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Investors doubt TUI's outlook as European heatwave leads to more staycations

TUI PLC (LON:TUI) seems to have failed to convince investors that it is on track to meet its full-year guidance with concerns about the recent heatwave resulting in more staycations.

The travel and tourism group reported a 7.5% decline in underlying earnings to €293.6m for the third quarter but said it continues to expect underlying earnings to rise by at least 10% to £1.1bn.

READ: TUI shares fly lower as traffic control strikes hit third-quarter earnings
AJ Bell investment director Russ Mould pointed out that the underlying earnings forecast excludes the impact of currency headwinds.

He added: "The market appears to be sceptical of TUI's pledge to achieve full year guidance, perhaps mindful of its rival Thomas Cook guiding for results to be at the lower end of expectations last week."

European heatwave and tough competition for Spain holidays
Thomas Cook said hot weather across Europe in June and July had an impact on tour operator bookings as sunseekers decided to stay at home. Tough competition for Spanish holidays also hurt margins.

READ: Thomas Cook issues profit warning as competitive Spanish holiday market hurts margins

The company reported a 3% drop in third-quarter gross profit to £443m and now expects growth in annual profits to be at the lower end of market forecasts.

Equally, for TUI, strong price competition in Spain and a strong run of warm weather have held back growth.

In its third-quarter update, TUI said sales of package holidays had slowed in recent months due to the World Cup and the recent heatwave across Europe. TUI said more staycations meant "outperformance was "less likely" in summer bookings.

Thankfully for TUI, a high number of customers planned for their holidays early this year, limiting the impact of the high temperatures and leading to a 4% rise in summer bookings.

Earlier Easter and traffic control strikes hit TUI earnings

Yet the earlier timing of Easter, the negative impact of foreign exchange rates and air traffic control strikes in France resulted in lower earnings.

Looking at TUI's divisions, growth in cruises and hotels profits was offset by a decline in profits in the tour operator business.

"The cruise division continues to be driven by both new capacity and strong yield growth, whilst hotels continue to see

Price: 1076

Market Cap: £6.34 billion

1 Year Share Price Graph



Share Information

Code: TUI

Listing: LSE

52 week	High	Low
	1297	686.6

Sector: Leisure, gaming and gambling

Website: www.tuigroup.com

Company Synopsis:

TUI Travel, now assimilated into its German parent company, TUI Group, has become one of the world's leading international leisure travel groups operating in over 180 countries with more than 30 million customers in 25 source markets.

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strong demand with a rebalancing towards to the Eastern Mediterranean; profit improvement was driven by the RIU brand," Shore Capital said.

"The decline in profitability from the tour operator segment was driven by the UK, which continues to see margin pressure in Spain. Overall, the profit performance was consistent with our expectations although the mix was weighted more towards higher value cruise and hotels."

Foreign exchange headwinds

ShoreCap expects a foreign exchange drag of around €35mIn for the year, up from its previous guidance of €10mIn, largely due to the revaluation of euro loan balances within Turkish entities.

The broker maintained its 'buy' rating on the stock, citing the company's full-year earnings guidance and an "attractive" dividend yield of 4%.

Ian Forrest, an investment research analyst at The Share Centre, was also positive on the stock. "Due to the long-term growth potential, the healthy dividend and reducing competition in the sector, we continue to recommend the shares as a 'Buy' for medium risk investors seeking a mixture of growth and income," he said.

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