TUI AG (TUI)

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24 September 2019

TUI GROUP

Pre-Close Trading Update

Prior to entering its close period ahead of reporting its full year results for the twelve months ending 30 September 2019 on 12 December 2019, TUI Group announces the following update on current trading.

Chief Executive of TUI Group, Friedrich Joussen, commented:

"On Monday 23 September 2019, our competitor Thomas Cook UK Plc and associated UK entities entered into compulsory liquidation. TUI is preparing measures to support. Where TUI customers are booked on Thomas Cook Airlines flights and these are no longer operated, replacement flights will be offered. We are currently assessing the short term impact of Thomas Cook's insolvency under the current circumstances, on the final week of our FY19 financial result.

"Our vertically integrated business model proves to be resilient, even in this challenging market environment. Our Holiday Experiences business continues to deliver strong results. Meanwhile, our Markets & Airlines business faces a number of ongoing external challenges such as the grounding of the 737 MAX aircraft, airline overcapacities and continued Brexit uncertainty. The Summer 2019 season is however closing out in line with expectations and we therefore reiterate FY19 underlying EBITA guidance stated in our ad hoc announcement of March 2019 of approximately up to minus 26% compared with underlying EBITA rebased in FY18 of EUR1,177m.[1]

"These external challenges will continue in FY20 - therefore, we will focus on becoming more cost competitive in our Markets & Airlines business to protect and extend our market share where possible. Going forward, our two key digital strategic initiatives will deliver greater customer reach in new markets complementary to our existing markets, through our new GDN-OTA[2] platform as well in our Destination Experiences markets through our Musement platform, driving further demand to our own Holiday Experiences businesses. TUI is well-positioned to become an integrated digital tourism platform business."

[1] Based on constant currency: FY19 comparative rebased in December 2018 to EUR1,187m to take into account EUR40m impact for revaluation of Euro loan balance within Turkish Lira entities in FY18, and adjusted further to EUR1,177m for retrospective application of IFRS 15
[2] Global distribution network (GDN) as TUI's new Online Travel Agent (OTA) platform, serving run rate of 250k customers to date

Current Trading

In Hotels & Resorts, our diversified portfolio of destinations continues to deliver balanced results with demand shifting from Western to Eastern Mediterranean. As anticipated, we are seeing demand for Spain normalising with both rates and occupancies coming off record highs in recent years, offset by better results in our Turkish hotels. By the end of this financial year, we will have successfully opened ~70 new hotels since merger, well ahead of our 60 target set at the time of the merger. Going forward we will continue to further diversify our asset portfolio and selectively invest in our key hotels brands such as Riu, Robinson and Blue Diamond. We will build up our TUI Blue brand from 10 to ~100 hotels by the end of 2020 through the repositioning of existing hotels within the portfolio. TUI Blue will become our flagship hotel brand, allowing for asset-light growth.

In Cruises, we successfully launched the new TUI Cruises Mein Schiff 2, Marella Explorer 2 and Hanseatic nature for Hapag-Lloyd Cruises, with high occupancy levels and robust daily rates continuing to be delivered despite a significant increase in market capacity, particularly in the German cruise market. In FY20, we will launch one additional expedition ship, the Hanseatic inspiration for Hapag-Lloyd Cruises, with further launches for both TUI Cruises and Hapag-Lloyd Cruises scheduled in future years.

In Destination Experiences, we expect to see strong customer growth in the final quarter, driven by both underlying growth and the acquisitions of Destination Management and Musement. This year has seen the successful integration of both companies and together with the planned expansion of both the product portfolio and 3rd party distribution, we have created a solid base for future growth in this attractive and fast growing market.

In Markets & Airlines, as expected, the most recent trading weeks since our Q3 update on 13 August have been stronger in both bookings and average selling price, resulting in Summer 2019[3] customer bookings flat on prior year and ASP up 1%, with customer volumes to Turkey and North Africa seeing a clear return to growth.

Winter 2019/20 programme[3] (which is low season for most markets) is at an early stage, with around one third of the programme sold, broadly in line with prior year. The weaker demand environment as previously discussed remains evident and we are seeing bookings down in line with our capacity reduction of 2%, with average selling price up 4% on prior year.
Resumption of the 737 MAX remains subject to the clearance decision of the civil aviation authorities. To ensure we are sufficiently covered for peak periods during our Winter 2019/20 programme, we anticipate a smaller level of aircraft replacement costs to be incurred, compared to Summer 2019.

[3] These statistics are up to 15 September 2019, shown on a constant currency basis and relate to all customers whether risk or non-risk

Foreign Exchange & Fuel

Our strategy of hedging the majority of our currency and jet fuel requirements for future seasons remains unchanged. This gives us certainty of costs when planning capacity and pricing. The following table shows the percentage of our forecast requirement that is currently hedged for Euros, US Dollars and jet fuel for Markets & Airlines, which account for over 90% of our Group currency and fuel exposure.

	Summer 2019	Winter 2019/20	Summer 2020
Euro	97%	86%	52%
US Dollars	96%	88%	65%
Jet Fuel	95%	93%	78%
As at 1 9 September 2019			

At our Q3 update we indicated approximately EUR15m positive translation impact on underlying EBITA compared with rates prevailing in the prior year. We now expect a positive impact of approximately EUR11m in total from foreign exchange translation on the FY19 underlying EBITA result, subject to further movements in exchange rates to 30 September 2019.

Expected development and guidance

FY19 is closing out in line with our expectations and we therefore reiterate FY19 underlying EBITA guidance stated in our ad hoc announcement of March 2019 of approximately up to minus 26% compared with underlying EBITA rebased in FY18 of EUR1,177m.[1]

As articulated, the ongoing external challenges we have seen in FY19 are likely to persist into FY20. This coming year will see us focus on becoming more cost competitive, selectively grow our Holiday Experiences business and scale up our digital platforms in new markets and Destination Experiences. Delivering on our four strategic initiatives will ensure we remain well-positioned to benefit in this changing environment and enable sustained growth going forward.

Annual Report 2019

TUI Group will issue its Annual Report on Thursday 12 December 2019 and hold a presentation for analysts and investors on the same day. Further details will follow.

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