



ATLANTIC CAPITAL MARKETS



Leisure and Tourism Sector Review

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The recent market collapse has weighed heavily on certain sectors more than others, undoubtedly one of the biggest casualties is those relating to travel, leisure and tourism. Whilst some sectors are now in full swing recovery, the travel stocks are still bumping along lows with sporadic moves up and down in the short term as the market wrestles with short term impact Vs long term prospects. As we see global economies ease lockdowns and talk emerges of international travel starting again, all eyes turn to the sector and the potential for recovery. The firms involved will be sure the recovery is on as we come out of lockdowns but that is only one issue for them, they also need to rebuild consumer confidence. Air travel, cruise ships, and package holidays could be a tough sell this summer. Social distancing rules and the threat of quarantining mean popular holiday activities will be more restricted than usual.

Tui Travel

Ticker: TUI
6 month high: 979p

Brief History

TUI Travel PLC is a British leisure travel group headquartered in Crawley, West Sussex. The company was formed in September 2007 by the merger of First Choice Holidays PLC and the Tourism Division of TUI AG. The company was originally founded in 1923 in Berlin. In 2000 it acquired Thomson Travel and in 2002 bought Hapag Lloyd, which itself owned the travel firm TUI (formerly Touristik Union International) and renamed itself TUI AG. In June 2014 TUI AG and TUI Travel announced the two companies would be merged.

Fundamentals

Company Name	TUI AG		
Sector	Travel & Tourism		
Shares in Issue (m)	588.92	Market Cap (£m)	3,065.91
PE Ratio	7.33	Div per Share (c)	54
Div Yield	10.37	Div Cover	1.31
EPS	71	EPS Growth (%)	-43.2
PEG	-0.17	DPS Growth (%)	-25
Debt Ratio	53.28	Debt Equity Ratio	0.39
Net Gearing	63.7	Gross Gearing	74.4
Asset Equity Ratio	3.91	Cash Equity Ratio	41.81
Quick Ratio	0.57	Current Ratio	0.59
Price To Book Value	0.74	ROCE	7.75

Technical Chart



Summary

Tui were one of the biggest casualties of the sell offs, and whilst recovery moves are starting to come into play, it still looks like they have plenty of challenges ahead before they are out of the woods. The company has already taken significant steps to improve the overall financial position. In March, TUI secured a €1.8bn government-backed loan in Germany which increased the company's available cash resources to €3.1bn. CEO Fritz Jousen plans to reduce overhead costs by 30% and cut up to 8,000 jobs.

While some countries are starting to lift restrictions on travellers, there's no guarantee the market will be able to return to the level of activity before the crisis emerged. This suggests the outlook for the TUI share price is likely to remain vulnerable to news flows for some time. Undoubtedly this shifting landscape and cost cutting will also impact the high street and a move to a more digital presence would be highly probable. What's more, the TUI balance sheet is relatively vulnerable. The firm has been on an expansion drive in recent years. With earnings slumping, it's difficult to see how the business will pay for all the capital spending it's commissioned over the past few years. It is not a share for the faint hearted and short-term swings will continue to be aggressive.

EasyJet

Ticker: EZJ
6 month high: 1545p

Brief History

In 1995, EasyJet was established by Stelios, being the first company in the easyGroup conglomerate. When launched the company was based at Luton Airport which was

traditionally used mainly for charter flights. In April 1996, their first fully owned aircraft was delivered, enabling the company's first international route to Amsterdam, which was operated in direct competition with rival airlines British Airways and Dutch flag carrier KLM. On 5 November 2000, EasyJet was floated on the London Stock Exchange. In October 2004, the FL Group, owner of the airlines Icelandair and Sterling, purchased an 8.4% stake in the airline. Over the course of 2005, FL increased its share in the company periodically to 16.9%, fuelling speculation that it would mount a takeover bid for the UK carrier. However, in April 2006 FL sold the stake.

In March 2013, EasyJet was promoted to the FTSE 100; during the same month, the company launched its 100th route from Gatwick Airport, offering flights directly from London to Moscow. By 2015, the company was flying routes to more than 130 destinations in 31 countries, operated 26 bases centred around Europe, and had a total of 10,000 employees.

Fundamentals

Company Name	Easyjet		
Sector	Airlines		
Shares in Issue (m)	397.21	Market Cap (£m)	2,804.29
PE Ratio	7.97	Div per Share (p)	43.9
Div Yield	6.22	Div Cover	2.02
EPS	88.6	EPS Growth (%)	-2.53
PEG	-3.15	DPS Growth (%)	-25.09
Debt Ratio	45.68	Debt Equity Ratio	0.49
Net Gearing	47.69	Gross Gearing	63.43
Asset Equity Ratio	2.74	Cash Equity Ratio	43.05
Quick Ratio	0.79	Current Ratio	0.79
Price To Book Value	0.94	ROCE	7.83

Technical Chart



Summary

Recently EasyJet chose to ground the entire fleet of planes. Running an airline swallows a huge amount of capital, so without the bookings then this is the only realistic option. Whilst dramatic in the short term it is a prudent long-term move. EasyJet announced that it had collaboratively come to an agreement with Unite, the union, on furlough arrangements for their cabin crew. No debt refinancing is due until 2022. Before the true extent of the coronavirus crisis was realised, EasyJet's Q1 trading update in January did show that passenger numbers and revenue had increased on Q1 2019, and there was "robust demand across Europe" and "low competitor capacity growth in the market". It also praised the success of the easyJet Holidays launch in November 2019.

With nobody quite sure when it's planes will be flying again; these results might seem of little consequence and certainly will not be reflected in the easyJet share price. However, it is important to remember that you are buying part of an otherwise-strong company.

Carnival

Ticker: CCL
6 month high: 2660p

Brief History

Carnival Cruise Line was founded in 1972 by Ted Arison. Until 1975, the line consisted of only one ship, the Mardi Gras. In 1975 another ship was acquired, the Carnivale. Carnival is one of ten cruise lines now owned by the world's largest cruise ship operator, the American-British Carnival Corporation & plc. In 2018 Carnival Cruise Line was estimated to hold an 8.9% share of cruise industry revenue and 22.0% of passengers. It has 26 vessels and is the largest fleet in the Carnival group. The ships fly flags of convenience: 18 of the ships fly the Panama flag, six that of the Bahamas and two that of Malta. The firm's headquarters are in Miami, Florida, United States. The North American division of Carnival Corporation has executive control over the corporation and is headquartered in Doral, Florida.

Fundamentals

Company Name	Carnival		
Sector	Recreational services		
Shares in Issue (m)	156.87	Market Cap (£m)	1,779.69
PE Ratio	2.61	Div per Share ()	200
Div Yield	14.14	Div Cover	2.17
EPS	434	EPS Growth (%)	-2.47
PEG	-1.06	DPS Growth (%)	2.56
Debt Ratio	29.4	Debt Equity Ratio	0.54
Net Gearing	42.55	Gross Gearing	43.7
Asset Equity Ratio	1.78	Cash Equity Ratio	2.04
Quick Ratio	0.18	Current Ratio	0.23

Technical Chart



Summary

Carnival's P/E and EPS metrics point to a cheap share, however cheap is not always good. A lot will hinge on how Carnival emerges from the pandemic and how profitable it proves to be in the months and years ahead. They also came heavily under fire at the start of the sell offs largely due to the press coverage of outbreaks onboard certain ships. However, Carnival are a well-known brand with a very loyal following.

Carnival said it would extend the closure of its entire cruise business to 1st of August. In August, eight of the group's 105 ships will restart operations from three US ports. All other sailings will be cancelled until at least 31st of August. Carnival will be trying hard to persuade travellers to reschedule their trips rather than receive a cash refund but considering the average age of its customers they may see a more hesitant client base willing to commit to rebooking in the near term. The reality is that with the current backdrop despite being the world's largest operator it could take a few years to return to normal, it enjoys economies of scale and a huge marketing reach. Carnival remains highly geographically diversified. I would expect to see the next set of figures from the firm highlight a shocking loss for the year, but the market will undoubtedly be pricing this in. The latest accounts show ships and property valued at \$38bn, highlighting a NAV of around 2000p per share. It is going to be a rough ride in the near term but if they can get through the next 6 months then could offer investors strong upside potential.

Intercontinental Hotels

Ticker: IHG
6 month high: 5180p

Brief History

InterContinental Hotels Group plc is a British multinational hospitality company headquartered in Denham, Buckinghamshire, England. IHG has about 840,000 guest rooms and 5,656 hotels across nearly 100 countries. IHG owns several brands, including InterContinental, Regent Hotels, Six Senses Hotels, Kimpton Hotels and Resorts, Hualuxe, Crowne Plaza, Voco Hotels, Hotel Indigo, Holiday Inn, Holiday Inn Express, Holiday Inn club vacations, avid, Candlewood Suites, EVEN Hotels, and Staybridge Suites.

Fundamentals

Company Name	Intercontinental Hotels		
Sector	Hotels		
Shares in Issue (m)	182.66	Market Cap (£m)	7,430.46
PE Ratio	19.34	Div per Share (c)	125.8
Div Yield	3.09	Div Cover	1.67
EPS	210.4	EPS Growth (%)	13.91
PEG	1.39	DPS Growth (%)	9.97
Debt Ratio	156.11	Debt Equity Ratio	0.75
Net Gearing	131.94	Gross Gearing	136.85
Asset Equity Ratio	-2.71	Cash Equity Ratio	-13.31
Quick Ratio	0.68	Current Ratio	0.69
Price To Book Value	-5.07	ROCE	20.76

Technical Chart



Summary

The recent Q1 update from Intercontinental wasn't particularly good reading and this was largely expected, Revenue per available room fell to just under 25% in the quarter, compared to the same period in 2019. Based on the company's predictions for April, Q2 is likely to be just as bad. CEO Keith Barr said the coronavirus is "the most significant challenge both IHG and our industry have ever faced" and that Intercontinental expected "continued disruption in the months ahead."

It wasn't a total disaster as the firm have seen lower levels of revenue decline than others in the same arena. It attributed this to being less dependent on international travel and big events to make money than in other parts of the world. The firm has also been proactive in slashing costs and now has a decent cash pile at its disposal. In a very bullish move the firm has also highlighted that they can actually operate for over a year in a zero-occupancy environment.

Whitbread

Ticker: WTB
6 month high: 4461p

Brief History

Whitbread plc is a British multinational hotel and restaurant company headquartered in Houghton Regis, Bedfordshire, United Kingdom. The business was founded as a brewery in 1742 and had become the largest brewery in the world by the 1780's. Its largest division is currently Premier Inn, which is the largest hotel brand in the UK with over 785 hotels and 72,000 rooms. Whitbread's brands include the restaurant chains Beefeater, Brewers Fayre and Table Table. The business was formed in 1742 when Samuel Whitbread formed a partnership with Godfrey and Thomas Shewell and acquired a small brewery at the junction of Old Street and Upper Whitecross Street and another brewhouse for pale and amber beers in Brick Lane, Spitalfields. Godfrey Shewell withdrew from the partnership as Thomas Shewell and Samuel Whitbread bought the large site of the derelict King's Head brewery in Chiswell Street in 1750. The new brewery was to produce porter and was renamed the Hind Brewery after the Whitbread family coat of arms.

Fundamentals

Company Name	Whitbread		
Sector	Restaurants & Bars		
Shares in Issue (m)	134.55	Market Cap (£m)	3,365.22
PE Ratio	17.14	Div per Share (p)	32.7
Div Yield	1.31	Div Cover	4.46
EPS	145.9	EPS Growth (%)	26.65
PEG	0.64	DPS Growth (%)	-67.19
Debt Ratio	47.78	Debt Equity Ratio	0.84
Net Gearing	45.67	Gross Gearing	52.1
Asset Equity Ratio	2.09	Cash Equity Ratio	13.41
Quick Ratio	1.29	Current Ratio	1.31
Price To Book Value	0.9	ROCE	3.9

Technical Chart



Summary

Whitbread shares did lose some shine after it sold the popular Costa Coffee brand to Coca Cola. And whilst they are the UK's leading hotel business and is expanding in Germany (which has started to ease lockdown rules as well) they are still highly vulnerable to any potential delay in easing up the lockdown rules. Recently they have shored up the balance sheet with a £1bn rights issue, but losses look set to extend into 2021. Hotels are reopening in Germany, but occupancy levels will remain low. The cash raise will help the hotel and restaurant owner take advantage of cheaper land prices in the UK and Germany in the wake of the coronavirus crisis, but I think the reality will be to sure up the business before new acquisitions.

'Despite the challenges the industry faces, Whitbread's strategy to drive long-term value has not changed and remains compelling,' insisted Whitbread CEO Alison Brittain.

'Germany offers an enormous opportunity for structural growth, with a large domestic market and a fragmented and declining independent sector,' she added. Whitbread's 2020 full-year results saw pre-tax profit fall 8.2% to £358 million due to weaker UK travel market conditions, with the company opting to suspend the dividend pay-outs to shareholders for the foreseeable future.

Sector Summary

Over the last few months, shares of all travel related stocks have collapsed, especially the cruise companies, airlines and hotels due to the fear that it will take years for companies in the travel industry to recover, Even to the point that Berkshire Hathaway CEO Warren Buffett, famous for his saying "you should be greedy when others are fearful," has exited all of his positions in airline companies.

But it is worth remembering that the travel and tourism industry contributed over \$9 trillion to global gross domestic product (GDP) in 2019, making it one of the largest sectors on the planet. There's still value to be had from the travel industry for those with a long-term view and a higher appetite for risk.

Keep in mind that these contrarian investments are not for everyone and the reality is the recovery could take years. The sector is still trying to weigh up the long-term implications of the new world we will be living in and how that plays out relating to international travel and restrictions and even people's overall attitude to crowded airports and hotels. If the infection numbers continue to decline then the recovery will continue but any knock back to this will impact travel and leisure first. For those that look at short term trading there is the potential for big profit but this goes hand in hand with the higher risk associated. There should be room for some of these stocks in your portfolio but it needs to be kept balanced and spread out over the various sectors.

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