	3.9%	2.4%	4.8%	nm	18.9%
Thomas Cook Group	12.0x	10.0x	7.0x	5.9x	0.0%	0.0%	6.8%	7.0%	7.2%	19.4%
Kuoni Reisen	18.5x	14.7x	10.9x	7.9x	2.5%	2.9%	-0.1%	10.5%	11.7%	26.4%
Weighted average	**15.7x**	**13.2x**	**9.5x**	**8.0x**	**2.6%**	**2.9%**	**3.1%**	**5.8%**	**nm**	**19.6%**

Source: Bloomberg, J.P. Morgan estimates

The new medium-term guidance of "above 10%" EBITA growth drives 7% upgrades to our 2015e-2017e EBITA forecasts, and 14% upgrades to our EPS forecasts…

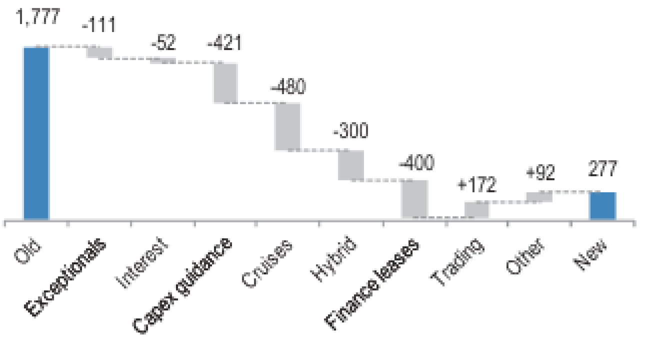
Figure 7: New vs old forecasts, 2015e-2018e (€m)



Source: J.P. Morgan estimates

… but we now model only €277m net cash by 2017e (previously €1.8bn), driven by higher exceptionals, interest, capex guidance, investments in cruises and aircraft.

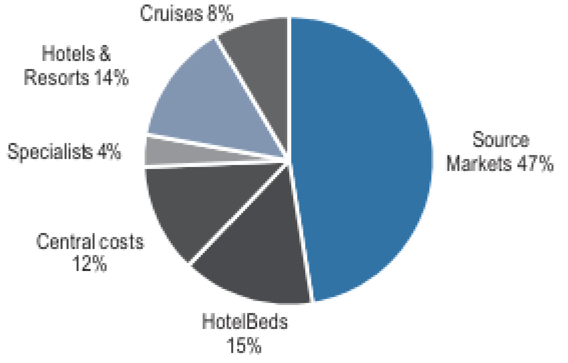
Figure 8: Net cash bridge, 2017e (€m)



Source: J.P. Morgan estimates

The bulk of EBITA growth should continue to come from Source Markets and HotelBeds, as well as from the relatively visible central cost cuts and merger synergies.

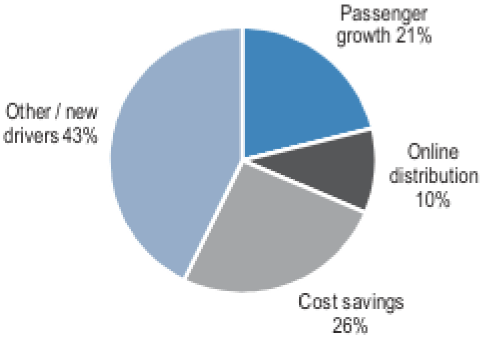
Figure 9: Breakdown of total €410m Group EBITA growth, 2015e-18e



Source: J.P. Morgan estimates

Within Source Markets, 57% of EBITA growth is from the same proven drivers as in 2012-2014. Consensus should progressively warm up to new drivers, such as long haul.

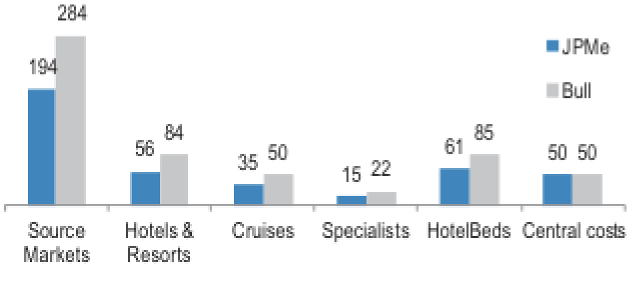
Figure 10: Breakdown of total €194m Source Markets EBITA growth



Source: J.P. Morgan estimates

There is 11% further upside to our 2018e EBITA forecasts in a Bull case where TUI delivers an EBITA growth CAGR of 16% by 2018e (vs JPMe base case 12%)…

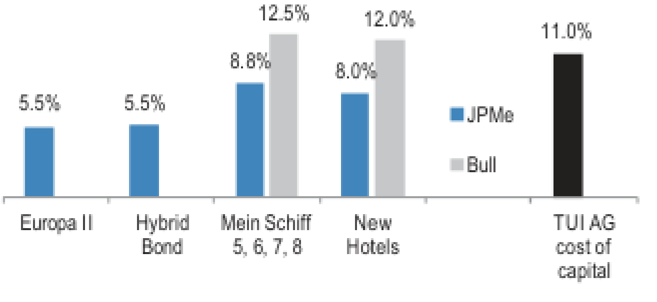
Figure 11: Bull vs Base case EBITA growth, 2015e-2018e, €m



Source: J.P. Morgan estimates

… which could materialise as early as 2016e if the investment in hotels and cruises were to show better returns than recent deals and than our forecasts.

Figure 12: Implied post-tax returns on selected investments



Source: J.P. Morgan estimates

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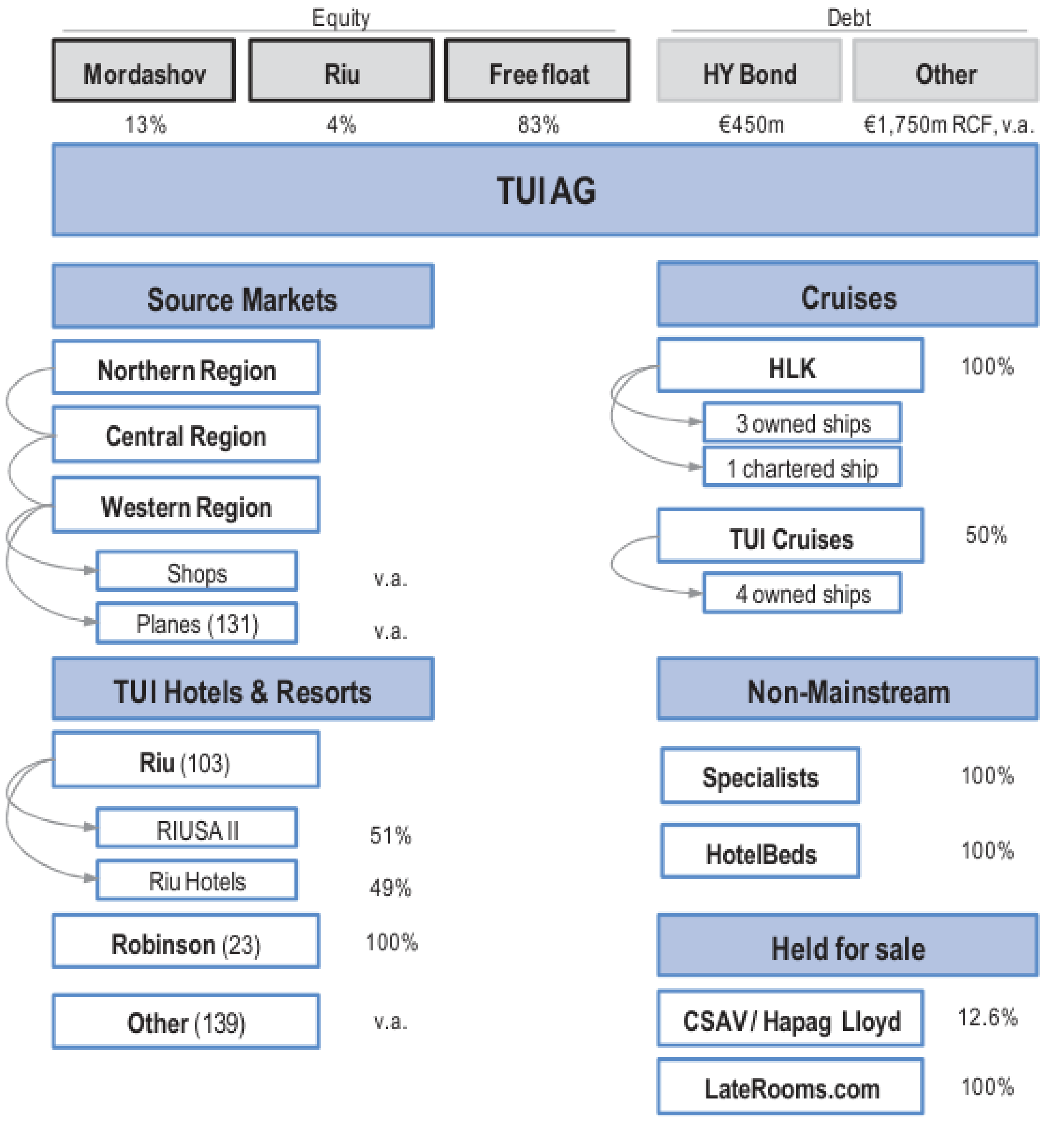
Figure 13: TUI AG – Group Structure



Source: J.P. Morgan

EBITA growth in the new roadmap

New growth roadmap

TUI AG expects to deliver "at least 10% underlying EBITA CAGR" through 2016e, 2017e, and 2018e. We model 12% EBITA CAGR as our JPME Base case, but believe that a full delivery of the separate divisional targets could entail as much as 16% CAGR in a Bull case.

Table 2: TUI AG – Growth roadmap 2015e-2018e

Division	TUI AG targets	JPMe Base case forecasts
Source Markets	>3% revenue CAGR OneAviation plan €50m > 10% EBITDA CAGR	3.8% revenue CAGR included 8.5% EBITA CAGR
Hotels	>60 new hotels @ €1.4m EBITA each	40 new hotels @ €1.4m each
Cruises	4 new ships @ €25m EAT each (50% share)	4 new ships @ €17.5m each (50% share)
HotelBeds	15%-20% EBITA CAGR	15.0% EBITA CAGR
Specialists	EBITA CAGR in line with Tourism	8.4% EBITA CAGR
Central Costs	€50m by 2017e	€50m by 2017e

Source: company data, J.P. Morgan estimates

JPMe base case: 12% EBITA CAGR

In our base case, the absolute EBITA improvement over 2015e-2018e stands at €410m. This should be driven by a revenue CAGR of 3.9% (an absolute €2.4bn incremental revenue) and overall margin improvement of 130bp from 5.3% in 2015e to 6.6% in 2018e.

Table 3: TUI AG – JPMe divisional forecasts

EURm, years to end September

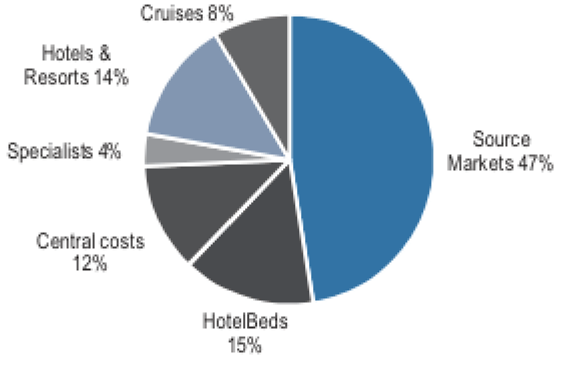
	2014	2015e	2016e	2017e	2018e	2015e-2018e	CAGR
Source Markets	14,597	15,365	15,882	16,525	17,197	1,832	3.8%
Hotels & Resorts	516	578	595	625	650	72	4.0%
Cruises	281	289	289	289	289	0	0.0%
Specialists	1,626	1,788	1,824	1,860	1,897	109	2.0%
HotelBeds	1,000	1,100	1,210	1,330	1,464	364	10.0%
Central costs	518	543	543	543	543	0	0.0%
TOTAL REVENUE	**18,537**	**19,662**	**20,343**	**21,173**	**22,040**	**2,378**	**3.9%**
Source Markets	643	701	742	812	895	194	8.5%
Hotels & Resorts	203	240	253	275	296	56	7.2%
Cruises	10	62	77	88	97	35	16.0%
Specialists	46	54	59	64	68	15	8.4%
HotelBeds	102	116	134	154	177	60	15.0%
Central costs	-133	-131	-111	-81	-81	50	-14.9%
TOTAL EBITA	**870**	**1,042**	**1,154**	**1,313**	**1,452**	**410**	**11.7%**

Source: company data, J.P. Morgan estimates

In terms of divisions, Source Markets, HotelBeds Group, and the central costs savings should be the most material contributors, representing a combined 74% of EBITA growth, while the Specialist business should contribute 4% of the total growth. This leaves "only" €91m EBITA contribution to be generated in the Hotels & Resorts and Cruises divisions (24% of total EBITA growth).

Figure 14: Breakdown of total €410m EBITA growth

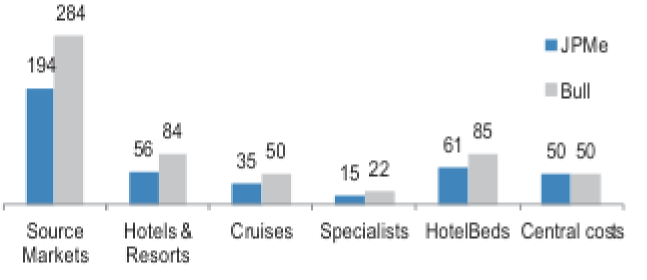
%, 2015e-2018e



Source: J.P. Morgan estimates

Figure 15: Bull vs Base case EBITA growth

€m, 2015e-2018e



Source: J.P. Morgan estimates

Note that our base case does not represent particular caution on any of the divisional targets, and that the bridge to a Bull case would offer upside across divisions.

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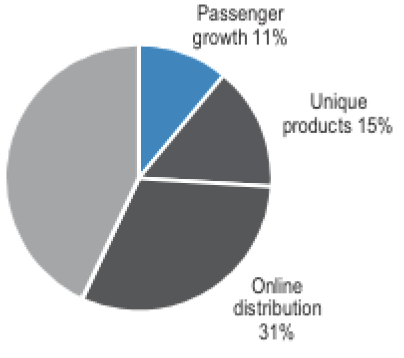
Source Markets growth in detail

Back to 2012

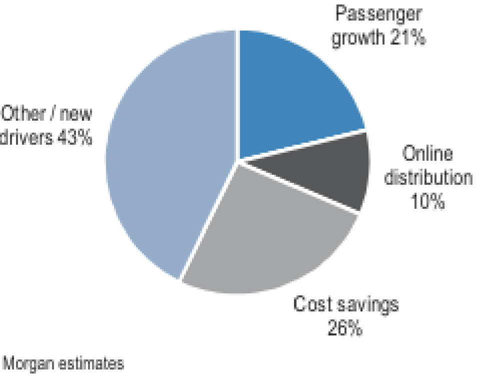
TUI Travel's "growth roadmap" communicated in December 2012 is an interesting precedent. The Mainstream division (the predecessor to Source Markets) was expected to achieve €130m EBITA growth, or 70% of the total EBIT CAGR of 7%-10%, with smaller contributions from Specialists and Accommodation Wholesaler (now HotelBeds). Within this, we note that divisional targets offered more granularity, with a breakdown of Mainstream profit growth along four separate drivers (passenger growth, Unique products mix, Online distribution, and cost savings), each with country-by-country targets.

Figure 16: TUI Travel 2012 roadmap - Mainstream growth
% of the total £130m base case



Source: J. P. Morgan estimates

Figure 17: TUI Travel 2015 roadmap - Source Markets growth
% of the total €194m base case



Source: J. P. Morgan estimates

Reconciling 2018e targets

- **Passenger growth**

Our forecasts assume 1.9% compound annual passenger growth between 2015e and 2018e in Source Markets, which, assuming constant average selling prices and margins, would yield c. €41m EBIT benefits, representing 21% of our total EBITA growth of €194m over the period. Passenger growth was only 11% of EBITA CAGR in the previous roadmap.

- **Unique mix**

Mentions of the mix of products described as unique (a combination of either differentiated or exclusive products, as opposed to the commoditized ranges) has now altogether disappeared from TUI AG's reporting. The new roadmap emphasizes the aim to deploy a "broader, more flexible customer offering". Our perception is that TUI AG has walked away from any ideological commitment to differentiated and / or higher margin offers for their own sake, and will opportunistically grow business in lower-margin products.

This should be reflected in passenger growth, so that we assume no separate benefit from any change in the Unique mix going forward. Unique mix was expected to drive 15% of EBITA growth in the previous roadmap.

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- **Online**

The Northern region is now described as having "optimal levels" of direct and online distribution, so that would not assume any specific benefits from improving online mix anymore.

We believe that the Central Region could increase its Online mix from 12% in 2014 by c.2-3pts per annum, potentially reaching 22% online distribution by 2018e. Assuming 2%-3% margin premium on online sales in line with previous comments, this could entail €15m EBITA benefits. Similarly, we see the Western Region as capable of improving its Online mix at a lower pace of 2pts given its higher starting point, potentially reaching 53% online distribution by 2018e and yielding €5m EBITA benefits.

Therefore only c. €20m or c.10% of our base case EBITA growth should be driven by Online mix, compared to 31% in the previous roadmap.

- **Cost savings**

TUI targets a total €50m EBITA benefits from the new OneAviation plan. The main initiatives will consist of introducing a unified organization across the five airlines (Thomson Airways UK, TUIfly DE, Jetairfly BE, Arkefly NL, and TUIfly Nordics), centralizing engineering and maintenance for the 128 planes, and integrating procucrement on all contracts.

If fully delivered and retained, these benefits would drive 26% of our total €194m EBITA growth. The Business Improvement Program that ended in 2014, in comparison, was expected to drive 43% of EBITA growth in the 2012 roadmap.

- **Other / New drivers**

Some €83m of our 2015e-2018e EBITA growth cannot, in our view, be reconciled with previous growth drivers. This could be a source for concern in the short term as TUI AG builds a track record of growing its Source Markets EBITA outside of the 2012-2014 framework. We expect this €83m to be generated through a mix of operational efficiency / turnaround measures, and growth initiatives, and would expect consensus to progressively reflect those with more confidence as they start showing results.

On the turnaround side, we note the following sources of upside: 1. Nordics margin was down -220bp in 2014, and recouping this on flat revenue could bring c. €25m EBITA. 2. The Russia and CIS joint venture was the largest contributor in the -€18m loss reported by the Emerging Markets operations in 2014. 3. France reported a €36m loss in 2014.

On the growth side, TUI AG's roadmap identifies the following drivers, which have yet to be quantified: 1. Tailor-made, variable durations, and third-party flying products. 2. Long-haul expansion. 3. Modernised UK cruise offering.

More on Unique & Online

The removal of any explicit targets for Unique or Online mix when compared with the previous roadmap, in our view, is a combination of faster than expected execution on the Unique front (at the risk of neglecting potential growth areas in least sophisticated product lines), and slower than expected execution on the Online front (where a reiteration of the 50% target would have left the group pursuing online sales for their own sake).

As a reminder, as of September 2014, TUI Travel was making strong progress towards its 2017e targets, with total Unique mix having improved by 6pts over two years, which looked on track to improve by another 5pts over the next 3 years. Online distribution on the other hand, had improved by 5pts over two years, and was facing a bigger stretch, with 2017e targets implying it could improve by another 12pts in the next 3 years.

Table 4: TUI Travel – Mix improvement

% of customer volumes

		2012	2013	2014	delivered	*2017e targets (old)*	*remaining*
UK	Unique mix	79%	83%	84%	+5pt	*85%*	*+1pt*
	Online mix	44%	47%	51%	+7pt	*60%*	*+9pt*
Nordics	Unique mix	92%	93%	94%	+2pt	*97%*	*+3pt*
	Online mix	65%	67%	70%	+5pt	*79%*	*+9pt*
Germany	Unique mix	47%	51%	52%	+5pt	*66%*	*+14pt*
	Online mix	4%	8%	11%	+7pt	*25%*	*+14pt*
France	Unique mix	74%	81%	89%	+15pt	*89%*	*+0pt*
	Online mix	21%	18%	24%	+3pt	*35%*	*+11pt*
Other	Unique mix	62%	65%	69%	+7pt	*68%*	*+0pt*
	Online mix	54%	50%	52%	-2pt	*65%*	*+13pt*
Total	**Unique mix**	**65%**	**69%**	**71%**	**+6pt**	*76%*	*+5pt*
	Online mix	**33%**	**35%**	**38%**	**+5pt**	*50%*	*+12pt*

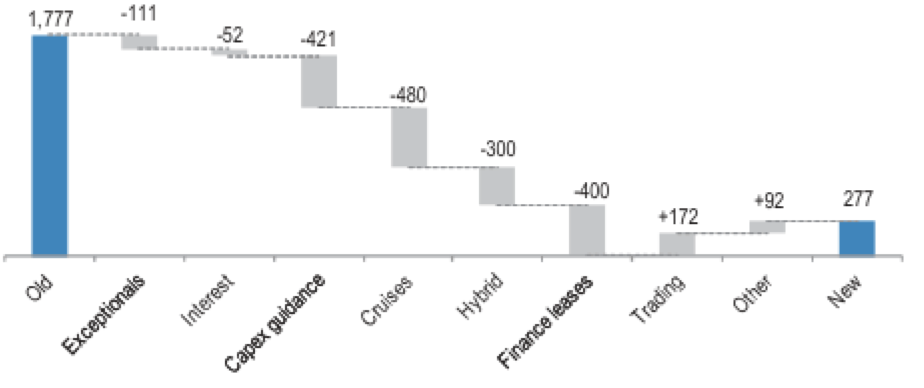
Source: company data, J.P Morgan estimates

Cash, capex, and returns

What happened to the cash

We now model only €277m net cash by 2017e (previously €1.8bn), driven by higher exceptionals, interest, capex guidance, investments in cruises and aircraft.

Figure 18: Net cash bridge, 2017e
EURm, year to end September



Source: J.P. Morgan estimates

Capex guidance leaves limited downside risk

Based on TUI Travel and TUI AG's prior reporting, we estimate that Capex for all Tour Operating businesses (including Source Markets) has been trending around €450m per annum since 2012. This will in our view be modestly reduced to €435m - €415m. Beyond that, we believe that management guidance for total group capex of €800m in FY15e and €750m in FY16e can accommodate the accelerated development capex in Hotels without the need to put on hold any investments in aircraft, shops, or IT / infrastructure in Source Markets.

Table 5: Capex by division
EURm years to end September

	2010	2011	2012	2013	2014	2015e	2016e	2017e	2015-2017e	%
Total capex	**302**	**445**	**480**	**598**	**601**	**800**	**750**	**750**	**2,300**	**100%**
Hotels	**-**	**-**	**-**	**114**	**133**	**285**	**325**	**325**	**935**	**41%**
Maintenance	-	-	-	114	133	135	135	135	405	18%
Growth	-	-	-	nm	nm	150	190	190	530	23%
Tour Ops	**240**	**361**	**459**	**469**	**453**	**435**	**415**	**415**	**1,265**	**55%**
Source Markets	-	-	-	-	-	361	344	344	1,050	46%
HotelBeds	-	-	-	-	-	30	29	29	89	4%
Specialists	-	-	-	-	-	26	25	25	76	3%
Central / Other	-	-	-	-	-	17	17	17	51	2%
Cruises	**-**	**-**	**-**	**15**	**15**	**80**	**10***	**10***	**100**	**4%**

Source: J.P. Morgan estimates. Excluding equity contribution for JV ships (JPMe €100m in each of 2016e and 2017e)

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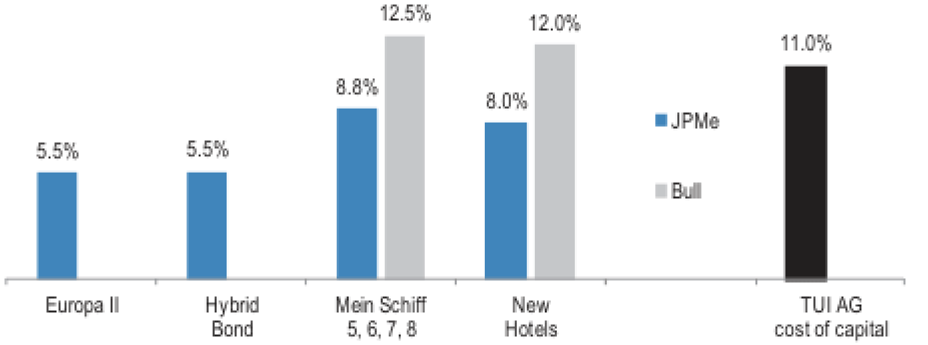
Undemanding implied returns offer upside

Our base case EBITA growth forecasts detailed above imply that TUI can generate post-tax returns of 8.0% on new hotels, and 8.8% on new ships. This is below the group's stated cost of capital of 11.0%. This degree of caution is warranted, in our view, given the returns achieved on recent deals.

Figure 19: Implied post-tax returns on selected investments



Source: J.P. Morgan estimates

- **Europa II**

On 9th January 2015, TUI AG announced that it would assume ownership of the Europa II luxury Cruise ship, currently under charter agreement within Hapag Lloyd Cruises, for a consideration of €278m (€67m cash paid + €211m debt assumed). This is expected to boost EBIT in the Cruise division by €20m in FY16e, a yield of 7.2% pre-tax and 5.5% post-tax.

- **Hybrid Bond**

On 25th March 2015, TUI AG announced that it would redeem its outstanding €300m perpetual bond, previously accounted for as equity. This will allow TUI to save the €22m annual coupon, a yield of 7.3% pre-tax and 5.5% post-tax.

- **Mein Schiff ships 5, 6, 7, and 8**

A total of 4 new ships are due to come on-stream in the TUI Cruises JV (one in each of 2015, 2016, 2017, and 2018). We have assumed that each ship contributes €17.5m post-tax, of which TUI consolidates a 50% stake, having invested €100m in equity into the JV. This implies an 8.8% return, while TUI AG's target of €25m post-tax contribution per ship would imply beating cost of capital, at a 12.5% return.

- **New Hotels**

Our forecasts assume €530m of growth capex in the Hotels & Resorts business in the next 3 years, which we expect to fund the opening of 40 new hotels (half of which will be owned). We have assumed that each hotel contributes €1.4m pre-tax, in line with TUI AG's targets. This implies an 8.0% return. While we would not expect TUI AG to be in a position to open more than 10-15 hotels per annum and for the guided capex, we note that if our €530m growth capex was enough to fund the opening of the full 60 targeted hotels at similar pretax contributions, the implied returns would be 12.0%.

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Valuation

DCF valuation of €18 / 1,275p leaves 9% upside

Our June-2016 DCF-derived price target is €18.0, which translates into 1,275p at current exchange rates. We use a WACC of 10.3% (11.5% cost of equity, 4.5% cost of debt), 3.5% medium-term growth, 2.0% terminal growth, and assume flat underlying EBITA margins at 6.6% after 2018e.

Table 6: TUI AG – DCF valuation

EURm, years to end September

	Explicit forecasts				Middle period	Terminal period
	2016e	2017e	2018e	2019e	2020e	2024e
Turnover	**20,343**	**21,173**	**22,040**	**22,746**	**22,811**	**25,797**
Operating profit (EBIT)	986	1,210	1,349	1,396	1,506	1,703
Cash exceptionals	-95	-30	-30	-30	0	0
Add back Depreciation & Amortisation	433	451	469	484	486	549
EBITDA	**1,324**	**1,630**	**1,788**	**1,851**	**1,992**	**2,253**
Taxation	-193	-251	-284	-296	-361	-409
Working Capital	46	56	58	47	0	0
Capex	-750	-750	-661	-682	-486	-549
Free Cashflow for the Firm (FCFF)	**426**	**685**	**901**	**920**	**1,145**	**1,294**
Discount rate (WACC) (%)	**10.3**					
Discount factor / multiple to Oct-15	0.91	0.82	0.75	0.68	2.23	5.51
Discount factor / multiple to Oct-16	0.00	0.91	0.82	0.75	2.46	6.08
	Oct-15	Oct-16				
Derived EV	**11,935**	**12,737**				
Net Cash at year-end	164	277				
Assets held for sale	500	500				
Minorities @ 18x	-1,245	-1,334				
Pension liabilities	-1,275	-1,275				
Derived equity value	**10,080**	**10,905**				
Weighted equity value, June 2016	**10,668**					
No of shares (m)	594					
Derived value per share (EUR)	**18.0**					

Source: J.P. Morgan estimates

In terms of sensitivities, every +/- 0.25% change in WACC would move our DCF value down/up by 4%. Every +/- 0.50% change in terminal growth would move our DCF value up/down by 5%.

Table 7: DCF sensitivity to WACC and Terminal growth inputs

Terminal growth \ WACC	9.8%	10.0%	10.3%	10.5%	10.8%
1.0%	17.7	17.0	16.5	15.9	15.4
1.5%	18.5	17.8	17.2	16.6	16.0
2.0%	19.4	18.7	18.0	17.3	16.7
2.5%	20.4	19.6	18.8	18.1	17.4
3.0%	21.6	20.7	19.9	19.1	18.3

Terminal growth \ WACC	9.8%	10.0%	10.3%	10.5%	10.8%
1.0%	-2%	-5%	-8%	-11%	-14%
1.5%	3%	-1%	-5%	-8%	-11%
2.0%	8%	4%	0%	-4%	-7%
2.5%	14%	9%	5%	1%	-3%
3.0%	21%	15%	11%	6%	2%

Source: J.P. Morgan estimates

The change to our previous SOP-based PT of €17.5 is a reflection of higher operating forecasts (combined EV of TUI Travel, Hotels & Resorts, and Cruises +€1.6bn ie +€2.2 per share), partly offset by a lower net cash position (-€1.3bn ie - €2.2 per share). Our values for assets held for sale, minorities, and pension liabilities are largely unchanged.

Investment Thesis, Valuation and Risks

TUI AG Germany *(Overweight; Price Target: €18.00)*

Investment Thesis

Please refer to our investment thesis for TUI AG below.

Valuation

Please refer to our valuation methodology for TUI AG below.

Risks to Rating and Price Target

Please refer to the risks we identified for TUI AG below.

Investment Thesis, Valuation and Risks

TUI AG UK *(Overweight; Price Target: 1,275p)*

Investment Thesis

We view the now fully integrated TUI Group as well capable of delivering on its target of "at least 10%" EBITA growth by 2018e (JPMe base case forecasts 12%, bull case 16%). We expect a combined 78% of absolute EBITA growth by 2018e to come from Source Markets, HotelBeds, cost savings, and Specialists – all boasting proven track records, with the new roadmap building on the success of the 2012-2014 period. We acknowledge that the remaining 22% of EBITA growth which we model in Hotels and Cruises are partly unproven and face the usual risks of accelerated capital deployment (JPMe €530m in Hotels, €220m in Cruises by 2018e), but our forecasts only imply 8.0% - 8.8% returns on those investments (vs internal cost of capital hurdle of 11.0%).

Valuation

Our June-2016 DCF-derived price target is €18.0 / 1,275p. We use a WACC of 10.3% (11.5% cost of equity, 4.5% cost of debt), 3.5% medium-term growth, 2.0% terminal growth, assume flat underlying EBITA margins at 6.6% after 2018e, and value Hotel minorities at 18x Earnings and the Hapag Lloyd stake at €500m.

Risks to Rating and Price Target

- Execution. Our forecasts include 100% of the guided cost and tax synergies by 2017e. While we expect "proven recipes" such as Online sales will still drive the bulk of EBITA growth, management's decision to remove explicit targets for Online and Unique products reduces medium-term visibility.
- Capital deployment. TUI AG's ambitious targets of opening over 60 resorts under the TUI Hotels & Resorts brand, while allowing JV partner Riu to pursue 3-4 projects per year and also exploring opportunities in the Cruises portfolio, may ultimately put the company's balance sheet flexibility to the test.
- European macro. Adverse economic conditions could further hurt the prospects for TUI AG's main reported division Source Markets. A marked economic downturn would also hurt the value of TUI AG's remaining stake in container shipping line Hapag-Lloyd, making a disposal difficult.

Jaafar Mestari
([redacted]

J.P.Morgan CAZENOVE

TUI AG Germany: Summary of Financials

Profit and Loss Statement

€ in millions, year end Sep	FY14	FY15E	FY16E	FY17E
Revenues	18,715	19,662	20,343	21,173
% change Y/Y	1.3%	5.1%	3.5%	4.1%
EBITDA	1,208	1,399	1,524	1,698
% change Y/Y	10.8%	15.8%	8.9%	11.4%
EBIT	869	1,042	1,154	1,313
% change Y/Y	14.0%	20.0%	10.8%	13.8%
EBIT Margin (%)	4.6%	5.3%	5.7%	6.2%
Net Interest	(229)	(200)	(180)	(164)
Earnings before tax adjusted	506	618	806	1,046
% change Y/Y	55.3%	22.3%	30.3%	29.8%
Tax	(222)	(204)	(193)	(251)
as % of EBT	43.8%	33.0%	24.0%	24.0%
Net Income Rep	105	348	543	720
% change Y/Y	2334.9%	232.2%	56.1%	32.7%
Shares Outstanding	263	594	594	594
FD EPS	0.31	0.59	0.91	1.21
Adjusted EPS	0.60	0.95	1.13	1.35
DPS	0.33	0.56	0.63	0.67
% change Y/Y	120.0%	70.6%	12.0%	6.3%

Cash flow statement

€ in millions, year end Sep	FY14	FY15E	FY16E	FY17E
EBIT	869	1,042	1,154	1,313
Depreciation & amortization	399	419	433	451
Change in working capital	146	64	46	56
Other items	(11)	74	74	74
Cash Flow from Operations	937	970	1,165	1,375
Taxes	-	-	-	-
Capex	(601)	(800)	(750)	(750)
Acquisitions/disposals	-	-	-	-
Net Interest	(229)	(200)	(180)	(164)
Free cash flow	464	304	552	750
Equity raised/repaid	(7)	309	0	0
Debt Raised/repaid	46	140	20	(113)
Other	(51)	0	0	0
Dividends Paid	(169)	(408)	(335)	(412)
Beginning cash	2,702	2,286	2,286	2,286
Ending cash	2,286	2,286	2,286	2,286
Net Change in Cash	168	(0)	0	(0)
Net Debt	(323)	(183)	(164)	(2,072)

Balance sheet

€ in millions, year end Sep	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	2,286	2,286	2,286	2,286
Accounts Receivable	1,918	2,015	2,085	2,170
Inventories	127	133	138	143
Others	1,049	1,049	1,049	1,049
Current assets	5,379	5,482	5,557	5,648
LT investments	-	-	-	-
Net fixed assets	2,837	3,218	3,535	3,834
Total assets	14,026	14,648	15,066	15,482
Liabilities				
ST loans	215	215	215	215
Payables	3,301	3,468	3,588	3,735
Others	4,000	4,000	4,000	4,000
Total current liabilities	7,515	7,682	7,803	7,949
Long term debt	1,748	1,888	1,908	-
Other liabilities	3,994	4,133	4,153	4,040
Total liabilities	11,509	11,816	11,955	11,989
Shareholders' equity	2,405	2,721	2,998	3,381
BVPS	-	-	-	-

Ratio Analysis

€ in millions, year end Sep	FY14	FY15E	FY16E	FY17E
P/E (x)	27.7	17.4	14.7	12.3
EV/EBITDA	6.6	5.8	5.4	3.7
EV/EBIT (x)	9.2	7.8	7.1	4.8
EV/Sales (x)	0.4	0.4	0.4	0.3
FCF yield (%)	10.7%	3.1%	5.6%	7.6%
Dividend Yield (%)	2.0%	3.4%	3.8%	4.0%
Price/Book (%)	-	-	-	-
Interest coverage (x)	5.3	7.0	8.5	10.4
Net debt /EBITDA (x)	(26.7%)	(13.1%)	(10.8%)	(122.0%)
Net debt to equity	(12.8%)	(6.5%)	(5.3%)	(59.3%)
ROCE (%)	10.6%	15.2%	17.6%	22.9%
ROE (%)	7.0%	22.0%	23.5%	25.1%

Source: Company reports and J.P. Morgan estimates.

TUI AG UK: Summary of Financials

Profit and Loss Statement

€ in millions, year end Sep	FY14	FY15E	FY16E	FY17E
Revenues	18,715	19,662	20,343	21,173
% change Y/Y	1.3%	5.1%	3.5%	4.1%
EBITDA	1,208	1,399	1,524	1,698
% change Y/Y	10.8%	15.8%	8.9%	11.4%
EBIT	869	1,042	1,154	1,313
% change Y/Y	14.0%	20.0%	10.8%	13.8%
EBIT Margin (%)	4.6%	5.3%	5.7%	6.2%
Net Interest	(229)	(200)	(180)	(164)
Earnings before tax adjusted	506	618	806	1,046
% change Y/Y	55.3%	22.3%	30.3%	29.8%
Tax	(222)	(204)	(193)	(251)
as % of EBT	43.8%	33.0%	24.0%	24.0%
Net Income Rep	105	348	543	720
% change Y/Y	2334.9%	232.2%	56.1%	32.7%
Shares Outstanding	263	594	594	594
FD EPS	0.31	0.59	0.91	1.21
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FCF yield (%)	10.7%	3.1%	5.6%	7.6%
Dividend Yield (%)	2.0%	3.4%	3.8%	4.0%
Price/Book (%)	-	-	-	-
Interest coverage (x)	5.3	7.0	8.5	10.4
Net debt /EBITDA (x)	(26.7%)	(13.1%)	(10.8%)	(122.0%)
Net debt to equity	(12.8%)	(6.5%)	(5.3%)	(59.3%)
ROCE (%)	10.6%	15.2%	17.6%	22.9%
ROE (%)	7.0%	22.0%	23.5%	25.1%

Source: Company reports and J.P. Morgan estimates.

JPM Q-Profile

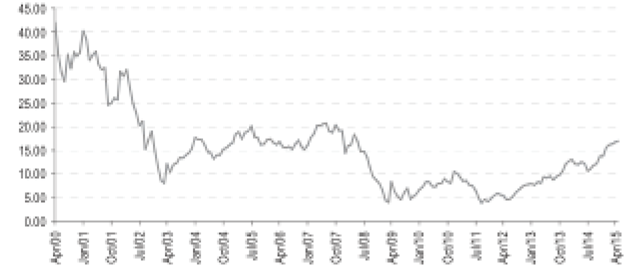
TUI AG (GERMANY / Consumer Discretionary)

As Of: 21-May-2015

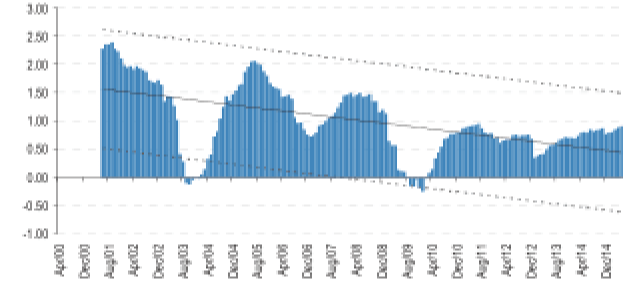
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

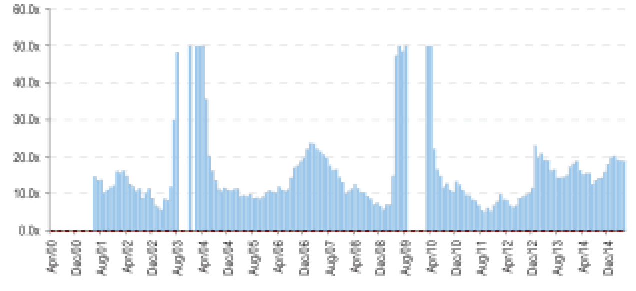
Local Share Price Current: 17.03



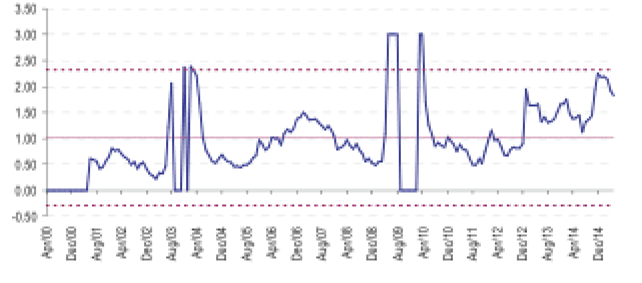
12 Mth Forward EPS Current: 0.91



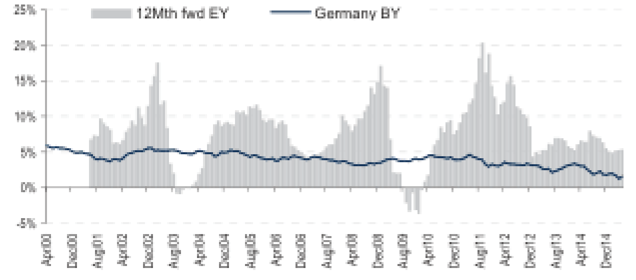
PE (1Yr Forward) Current: 18.8x



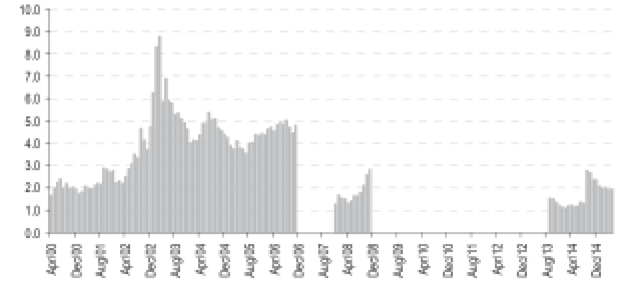
P/E Relative to Germany Index Current: 1.82



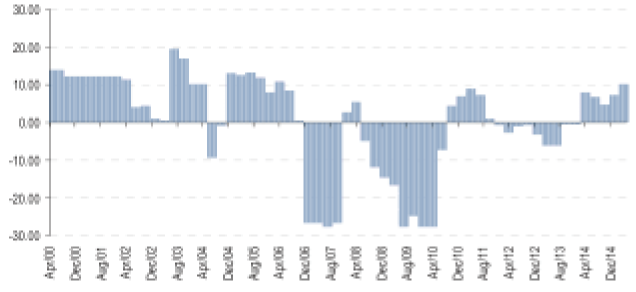
Earnings Yield (& Local Bond Yield) Current: 5%



Dividend Yield (Trailing) Current: 1.97



ROE (Trailing) Current: 10.16



Price/Book (Value) Current: 7.7x

Summary

TUI AG									**As Of:**		21-May-15
GERMANY	**TICKER**	**TUI1 GR**							**Local Price:**		17.03
Consumer Discretionary									**EPS:**		0.91
	Latest	**Min**	**Max**	**Median**	**Average**	**2 S.D.+**	**2 S.D. -**	**% to Min**	**% to Max**	**% to Med**	**% to Avg**
12mth Forward PE	**18.76x**										
P/BV (Trailing)	**7.69**	0.40	7.69	1.16	1.44	3.59	-0.72	-95%	0%	-85%	-81%
Dividend Yield (Trailing)	**1.97x**	0.00	8.81	1.81	2.06	6.16	-2.05	-100%	346%	-8%	4%
ROE (Trailing)	**10.16**	-27.60	19.49	4.51	0.44	26.63	-25.75	-372%	92%	-56%	-96%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

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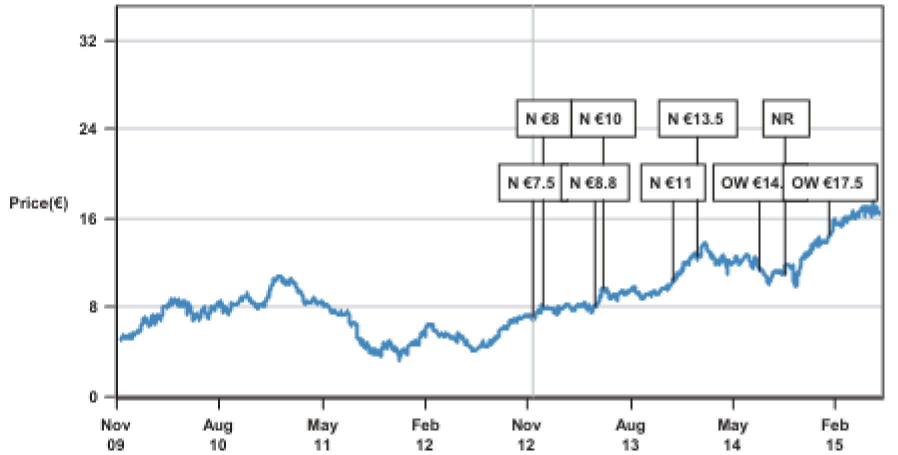
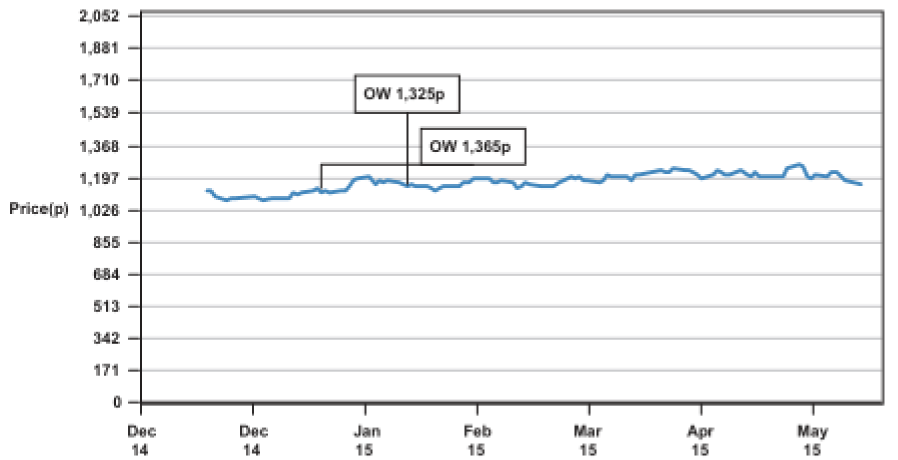
TUI AG Germany (TUIGn.DE, TUI1 GR) Price Chart



Date	Rating	Share Price (€)	Price Target (€)
13-Nov-12	N	7.12	7.50
12-Dec-12	N	8.12	8.00
01-May-13	N	8.03	8.80
22-May-13	N	9.68	10.00
22-Nov-13	N	10.36	11.00
23-Jan-14	N	12.65	13.50
10-Jul-14	OW	11.31	14.50
15-Sep-14	NR	10.96	--
14-Jan-15	OW	14.46	17.50

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Sep 15, 2014 - Jan 14, 2015.

TUI AG UK (TUIT.L, TUI LN) Price Chart



Date	Rating	Share Price (p)	Price Target (p)
14-Jan-15	OW	1136	1365
04-Feb-15	OW	1161	1325

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jan 14, 2015.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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J.P. Morgan Equity Research Ratings Distribution, as of March 31, 2015

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	43%	44%	13%
IB clients*	55%	49%	37%
JPMS Equity Research Coverage	44%	48%	9%
IB clients*	75%	68%	54%

*Percentage of investment banking clients in each rating category.
For purposes only of FINRA/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category. Please note that stocks with an NR designation are not included in the table above.

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"Other Disclosures" last revised March 28, 2015.

Elior

Q215 first take and conference call feedback - ALERT

Overweight

ELIOR.PA, ELIOR FP

Price: €16.36

28 May 2015

European Beverages, Hotels & Leisure

Jaafar Mestari AC

([redacted]

Bloomberg JPMA MESTARI <GO>

Mike J Gibbs

([redacted]

J.P. Morgan Securities plc

For Specialist Sales advice, please contact:

Helena C Sykes

([redacted]

Sophie L Warrick

([redacted]

Elior has reported supportive Q215 results and reiterated its FY15 guidance of "at least 2%" organic growth (JPMe 2.5%) and flat margins (JPMe flat). On the conference call, management hinted at preliminary work to potentially launch a contract review across the group later this year, and announced an investor day to be held in September to detail a 5-year strategic plan to 2020 under new Chairman and CEO Philippe Salle.

- **Q2 results supportive.** Group revenue of €98m was driven by 2.2% organic growth (1.8% in Contract Catering and 3.5% in Concession Catering). Group EBITDA of €98m shows 10bp of margin improvement (-30bp in Contract Catering and +120bp in Concession Catering). For H1 as a whole, Finance costs were €35m lower year-on-year reflecting the December refinancing, while income tax came in at an implied rate of 44% vs 56% in H114.

- **Organic growth to re-accelerate.** Organic growth decelerated in Q2 but management expects a stronger H2, driven by contract wins in Concessions: Q1 3.3% and Q2 2.2% compared to our FY15e forecasts of 2.5% and to FY15e guidance of "at least 2%".

- **Cash conversion strong.** The working capital outflow of €122m in H1 was seasonal and only marginally higher year-on-year when adjusted for one-off payments in Spain in H114. Capex of €90m for H1 was below budget and on the conference call management commented that it expects to remain below budget for FY15 (vs JPMe €180m capex, on budget). Cash tax of -€10m looks favourable compared to P&L tax of -€30m and management still expects P&L tax rate of 40% in FY15 to translate into only 30% cash tax rate.

- **Potential contract review.** Elior has been more selective on retaining business in Q2, starting with Italy. Management will be reviewing "a large number of contracts" at the group level going forward, and any contract generating EBIT margins below 7% will be assessed for renegotiation or exit. This 7.0% threshold is not clearly set yet, and could be "8% or 6%", but looks ambitious, in our view, compared to our forecasts of 6.2% EBIT margins in Contract and 5.5% EBIT margins in Concessions for FY15. This brings a risk of lower organic growth in the short term, but we note that similar contract reviews by peers Compass and Sodexo have been overall well received by the market (net of revenue loss and margin improvement).

- **Next event:** Q3 results to be released on 2nd September 2015.

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Elior (ELIOR.PA, ELIOR FP) Price Chart

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jul 21, 2014.

Date	Rating	Share Price (€)	Price Target (€)
21-Jul-14	OW	14.10	16.00
12-Dec-14	OW	12.65	15.50
22-Jan-15	OW	13.86	16.50

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Klepierre

FY14 results in line but sticking to our guns on the dividend for 2015 - we expect €1.80 vs the street at €1.65

Overweight

LOIM.PA, LI FP

Price: €43.20

Price Target: €45.00

European Property

Jan Willem Van Kranenburg AC

([redacted]

Bloomberg JPMA KRANENBURG <GO>

Neil Green, CFA

([redacted]

Tim Leckie, CFA

([redacted]

David Min

([redacted]

J.P. Morgan Securities plc

For Specialist Sales advice, please contact

John Van Marle

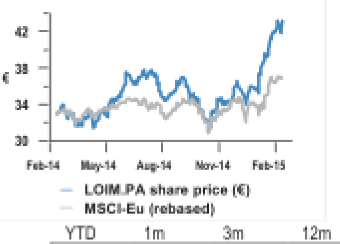
([redacted]

Klepierre's FY14 results were better on net current cash flow per share (€2.07) vs JPMe (€2.04) and BB consensus (€2.05) but a tad light on NAV. LfL rents grew at 3.1%, and retail sales were up 1.5%. The dividend was proposed at €1.60, +3% yoy, 1% better vs BB consensus (€1.57), but was short vs our estimate of €1.70. For '15 we stick to our guns that we expect a significant dividend increase. As the '15 guidance implies a recurring EPS of €2.10-2.15 (JPMe €2.12 and BB consensus at €2.11), we estimate it will come from €0.15-0.20cts of extra recurring EPS from a Corio debt accounting treatment on top of the guidance. As the dividend policy is firm in distributing 80% of its recurring EPS, we estimate this could drive dividend up to €1.76-1.83 for next year, 7-11% above current consensus.

- **FY15 guidance net current cash flow €2.10-2.15, "driving further distribution per share increases",** 1% better vs JPMe (€2.12) and BB consensus (€2.11). Management guides for €20m of Corio synergies for '15, and looks on track to deliver the €60, synergies within 3 to 5 years. As Klepierre is currently integrating Corio, we did not expect any statements on a long-term guidance but stand by our case, calculating Klepierre should be able to post similar growth in recurring earnings vs Unibail (6-8%).

- **Potential €0.15-0.20cts extra net current cash flow per share in 2015 key to a €1.76-1.83 dividend in 2015 (7-11% above consensus).** Due to the accounting treatment of Corio debt (M2M of bonds) Klepierre is taking a €0.3bn hit on IFRS equity as anticipated during the due diligence. As a result of this hit, Klepierre can write back €0.15-20cts per share of this per year via the P&L, which very likely will be part of the net current cash flow. As the current 80% dividend payout is set on this metric, we believe it will be paid out to shareholders. Assuming 80% of €2.25-2.35 net current cash flow (= the guidance plus the "Corio add on", Dividend for 2015 could be €1.76-1.83. This is some 7-11% above the current consensus estimate for '15, and in line with JPMe (€1.80). Another way of looking at this would be that Klepierre in fact is increasing the dividend payout to 85% of NCCF excluding accounting treatment.

Price Performance



	YTD	1m	3m	12m
Abs	21.3%	12.5%	26.9%	31.2%
Rel	12.7%	2.3%	17.3%	19.2%

Klepierre (LOIM.PA;LI FP)

FYE Dec	2012A	2013A	2014E	2015E	2016E
Adj. EPS FY (€)	1.99	2.06	2.04	2.12	2.22
Adj P/E FY	21.7	20.9	21.2	20.3	19.4
DPS FY (€)	1.50	1.55	1.70	1.80	1.90
Dividend Yield FY	3.5%	3.6%	3.9%	4.2%	4.4%
Adjusted NAV ps FY (€)	34.0	32.2	33.0	34.9	38.6
ROIC FY	4.4%	5.6%	6.4%	8.1%	9.8%
NAV premium (discount) FY	27.0%	34.0%	30.7%	23.7%	11.9%
Bloomberg EPS FY (€)	1.96	2.05	2.05	2.11	2.19

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price (€)	43.20
Date Of Price	12 Feb 15
Price Target (€)	45.00
Price Target End Date	28-Feb-16
52-week Range (€)	43.32-30.25
Market Cap (€ bn)	13.26
Shares O/S (mn)	307
WACC	4.4%

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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- **Net current cash flow per share €2.07, 1% better versus estimates,** and compares to the guidance of €2.03-2.05 per share. The result was 1% better vs JPMe (€2.04) and BB consensus (€2.05). We estimate that without the Carrefour divestment of €1.8bn of group share retail galleries, recurring EPS would have increased by c€15cts (7%).

- **Dividend per share was proposed at €1.60, +3% yoy,** and is 1% better versus BB consensus (€1.57) but 6% below JPMe at €1.70 (but highest estimate in the market). We were expecting Klepierre to raise the payout ratio a bit (now 77%) to be more in line with Unibail (94% in '15E). Based on Klepierre's 2015 guidance, we believe there is a high likelihood this will be on the cards next year.

- **EPRA NAV came in at €32.1,** up 4% vs 1H-14 but below our expectation of €33 per share. EPRA NAV was mainly below our expectation, as capital value growth was 1.5% in 2H-14 vs JPMe 2.2%.

- **Capital value growth was 1.5% for 2H-14 vs 1H-14**, which compares to our estimate of 2.2%. The 1.5% can be split into France (+1.2%), Scandinavia (+3.3% in local currencies), Iberia (+0.7%) and Central Europe (-1.2%). We were somewhat disappointed by the revaluation result, but during the conference call, management said appraisers have been slow adjusting market evidence in the appraisals, and hence there should be more upside to the valuations in 1H-15.

- **Like-for-like net rental growth +3.1%,** with indexation contributing 0.6%. In France, NRI grew 2.0% like-for-like, and in Belgium 2.1%, driven by a large releasing program. In Scandinavia lfl NRI grew 4.5%, led by Norway 6.9% and Sweden 5.6% with Denmark flat (0.3%). Italy saw lfl NRI growth of 1.7% and Spain was a solid 3.3% with Portugal 3.9%. Across Western Europe releasing efforts were cited as driving the NRI growth figure.

- *Central Europe +6% led by Czech Republic:* In Poland, NRI was up 3.0% like-for-like, beating indexation of 0.9%. In Hungary rents were up 8.2% lfl, driven by lower vacancy and cost reduction while in the Czech Republic, the strong +8.9% result was driven reletting activity. On a current foreign exchange basis, rental growth was 2.1% for the portfolio like-for-like, with Scandinavia being especially impacted by currency moves (4.5% to 0.3%).

- **Proforma (for acquisition of Corio) LTV of 'just below 40%,** with 5.3 years duration and a liquidity position of €2.7bn. As of Dec-14 LTV was 37.6% (vs JPMe 38%), as the group's consolidated net debt stood at €5.3bn, €1.8bn lower than at the end of 2013. The key moving parts include cash proceeds of sales, offset by swap restructuring (€144m), investments of €205m and a dividend payment of €304m. The average duration of debt increased to 6 years (+1.1 years) while the group retains €2.1bn of available debt facilities and net cash.

- **Retail sales up 1.5% year-on-year (like-for-like excluding extensions),** although including extensions this was 2.6%. Extensions during the year including Vinterbro in Norway, Rives d'Arcins, Jaude Clermont-Ferrand in France and Romagna Centre in Italy. By area (exc. extensions), Iberia was very strong (+6.3%) with Spain up 7.6% and Portugal up 4.8%. Scandinavia was also up 2.9% with Sweden up 3.7% followed by Norway (+3.2%) and Denmark (+1.0%). Central Europe was up 3.3% as Hungary (+11.1%) and the Czech Republic (4.9%) offset Poland (-2.9%). French retail sales were a touch weaker (-0.4%) while Belgium saw positive retail sales growth of 1.8%.

- **Underlying trends in Corio already improved in 2H-14 also,** with Corio reporting FY14 results at the same time. Direct EPS was €2.30 (€230m) which is in line with our estimates we have integrating Corio in Klepierre in 2015. LfL rents grew +0.9% (vs -0.1% in 1H-14) and the underlying vacancy in the retail portfolio remained flat at 5.2% (5.1% in 1H-14). Tenant sales were stable (+0.1%). Corio (re)negotiated 497 relet or renewal leases in 2014 at 2.3% higher rent (vs-4.1% in 2013). Spain and the Netherlands continue to show negative reversion of respectively -21% and -5%. Portfolio values fell 1.6% in 2H-14 vs Jun-14.

Investment Thesis, Valuation and Risks

Klepierre *(Overweight; Price Target: €45.00)*

Investment Thesis

We are OW on Klepierre based on our positive stance on continental retail, which should benefit Klepierre given its 100% retail exposure. We believe the company could be able to grow underlying recurring earnings by 6-9%, whilst the shares are trading at a 15% discount to Unibail-Rodamco based on NAV multiples.

Valuation

Our Feb-16 target price for Klepierre is based on our total returns-based European Valuation Model, which takes into account whether a company creates or destroys value. We argue that companies that have a positive spread between returns and their weighted average cost of capital (WACC) should trade at a premium to NNAV, whereas those with a negative spread should be priced below NNAV. For Klepierre, we calculate a value creation spread of 3.9% between our forecast total return and our WACC estimate. We apply this spread to the invested capital, discount back, and add/subtract to our NNAV forecast to derive our price target. Please contact your J.P. Morgan representative for more information.

Risks to Rating and Price Target

Klepierre's performance would be negatively impacted by disappointing retail sales, a failure in the development pipeline and less than expected improvement in the investment market. Upside risks include better than expected improvement in the continental retail environment.

Klepierre: Summary of Financials

Profit and Loss Statement

€ in millions, year end Dec	FY13	FY14E	FY15E	FY16E
Property income	1,087	932	1,331	1,351
% Change Y/Y	*0.5%*	*(14.2%)*	*42.7%*	*1.5%*
Rental income	1,009	861	1,259	1,279
Other income	19	15	25	26
EBITDA	819	693	1,029	1,055
% Change Y/Y	*(0.3%)*	*(15.4%)*	*48.4%*	*2.6%*
Net interest	(272)	(190)	(261)	(254)
Earnings before tax	557	544	811	844
% change Y/Y	*4.5%*	*(2.4%)*	*49.1%*	*4.0%*
Tax	(24)	(22)	(23)	(24)
as % of EBT	*4.3%*	*4.0%*	*2.9%*	*2.9%*
Minorities	(130)	(122)	(120)	(120)
Adjusted net income	**404**	**400**	**668**	**699**
% change Y/Y	*3.9%*	*(0.9%)*	*66.9%*	*4.7%*
Revaluation	(154)	343	825	1,425
Capital gain tax	0	0	0	
Other				
Minorities				
Indirect profit	**43**	**134**	**594**	**1,026**
Total profit (IFRS)	**447**	**534**	**1,261**	**1,725**

Per share data

€ in millions, year end Dec	FY13	FY14E	FY15E	FY16E
Adjusted EPS	2.06	2.04	2.12	2.22
% change Y/Y	*3.7%*	*(1.2%)*	*4.1%*	*4.7%*
Indirect result	0.22	0.68	1.89	3.26
% change Y/Y	*(140.0%)*	*208.2%*	*177.3%*	*72.8%*
EPS (IFRS)	2.29	2.72	4.01	5.49
% change Y/Y	*62.1%*	*19.1%*	*47.3%*	*36.8%*
DPS	1.55	1.70	1.80	1.90
% change Y/Y	*3.3%*	*9.7%*	*5.9%*	*5.6%*
Gross cash flow	2.07	2.04	2.12	2.22
% change Y/Y	*(4.7%)*	*6.5%*	*(0.2%)*	*4.7%*
NNNAV (IFRS)	30.2	29.9	30.8	33.5
% change Y/Y	*(3.6%)*	*(1.3%)*	*3.2%*	*8.7%*
Adjusted NAV	32.2	33.0	34.9	38.6
% change Y/Y	*(5.2%)*	*2.5%*	*5.6%*	*10.6%*

Cash flow statement

	FY13	FY14E	FY15E	FY16E
EBITDA	819	693	1,029	1,055
Gross cash flow	391	417	668	699
Total cash flow requirement	**(304)**	**(1,204)**	**(93)**	**(110)**

Balance sheet

€ in millions, year end Dec	FY13	FY14E	FY15E	FY16E
Cash and cash equivalents	142	358	265	155
Accounts receivable	303	305	305	305
Others	2,048	358	358	358
Current assets	2,494	1,021	928	818
Property investments	13,308	12,534	20,374	22,162
Property not in operation	344	348	348	348
Total assets	**16,531**	**15,077**	**22,824**	**24,502**
Short term debt	2,128	903	903	903
Others	474	412	412	412
Total current liabilities	2,712	1,445	1,445	1,445
Long term debt	5,344	5,164	8,064	8,064
Other liabilities	949	857	939	1,082
Shareholders' equity				
Group equity	7,497	7,581	12,346	13,881
Total liabilities and equity	**16,531**	**15,077**	**22,824**	**24,502**

Ratio Analysis

€ in millions, year end Dec	FY13	FY14E	FY15E	FY16E
Operating return	5.3%	5.2%	4.9%	4.7%
Capital return	0.3%	1.2%	3.2%	5.1%
ROIC	5.6%	6.4%	8.1%	9.8%
EVA spread	1.3%	2.0%	3.7%	5.5%
ROE (recurring)	7.5%	7.3%	8.5%	6.5%
ROE (total)	8.4%	9.9%	12.9%	15.9%
Net debt / total assets	44.3%	37.9%	38.1%	36.0%
Net debt / equity	97.8%	75.3%	70.5%	63.5%
Equity / assets	45.4%	50.3%	54.1%	56.7%
Property income / assets	0.5%	0.5%	0.4%	0.3%
Rental income / assets	6.0%	5.4%	6.6%	5.4%
EBITDA / assets	5.0%	4.6%	4.5%	4.3%
% change Y/Y	*3.5%*	*(7.2%)*	*(2.0%)*	*(4.5%)*
WACC	4.4%			

Source: Company reports and J.P. Morgan estimates.

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JPM Q-Profile

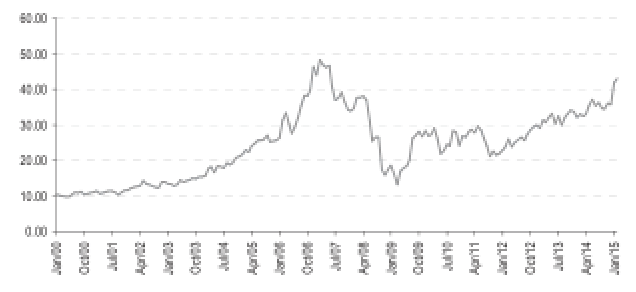
Klepierre SA (FRANCE / Financials)

As Of: 06-Feb-2015

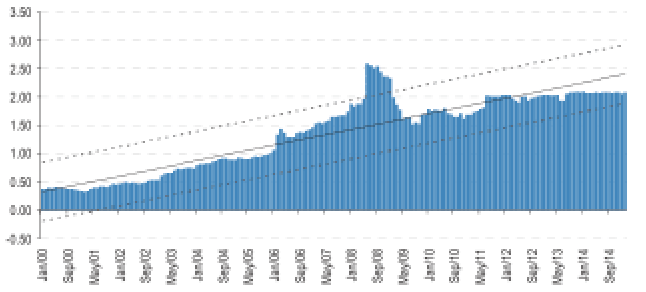
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

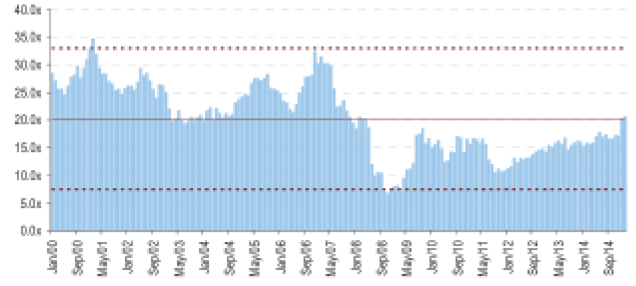
Local Share Price Current: 43.18



12 Mth Forward EPS Current: 2.09

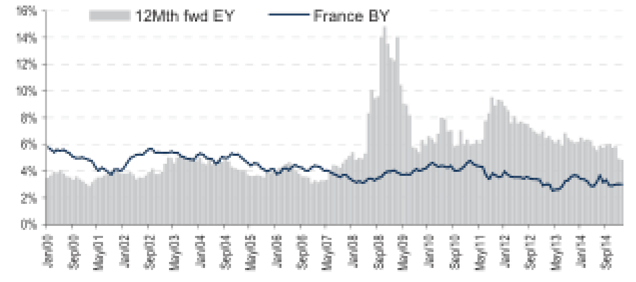


PE (1Yr Forward) Current: 20.7x

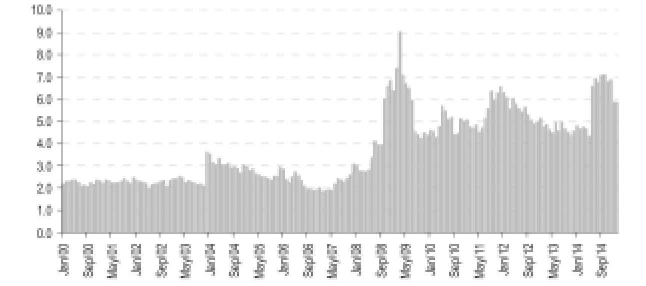


P/E Relative to France Index Current: 2.04

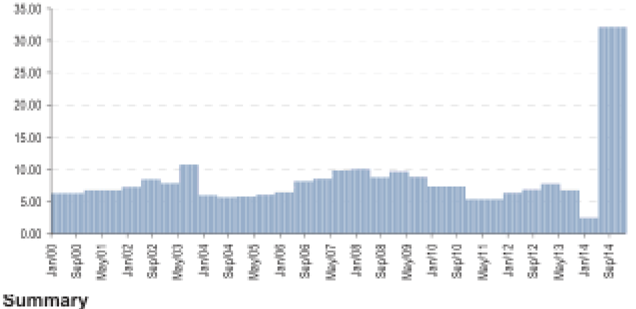
Earnings Yield (& Local Bond Yield) Current: 5%



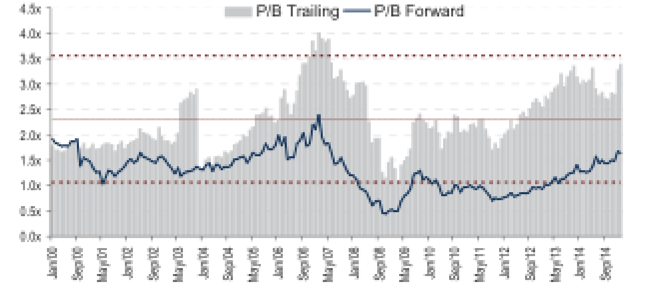
Dividend Yield (Trailing) Current: 5.88



ROE (Trailing) Current: 32.15



Price/Book (Value) Current: 3.4x



Summary

Klepierre SA											
FRANCE	TICKER LI FP							Local Price:			43.18
Financials								EPS:			2.09
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	20.68x	6.73	34.71	20.24	20.21	32.99	7.44	-67%	68%	-2%	-2%
P/BV (Trailing)	3.40	1.11	4.03	2.16	2.32	3.57	1.07	-67%	18%	-36%	-32%
Dividend Yield (Trailing)	5.88x	1.86	9.05	3.05	3.77	7.03	0.51	-68%	54%	-48%	-36%
ROE (Trailing)	32.15	2.49	32.15	7.25	8.45	19.79	-2.88	-92%	0%	-77%	-74%

As Of: 6-Feb-15

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

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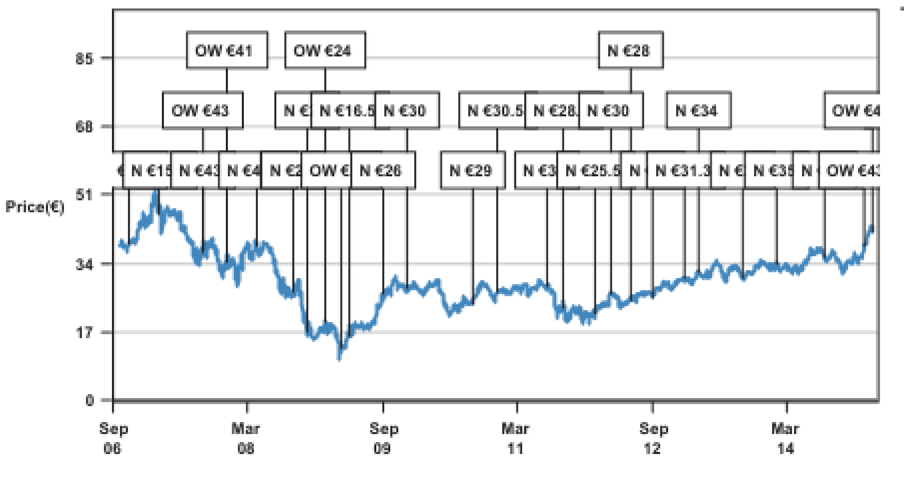
Klepierre (LOIM.PA, LI FP) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Nov 08, 2006.

Date	Rating	Share Price (€)	Price Target (€)
08-Nov-06	N	38.71	140.00
06-Mar-07	N	46.20	155.00
30-Aug-07	N	36.65	43.00
03-Sep-07	OW	37.54	43.00
07-Dec-07	OW	34.29	41.00
07-Apr-08	N	38.42	43.50
03-Sep-08	N	26.88	29.00
30-Oct-08	N	17.14	20.00
12-Jan-09	OW	19.44	24.00
18-Mar-09	OW	13.07	15.00
20-Apr-09	N	16.00	16.50
01-Sep-09	N	26.22	26.00
09-Dec-09	N	27.94	30.00
01-Sep-10	N	24.10	29.00
07-Dec-10	N	26.74	30.50
30-Jun-11	N	28.46	32.00
30-Aug-11	N	23.05	28.50
11-Jan-12	N	21.24	25.50

15-Mar-12	N	26.38	30.00
01-Jun-12	N	24.84	28.00
04-Sep-12	N	25.60	29.00
08-Jan-13	N	30.19	31.30
06-Mar-13	N	32.04	34.00
02-Sep-13	N	30.46	33.00
14-Jan-14	N	33.64	35.00
31-Jul-14	N	35.35	39.00
14-Jan-15	OW	38.50	43.00
09-Feb-15	OW	41.86	45.00

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
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	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	45%	43%	12%
IB clients*	56%	49%	33%
JPMS Equity Research Coverage	45%	48%	7%
IB clients*	75%	67%	52%

*Percentage of investment banking clients in each rating category.
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J.P.Morgan CAZENOVE

Europe Equity Research
05 May 2015

Aeroports de Paris (ADP)

Q1 revenues in line; Management reiterates guidance, but visibility on ERA3 still limited - ALERT

Neutral

ADP.PA, ADP FP

Price: €111.35

04 May 2015

European Construction, Building Materials & Infrastructure

Elodie Rall AC

[redacted]

Bloomberg JPMA RALL <GO>

Hannah Lee

[redacted]

Emily Biddulph

[redacted]

Rajesh Patki

[redacted]

J.P. Morgan Securities plc

For Specialist Sales advice, please contact:

Ian Mitchell

[redacted]

ADP reported Q1 revenues broadly in line with expectations. The company held a call at 8am GMT and maintained guidance for the year (comments included below).

- **Aviation revenues up 5.8%.** Revenue from airport fees (passenger fees, landing fees and aircraft parking fees) was up 4.0%, to €214 million, benefiting from the combined increase in tariffs (+2.95% on 1 April 2014) and the growth in passenger traffic (+2%). Elsewhere, ancillary fees grew 14.5% due to higher de-icing fees from a harsher winter in 2015.

- **Retail strong, up 2.1% (note Q1 14 were restated).** Retail activities were up 8%, driven by the growth in traffic of highly contributive destinations, the opening of shops in Q4 and the positive FX effect vs. the euro. Retail sales per PAX grew 9.7% to €19.8 in Q1 15 (vs. 2015 guidance of €19), although we note Q1 and Q4 are traditionally the best performing quarters during the year. Performance in duty free shops was particularly strong. Car parks were down 3.3% on harder comps, but the company expects flattish revenues for 2015.

- **Elsewhere performance was in line with expectations.** Real estate, international and other divisions are performing in line with expectations.

- **Update on ERA.** The company is expecting an advice from the regulator at the end of June and is still planning to sign an agreement in July. Airlines have already got back to the regulator, but the company didn't comment on the reactions. The company is to present 2020 targets at the investor day in Q4.

- **Guidance maintained for the year.** Traffic guidance is unchanged at 2.6% for 2015 while the company indicated Q1 confirmed the company's original guidance for the year (EBITDA of €1.1bn-1.2bn, JPMe €1.2bn).

Table 1: Summary of ADP Q1 revenue results

€m	Q1 15 actual	JPMe Q1 15	Q1 14 actual*	YoY %change
Aviation	398	389	376	5.9%
Retail	210	229	205	2.4%
Real Estate	64	65	65	-1.5%
Others	48	47	47	2.1%
International and airport developments	18	20	16	12.5%
Eliminations	-76	-91	-73	4.1%
Total Revenues	**662**	**659**	**637**	**3.9%**

Source: company and JPM estimates. *Q1 14 restated.

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Aeroports de Paris (ADP) (ADP.PA, ADP FP) Price Chart

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage May 06, 2011.

Date	Rating	Share Price (€)	Price Target (€)
06-May-11	OW	64.69	75.00
11-Oct-11	N	57.59	70.00
19-Jun-12	N	58.36	65.00
27-Nov-12	UW	59.00	58.00
09-Aug-13	N	78.44	82.50
01-Apr-14	N	90.51	96.00
10-Jul-14	N	96.50	101.00
19-Dec-14	N	96.17	104.00
06-Mar-15	N	106.70	118.00
26-Mar-15	N	112.50	110.00

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J.P.Morgan CAZENOVE

Europe Equity Research

14 May 2015

Aena (AENA SM)

Neutral

Price: €89.16
13 May 2015
Price Target: €91.00
PT End Date: 01 May 2016

Feedback from Q1 conference call: Visibility on regulation remains low but operations solid

Aena hosted a conference call for analysts and investors this morning. Overall we think management confirmed that underlying, the business is performing well operationally and that cost control on several fronts could continue through the year. However, we would flag that airports are seasonal businesses, and given a lack of reporting history, we think it is potentially too early to extrapolate Q1's strong trends in terms of FY estimates. The main focus, however, is on the ongoing regulatory issues with the CNMC, against which the company confirmed that they have filled legal proceedings, but no clarity was given with regards to the timing of any outcome.

- **Legal proceedings filed against CNMC but no timing given.** Aena confirmed on the call that it has launched legal proceedings against the CNMC in relation to the cost allocation decision. No details around the potential timing of an outcome were given, however. The company is still in negotiations with the airlines with regards to 2016 tariffs, and we learnt on the call that Aena's proposal is based on the accumulation of a deficit in the prior two years (although an exact figure was not given), i.e. the tariff proposal is for 0% as opposed the fall of 2% to 3% discussed by the CNMC.

- **Reassuring that uplift in Commercial not entirely reliant on MAGs.** We were reassured on the call that the 46.3% uplift in Duty Free revenues was not all due to the MAGs, and management confirmed that the contribution from MAGs totaled just ~€5m, compared to Duty Free sales of €41m. We think this bodes well for the underlying trend.

- **Cost control is a positive on several fronts.** Elsewhere operationally, we think Aena is progressing well. As we flagged in our reaction to the results release last night, costs progressed just 0.9%, vs. the overall growth in group revenues of 8.4% (ex-Luton impact). Management also flagged that there is potentially an opportunity to further fix interest costs on some of its revisable rate debt, which we think could help keep financial costs down, and note that Q1 financial expenses have already fallen 10.9% yoy. On the subject of capex, management mentioned that it does not expect to spend the maximum allowed €450m capex this year and instead is likely to invest closer to ~€350m.

Investment Thesis

Aena is the world's largest airport operator as measured by passengers carried. In 2014, Aena handled 195.9m passengers across the 46 airports it owns and operates in Spain. The three main airports within Aena's network: Madrid Barajas, Barcelona El Prat and Palma de Mallorca make up more than half of Aena's total passenger traffic and each serves as a hub to different airlines.

Our investment case for Aena is based on: 1) the group's gearing to potential traffic recovery in Spain. As of the end of 2014, traffic on the Spanish network was 7% below peak levels, compared to European airport peers, which have already rebounded above previous peaks. Domestic traffic in particular is depressed at 35% below previous peak levels. 2) A regulatory regime that is less dependent than peers on negotiations with airlines for fee increases in that Aena expects no tariff increases in the future, given its subdued capex profile going forward. The airports can rely on previous over-expansion for growth capacity. 3) Free cash flow profile and dividend potential. Due to capex spend over the next ten years comprising roughly half of depreciation, we note, on our estimates, that Aena becomes very FCF generative, which we feel provides headroom for an increase to the 50% dividend payout in the future. We however rate the shares as Neutral given at present we feel the market is starting to factor in a partial re-rating of multiples on the retail division and we remain cautious on near term regulatory issues.

Valuation

We value Aena using the same methodology we apply to the other companies in the European airport space. Our methodology takes 50% of our DCF per share valuation of €106 and 50% of our SOTP per share valuation of €77. Our DCF valuation is predicated on the same 1% long-term growth rate assumption we use for the other European airports and an applied WACC of 5.8%. Our SOTP valuation methodology is based on a 0.9x RAB multiple and values the retail business on 12x EV/EBITDA, in line with where Duty Free players trade. International interests are accounted for using book value, or market value in the case of GAP.

Risks to Rating and Price Target

The main risks to our Neutral recommendation are: 1) a decline in traffic-related to weaker Spanish or global GDP, 2) tariff shocks related to geopolitical events or unexpected events in the airline industry, 3) changes to the regulation, 4) strong inflation, as tariffs are not directly linked to CPI, 5) unfavorable M&A in the international airports division, 6) uncertainty related to litigation claims, 7) the potential for traffic to grow much faster than anticipated and 8) the potential for retail spending and Commercial revenues to materially outperform.

European Construction, Building Materials & Infrastructure

Elodie Rall [AC]
[redacted]
Bloomberg JPMA RALL <GO>
Hannah Lee
[redacted]
J.P. Morgan Securities plc

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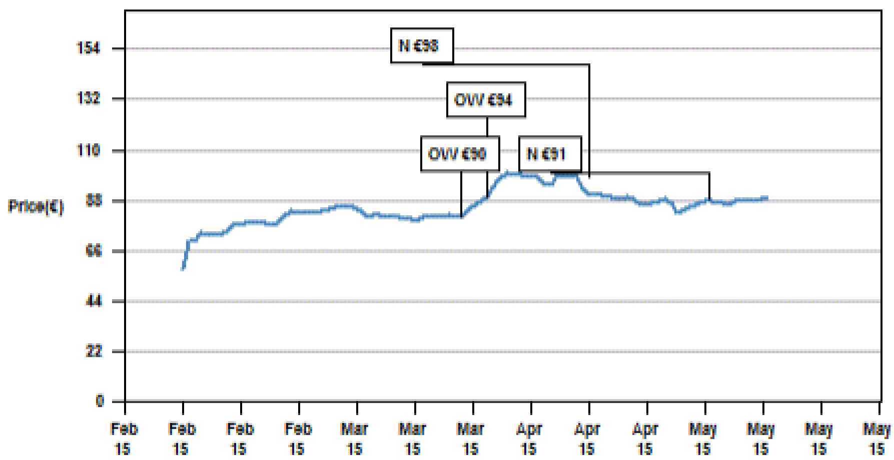
Aena (AENA.MC, AENA SM) Price Chart



Date	Rating	Share Price (€)	Price (€)
26-Mar-15	OW	80.66	90.0
30-Mar-15	OW	89.46	94.0
15-Apr-15	N	98.50	98.0
04-May-15	N	88.52	91.0

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Mar 26, 2015.

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Atlantia

Q1 Results: Underlying performance in line but results hit by one-offs - ALERT

Overweight

ATL.MI, ATL IM

Price: €23.54

08 May 2015

European Construction, Building Materials & Infrastructure

Elodie Rall [AC]
[redacted]

Bloomberg JPMA RALL <GO>

Hannah Lee
[redacted]

Emily Biddulph
[redacted]

Rajesh Patki
[redacted]

J.P. Morgan Securities plc

For Specialist Sales advice please contact

Ian Mitchell
[redacted]

Atlantia reported Q1 results this afternoon. Overall revenues of €1,134m were broadly in line with our estimates but EBITDA of €686m missed our forecast by 1.7% due to slightly higher winter costs and a one-off unfavorable settlement with a service provider. Net Income of €32m missed our estimate for €65m, again largely due to one-offs. Notably, the group ended the quarter with net debt of €10.1bn, a reduction of €455m on the previous year and comparing favorably to our 2015 FYe for €10.2bn. Guidance for traffic stabilization on the toll roads and growth at the airports remains unchanged.

- **Traffic grew as expected in Italy at 0.9% in Q1.** Atlantia reported an improvement on Italian toll road traffic of 0.9% (vs. JPMe 0.9%) in Q1 2015, driven by a 2.4% improvement in heavy vehicles as light vehicles grew just 0.6%. Traffic growth of 9.1% at the Rome airports was already reported while road traffic grew 6.7% (vs. JPMe 6.5%) in Chile and fell 2.4% in Brazil (vs. JPMe -2%).
- **Revenues in line but EBITDA slightly weaker.** Reported revenues of €1,134m came in as expected (JPMe €1,144m), although EBITDA of €686m missed our estimates by 1.7% due a negative settlement with an oil service provides, a €4m increase in winter related costs and an increase in labour costs (staff no. up 7% yoy) as more projects were in sourced at ADR and in Brazil.
- **Financial one-off costs weigh on net income.** Atlantia reported attributable net income of €32m (missing our estimates for €65m by 50%) due to negative impacts from 1) lower discount rates used in provisions for construction services, 2) higher than expected financial expenses of €326m vs. JPMe €319m due to bigger than anticipated one-off costs related to bond buybacks and 3) higher tax rates (41% vs. JPMe 36%).
- **Guidance unchanged but still broad.** Management guidance for a stabilization in toll road traffic and continued growth in airport traffic in Italy is consistent with their statements at the FY. Atlantia is now also guiding for an overall improvement in operating results.

Table 1: Summary of Atlantia Q1 results

€m	Q1 2015 actual	JPMe Q1 2015	Consensus	Q1 2014 actual	Change YoY
Toll Revenue	831	828		802	3.6%
Aviation Revenue	110	108		102	7.8%
Contract Revenue	18	19		19	-5.3%
Other Operating Revenue	175	188		188	-6.9%
Total Revenues	1,134	1,144	1,147	1,111	2.1%
EBITDA	686	698	693	674	1.8%
EBIT	413	444	426	417	-1.0%
PBT	87	129		242	-64.0%
Attributable Net Profit	32	65	58	128	-75.0%

Source: J.P. Morgan estimates, Company data, Bloomberg consensus.

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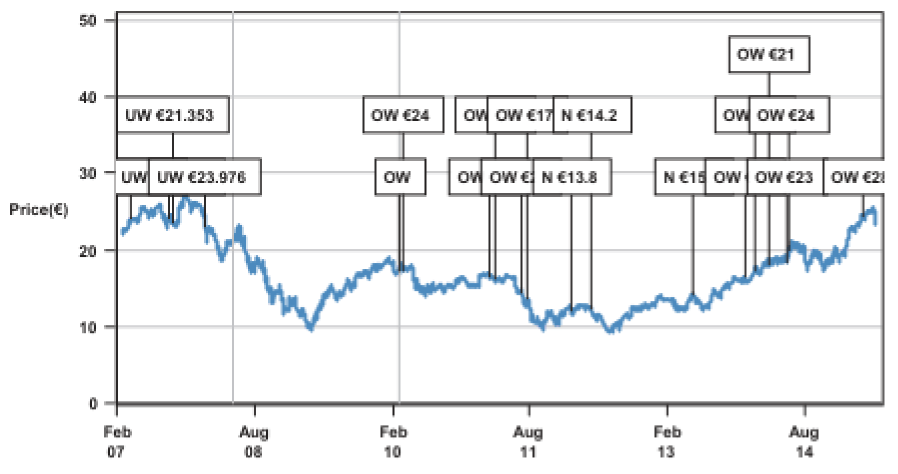
Atlantia (ATL.MI, ATL IM) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Mar 01, 2010 - Mar 18, 2010.

Date	Rating	Share Price (€)	Price Target (€)
30-Mar-07	UW	24.00	19.19
29-Aug-07	UW	23.94	19.21
10-Sep-07	UW	23.62	21.35
21-Jan-08	UW	22.94	23.98
01-Mar-10	OW	17.36	--
18-Mar-10	OW	17.26	24.00
22-Feb-11	OW	16.47	20.00
14-Mar-11	OW	16.22	21.00
27-Jun-11	OW	14.35	20.00
22-Jul-11	OW	13.49	17.00
12-Jan-12	N	11.95	13.80
30-Mar-12	N	12.37	14.20
13-May-13	N	14.11	15.30
02-Dec-13	OW	16.43	19.00
13-Jan-14	OW	17.18	20.00
14-Mar-14	OW	17.94	21.00
23-May-14	OW	18.40	23.00
30-May-14	OW	19.84	24.00
19-Mar-15	OW	24.30	28.00

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
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IB clients*	55%	49%	37%
JPMS Equity Research Coverage	44%	48%	9%
IB clients*	75%	68%	54%

*Percentage of investment banking clients in each rating category.
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