



Germany's TUI to shake up tourism, keep shipping

By James Regan

15 December 2006

14:12

Reuters News

HAMBURG, Germany, Dec 15 (Reuters) - German tourism and shipping firm TUI aims to boost earnings by restructuring its airline and cruise businesses and cutting jobs after disappointing shareholders this year, it said.

Despite pressure from some investors to break up the group, TUI said on Friday it would not sell its shipping division, which it said could deliver operating profit considerably above 600 million euros (\$792.4 million) from 2009.

TUI shares were down almost 6 percent at 15.09 euros on Friday, making them the worst performers on the German DAX index <.GDAXI>, after the firm slashed its earnings forecasts for 2008 and scrapped a dividend for 2006 late on Thursday.

TUI Chief Executive Michael Frenzel told a news conference in Hamburg on Friday that he knew shareholders were disappointed in 2006, which was "not a good year".

But he added: "Our action plan clearly aims to significantly improve profitability in the tourism division. Despite the currently difficult market situation in shipping and tourism, TUI is aiming to achieve a substantial improvement in earnings in the medium term."

The DJ EuroStoxx travel & leisure index <.SXTP> is up 21.3 percent this year, while index member TUI has lost 11.2 percent. TUI trades at 20.3 times estimated 2007 earnings, compared with a pan-European tourism and travel sector average price/earnings multiple of 19.7, according to Reuters Estimates.

Frenzel has transformed TUI from industrial conglomerate Preussag over the past eight years, expanding its Hapag-Lloyd unit through the \$2 billion purchase of CP Ships last year to become the world's fifth-biggest container shipper.

Any form of sale of the shipping unit was "currently not a feasible option", he said, adding that TUI had scrutinised its strategic options following "outspoken criticism".

Christopher Kummer, director of the Institute of Mergers, Acquisitions and Alliances at Webster University, said: "Investors would love to see TUI separate the tourism and shipping business. By splitting the company up, the conglomerate discount could be lifted. Both units on a stand-alone basis could perform much better."

CRUISE VENTURE

TUI also said it had ordered 65 new Boeing short-haul and long-haul planes, mostly 737s, worth just over 3 billion euros and would combine its airlines under the new brand TUIfly.com to create a 60 million-euro earnings boost.

The firm would set up a cruise joint venture with Carnival, in which TUI would take a 25 percent stake by 2010 for a cost of about 300 million euros.

TUI now expects a shipping operating profit of 400 million to 500 million euros by 2008, below its previous forecast of 650 million. It considers tourism earnings of 450 million to 550 million euros by 2008 to be realistic, below its previous forecast of 700 million euros.

Frenzel declined on Friday to say whether the firm would post an operating profit or loss overall for 2006.

On Thursday, TUI said it planned to reduce costs by 250 million euros by 2008, including 100 million in personnel expenses. About 3,600 jobs will be cut in the tourism business, including 2,600 in the UK, 400 in Germany and 200 in France.

The company said it would at the same time create 3,300 jobs at its airlines, hotels and resorts.

"The announced measures are painful for the company, but at the same time, we also think that they are feasible," said HVB credit analyst Carmen Hummel in a credit research note. She cut her recommendation on TUI's hybrid bond to "sell" from "hold".

(Additional reporting by Peter Starck in Frankfurt)