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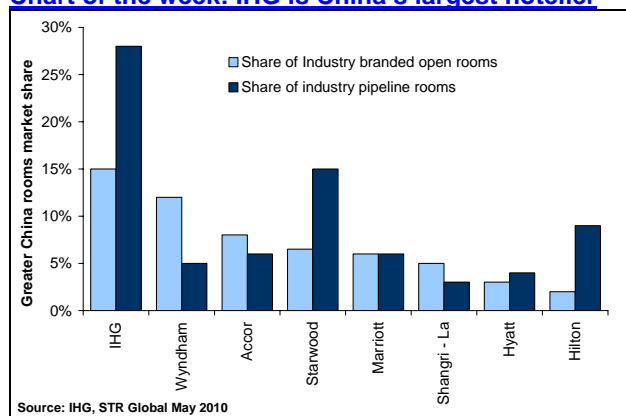
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July 2, 2010

Industry View
In-Line

Leisure and Hotels Weekend Break 383rd Edition

Chart of the week: IHG is China's largest hotelier



IHG is China's largest branded hotel operator by rooms, and has by far the largest pipeline share.

This week IHG announced plans to double its size from 130 to 250 hotels, and from 45k to c. 85k rooms, within 5 years, increasing its lead even further. We were surprised to see Starwood recently describe its own position in China as dominant, with 56 hotels open and a target to get to 125, as this is where IHG is today (though the two are similar in size in the upscale segment alone). China currently makes up 7% of IHG's rooms and 9% of EBIT (including the owned Hong Kong hotel), and given strong trading (Q1 RevPAR +22%) and rapid roll-out, we think China could make up 20% of group EBIT by 2015.

Coming Up PUB We expect weak Q3 L4Ls. **PRTY** We do not expect to see any major changes to forecasts. **EXHO** We forecast 1.3% organic sales for OSS and +6.5% for vouchers. **JDW** We expect L4Ls to be flat for the full year. **RCL** We expect guidance to remain unchanged. **MAB** We expect pressure on LFL sales to remain, but a solid margin performance.

This Week: SXTF Time to hedge? **LUFT** FY10 guidance confirmed as yields steadily climb. **Airlines** Getting above the weather. **Cruise chat** Positive feedback from US agents. **Online gambling form guide.** **Europe RevPAR** up 3.2% in May. **UK RevPAR** up a strong 7.2% in May.

GICS Sector: Consumer Discretionary

Strategists' Recommended Weight 7.2%
MSCI Europe Weight 8.2%

Coming Up	
6th July	Punch 3Q Trading Update
6th July	PartyGaming Pre-close Trading Update
7th July	Sodexo 3Q Results
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Stock Selection – Order of Preference

Company	Rating	Share Price	Bull Base (PT) Bear	Up/Downside to Bull, Base (PT), Bear	P/E	EV/ EBITDA	MS EPS v Consensus	Net debt/ EBITDA	Comments
1. Carnival	O	2,110p	4,000p 3,200p 2,000p	90% 52% -5%	13.6	9.3	-1	1.8	<ul style="list-style-type: none"> • Yields showing strong sequential improvement, European market growing rapidly • Attractive business model (25-30% EBITDA margins, 9x fixed charge cover, ROE-WACC) • FCF to improve materially after 2010, strong balance sheet
2. Whitbread	O	1,409p	2,140p 1,760p 1,150p	52% 25% -18%	13.4	7.7	2	2.4	<ul style="list-style-type: none"> • Attractive position as clear leader in UK budget hotels with a strong pipeline • High property backing, strong balance sheet, recent SLB supports £21 bull case • Valuation discount to peers both on trough and peak P/E and EV/EBITDA
3. JD Wetherspoon	O	391p	740p 570p 390p	90% 46% 0%	11.1	6.3	0	2.6	<ul style="list-style-type: none"> • Value format leads to like for like resilience, and unit roll-out accelerating • Staff cost flexibility and falling energy costs increase profit stability • FCF 70% higher than EPS, good value on FCF and EBITDA
4. Compass Group	O	512p	760p 610p 410p	48% 19% -20%	14.7	8.2	0	0.7	<ul style="list-style-type: none"> • Benefitting from cyclical recovery in B&I, plus structural growth • Strong cash flow - could buy back all debt and market cap in 10 years • We think the company can increase margins to 7.5% by 2011
5. TUI AG	O	€7.2	€18.0 €10.5 €5.0	148% 45% -31%				2.9	<ul style="list-style-type: none"> • Liquidity position assured for AG debt refinancing needs until 2012 at earliest • Core business worth €5 per share, so €9 H-L investment comes at only €3 • Freight trades have improved and H-L is not likely to have to use the state-loan
6. 888	O	37p	145p 100p 40p	295% 172% 9%	7.1	3.1	30	-2.4	<ul style="list-style-type: none"> • Strong B2B business is worth 50p per share and the US deal could be worth up to 180p • Proprietary technology gives it a competitive advantage • Cheapest stock in online gambling universe
7. PartyGaming	O	216p	560p 390p 165p	159% 80% -24%	10.8	7.7	1	-1.6	<ul style="list-style-type: none"> • High exposure to US potential opening, ongoing consolidation potential • Global leader in casino and bingo, and European leader in poker • Strong suite of technology and growing B2B exposure
8. bwin	O	€36.3	€69.0 €49.0 €23.0	90% 35% -37%	17.7	9.8	15	-1.8	<ul style="list-style-type: none"> • Well positioned for US potential opening, ongoing consolidation potential • European market leading brand • Strong sports and poker technology and growing B2B business
9. InterContinental	E	1,063p	1,700p 1,320p 700p	60% 24% -34%	17.1	10.6	8	1.7	<ul style="list-style-type: none"> • Attractive fee-based model, large pipeline of signed hotels and \$1.5bn freehold assets • If this cycle mirrors the previous one, RevPAR could grow by 40% over the next five years • Weighted to the Americas weaker 3 star segment, high exit rate of Holiday Inns, tax unsustainably low
10. Accor	E	€38.3	€55.1 €44.0 €31.8	44% 15% -17%	24.3	8.5	10	1.2	<ul style="list-style-type: none"> • Trading trends turned positive and are improving sharply in both divisions • Beginning of a multi-year positive hotel cycle and acceleration in Services from falling unemployment • Valuation keeps us at E/W with the shares trading at full multiples, better entry point after split
11. Mitchells & Butlers	E	274p	500p 350p 200p	82% 28% -27%	9.2	7.9	9	5.6	<ul style="list-style-type: none"> • High quality pub operator and, along with Wetherspoon, will be a long-term winner in the industry • UK economic headwinds growing, its L4L and margin comparatives are strong • Further VAT/duty increases are likely
12. Royal Caribbean	E	\$23	\$48 \$35 \$22	105% 49% -6%	12.8	10.0	-7	6.5	<ul style="list-style-type: none"> • Superior hardware with Voyager, Freedom and Oasis class ships • More geared into a yield recovery due to its low operating margins and interest cover • Risk from high leverage, lower returns and lower exposure to international markets
13. William Hill	E	171p	280p 210p 120p	63% 23% -30%	9.0	5.8	-2	1.8	<ul style="list-style-type: none"> • Strong cash generation, and growth potential from William Hill online • Retail business showing signs of maturity • Regulation and taxation risks, including change to FOBT and new UK online tax
14. Ladbrokes	E	127p	230p 165p 100p	81% 30% -21%	9.1	6.5	-3	1.9	<ul style="list-style-type: none"> • Catch-up potential in shop profitability compared to William Hill • Regulation and taxation risks, including change to FOBT and new UK online tax • Trading in retail remains key to the investment case
15. Sodexo	E	€45.1	€55.0 €43.0 €20.0	22% -5% -56%	19.1	9.3	-6	1.7	<ul style="list-style-type: none"> • Defensively positioned business with lower B&I exposure • Voucher interest income protected in medium-term by long-term paper • Margins at risk of compression in the short-term
16. TUI Travel	E	209p	410p 290p 150p	96% 39% -28%	8.7	4.0	-4	1.2	<ul style="list-style-type: none"> • Has generated most of its merger savings, but still offers margin upside to TCG level • LCCs moving into medium-haul markets, so less cyclical recovery potential • Specialist holidays account for one-third of post-synergy EBIT
17. Thomas Cook Group	E	179p	300p 230p 90p	68% 29% -50%	7.2	4.1	-8	2.0	<ul style="list-style-type: none"> • Has now generated all of its integration savings and is operating at peak margins • Additional capacity coming on to the market, LCCs moving into medium-haul markets • Cash generation poor due to exceptionals/provisions, but working capital improving
18. Millennium & Copthorne	U	407p	560p 440p 350p	38% 8% -14%	17.9	10.6	-4	1.2	<ul style="list-style-type: none"> • Shares supported by 570p NAV • Recovery gathering pace in key cities • High valuation pricing in recovery
19. Paddy Power	U	€25.4	€33.0 €24.0 €14.0	30% -6% -45%	18.0	10.4	-7	-0.9	<ul style="list-style-type: none"> • Strong positions in Ireland, the UK and Australia • Some potential from B2B business • Tax risks and lack of proprietary technology which its valuation fails to reflect
20. Unibet	U	Skr 140	Skr 300 Skr 140 Skr 60	115% 0% -57%	11.0	8.4	-7	0.0	<ul style="list-style-type: none"> • Strong dependence on France where profits are likely to fall in 2011 due to impact of higher taxes • High EBITDA margins could be competed away • High valuation at the top end of its online gambling peers
21. OPAP	U	€10.2	€21.0 €12.0 €9.0	106% 18% -12%	7.4	2.8	-15	-1.0	<ul style="list-style-type: none"> • Increasing deregulation pressure from European Commission • Pressure on profits from Greek economic problems • High cash generation and dividend yield.
22. Enterprise Inns	U	87p	NA	NA	3.9	9.5	-13	8.4	<ul style="list-style-type: none"> • Financial leverage very high • We expect rent declines to lag beer volume declines • Unique dividend likely to fall and stop after 2013
23. Punch Taverns	U	58p	NA	NA	4.3	7.9	-8	7.0	<ul style="list-style-type: none"> • Financial leverage very high • We expect rent declines to lag beer volume declines • Potential for further write-downs without improvement in trading

Multiples are calculated on 2010 estimates. For valuation methodology and risks associated with any price targets above, please email morganstanley.research@morganstanley.com with a request for valuation methodology and risks on a particular stock. Source: FactSet Morgan Stanley Research Moved down ↓ moved up ↑ NA = Not applicable

Coming Up

Punch Taverns – Q3 IMS

Punch Taverns will release a Q3 IMS on July 6th. For the full year we expect EBITDA of £423m (-18%), PBT of £121m (-24%) and EPS of 13.5p (-63%), below consensus forecasts of £429m, £129m and 15p respectively. Like for like profit per pub in the first half of the year fell 11% in the leased division, and in our forecasts we assume no recovery in the second half. In the managed business like for like sales fell 3.4% in H1, although this was impacted by the severe weather at the beginning of the year, and for the full year we expect a 2.5% decline. Trading in both the leased and managed businesses has lagged competitors as the company concentrates on turning both divisions around, and we think this could take several years. As well as recent trading we will be looking out for comments on the disposal programme, an update on progress with the new contracts in the leased business, and news on additional EBITDA support in the securitisations.

Leased pubs. Punch reported like for like profit per pub down 11% in the first half of the year, in-line with the trading performance last year, so a 22% two-year decline. The company said that trading since the half year had continued in line with management's expectations. Trading has generally been improving for leased pub operators – Greene King said that average EBITDA per pub was flat in its H2, and Enterprise Inns' average EBITDA per pub was down 4% in its H1, although both of these were flattered by disposals of below average EBITDA non-core pubs. However, Punch has lagged its competition while it focuses on putting its estate on a sustainable footing. The company is introducing new 'buying club' contracts which will allow tenants taking a long term lease to access free of tie pricing in return for significantly higher rent, and we will be looking for an update on progress here. It is not yet clear what the coalition government's views on the beer tie are, but we think that increased focus on the way the pubcos operate will make it harder to halt rental declines in the medium term, further VAT and duty rises are a risk, and pressure will remain from the weak consumer environment.

Managed pubs. Punch's managed business has been underperforming its peer group recently too. The company said that like for like sales were down 3.4% in its first half, implying a deterioration to -5.8% in the last 12 weeks from -1.6% in the first 16 weeks, although the last 12 weeks of the period includes the severe weather in January. The company also said that trading in the managed estate over Easter was slightly ahead of last year. This compares with Mitchells & Butlers who reported +3.3% in the period up to Christmas and +0.6% in the

19 weeks after it and Greene King and Marstons where like for like sales were around +1% in the period since the severe weather and +3-6% before it. The Coffey Peach Tracker, which aggregates trading figures from 15 large managed pub and restaurant companies, showed that like for likes were up 0.7% in April but down 1.2% in May. The May figures were affected by half-term falling in June in 2010 and May in 2009, but given weakness in consumer trends elsewhere and increasing pressure on disposable income, we expect news here to remain mixed. Mitchells & Butlers said that like for like sales recovered to +1.9% in the 9 weeks to 15 May from -0.7% in the preceding 9 weeks, but below the 2-3% LFLs the company reported in calendar H2 2009, in part because of the impact of the January VAT rise. Greene King's managed pubs grew a strong 6.0% in the last 8 weeks. Punch has been prioritizing improving margins over like for like sales performance, but these have now stabilized (albeit mainly thanks to lower depreciation post the write down), and as the company ramps up its investment in refurbishments and new concepts trading should start to catch up with its peers. However, given the weak outlook for the consumer and the possibility of another VAT rise in the June emergency Budget, we are cautious on trading across the industry, and expect like for like sales at Punch down 2.5% in the full year and the EBIT margin to fall 20 bps to 8.6%

Disposals. The company disposed of 524 pubs in the first half of the year for net proceeds of £198m at an average multiple of 13x EBITDA, and the company's target is for proceeds of £300m in the full year. 74% of disposals were of non-core pubs, which were likely to have been generating small or no profits, hence the high EBITDA multiple. The company has said that it intends to reduce the size of the leased estate to 5,000 pubs (from 6,841 at the start of the year). We think that as the year goes on it will become harder to sell non-core pubs given the number of them that are available for sale – as well as Punch, Enterprise is looking to sell 500 pubs in each of this year and next, Admiral Taverns is looking to sell 300 pubs a year and S&N is also putting pubs on the market. Given that Punch is no longer able to buy back debt at a discount, it is no longer accretive for it to continue selling pubs aggressively, and the company is looking to focus its estate on pubs with a sustainable future.

Balance sheet. Net debt in March was £3.28bn, so the balance sheet remains highly geared at 7.8x 2010e EBITDA. It is telling that this multiple has not changed in two years despite the equity raising and significant disposals. The company has

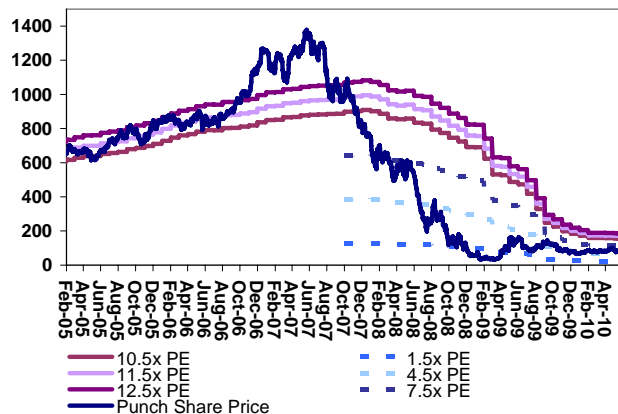
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now started to provide EBITDA support to Punch A & B. By artificially increasing EBITDA in the securitizations (injecting cash), Punch is able to boost the DSCR ratios on which the covenants are based by using less cash than buying back bonds, especially now that it is much harder to do so at a discount. With £188m of cash at the plc level and a quarterly run rate of £9m to support the structures, the company can continue to prevent covenant breaches for several years, but this new arrangement does highlight how poor underlying trading is. Without a significant improvement in trading, the securitisations will remain a drain on plc cash and essentially a liability, and they look unlikely to upstream cash for many years to come.

We remain concerned about industry fundamentals, about the political risk, and the debt level. Although Punch's balance sheet situation has improved after significant disposals we expect the Punch A and B securitisations to continue to require EBITDA support (i.e. cash injections from the PLC), and that the company will not be able to upstream cash from them for years to come. We remain Underweight the shares.

Exhibit 1

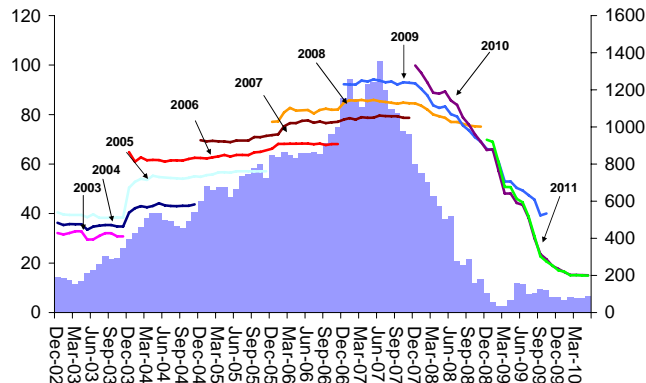
Punch shares are trading below their historical range



Source: DataStream

Exhibit 2

Punch forecasts continue to fall



Source: DataStream

PartyGaming – Pre-close Trading Update

PartyGaming will give a pre-close trading update on 6 July. We think the update will be brief, in line with prior years, and do not expect to see any major changes to forecasts, albeit currency movements put a little pressure on dollar forecasts, and continued weakness in poker volumes suggests some downside risk here. We think that investor focus will be on poker trading and strategic issues such as industry consolidation and regulation. At the time of its Q1 KPIs the company said that average daily revenues were down 6-7% quarter on quarter. Q2 tends to be a weak quarter for online gambling, and poker volumes look to have been low over the last few months, and we will be looking for an indication of how industry-wide trends have affected PartyGaming. Further euro and pound weakness against the US dollar will also have put pressure on revenues, and we think the company's decision to move to euro reporting is a sensible one. For the full year, we forecast revenue of \$509 million (+14%), clean EBITDA of \$148 million (+10%) and EPS of US\$0.30 (+8%). These are in line with consensus (EBITDA of \$149 million). The shares are likely to remain under pressure while trading is weak. However, we think long-term structural drivers are compelling, we see significant option value (US market opening, new European markets and M&A) which we do not think is fully reflected in Party's share price. We remain Overweight.

Poker volumes look to have been weak in Q2. Data from H2 Gambling Capital shows that average peak time ring game players in Q2 were around 18% below Q1 levels. This appears to be the result of a combination of normal seasonal patterns and weak trends throughout the industry, with most major operators recording double digit declines in the quarter, according to the H2 data. This will have been compounded by currency weakness, with the euro and the pound down about

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8% and 5% quarter on quarter respectively. Competition from the US-facing sites has put pressure on the listed operators in recent years, although PokerStars and Full Tilt's volumes also look weak in Q2, so they do not appear to be behind current trends. Offsetting this somewhat, PartyGaming has seen strong growth in its tournament volumes, which are up as much as 100% relative to last year. Tournaments tend to be played by new players, before graduating to ring games, so this growth could be an indication of better trading to come. In addition, Italy is not captured within the liquidity figures (which track the .com pooled liquidity site, and not the local sites) where Party has been trading well. We expect poker revenues down 12% in the quarter and down 15% year on year.

We expect casino to have held up better than poker. While casino will have been subject to the same seasonal and foreign exchange pressures as poker, we do not expect declines to have been as marked here. New slot content and networked jackpots are driving growth in the casino for PartyGaming at the moment, and we expect a 2% fall in revenues quarter on quarter, which is equivalent to 4% year on year growth.

We expect bingo revenue to have been resilient. Online bingo is a growing market, and we expect trading to have held up relatively well. We expect revenue up 2% sequentially in the quarter.

Sports should have been boosted by the World Cup. We only expect sports to contribute 5% of revenues in the year. However, PartyGaming has significantly improved its sports margins recently, and in Q1 revenues were up 56% year on year. We expect a 27% sequential decline in Q2, but this would still be 63% growth year on year, and the World Cup should have provided a boost here.

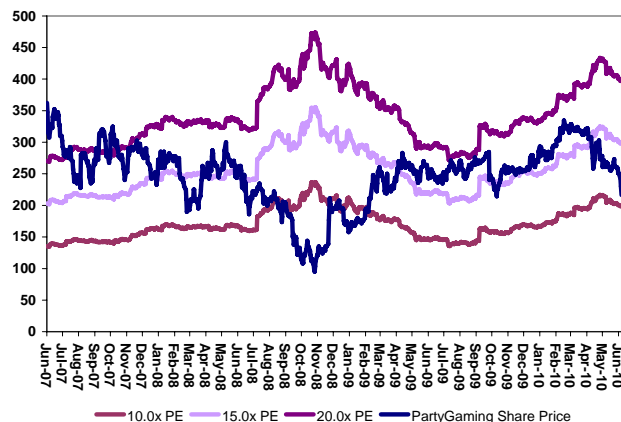
We will look for any further updates on strategy and thoughts on consolidation. The prospect of regulatory change in the US means that focus is now on potential transactions with US land-based operators or IT companies, and machine manufacturer IGT is reportedly considering taking an 11% stake in bwin (Gambling Compliance, 30 June), though neither company has confirmed this. Although it looks less plausible while the companies position themselves for the US, we continue to think that a bwin-PartyGaming combination would be very attractive given the significant cost synergies (back office systems, head office costs, purchasing scale, call centres, development costs, technology) and revenue synergies (cross selling casino and bingo to bwin's sports customers and sports to Party's poker and casino customers).

We also hope for an update on its view of emerging regulations, particularly in the US, Germany and the UK.

California Senator Roderick Wright's bill to allow online poker in California, which had been due a committee hearing, is being worked on again with a view to garnering more support. Although legislation in California now looks less likely this year, the state is among the front-runners to regulate online gambling in the medium term. New Jersey is considering a referendum to allow sports and internet betting, and at the federal level Barney Frank's bill is due a committee hearing in July. PartyGaming has won a licence in France, and while the poker market is yet to open, initial reports suggest that sports betting started strongly in the country. The state of Schleswig-Holstein has put forward proposals for regulated online gambling in Germany. In the UK there have been no announcements yet from the new government on remote gambling policy, and the consultation into the previous government's proposals for secondary licence is now over.

Exhibit 3

PTY shares are trading at the bottom end of their range

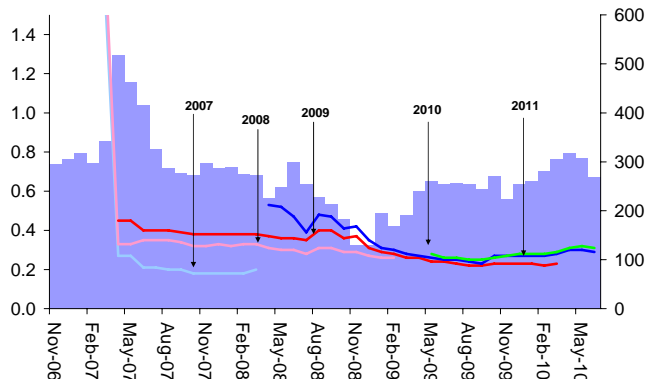


Source: DataStream

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Exhibit 4

PRTY forecasts have been stable



Source: DataStream

Sodexo – Q3 Results

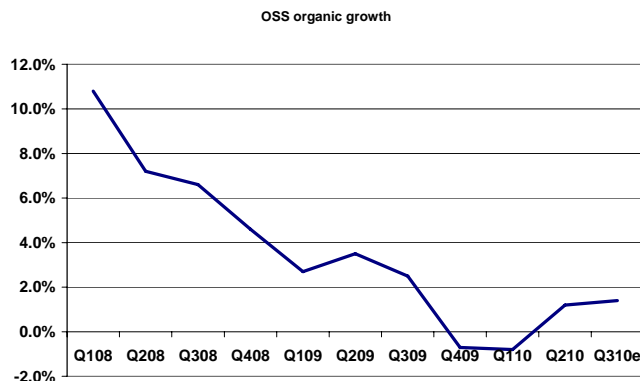
Sodexo will report its nine-month sales on 7 July. We forecast sales of €1.4 bn for the first nine months of the year, and within this we expect sales of €3.9bn in the third quarter, a rise of 4%. This is based on 1.3% organic sales for the OSS business (the old F&FMS) and +6.5% for Motivation Services (vouchers). Our OSS forecast is broadly in-line with Q2's +1.4% and but MS forecast is down from Q2's 9%. Our relative caution here is driven by the company's own guidance for 5% FY revenue growth, but given strong trends in Q2 at both Sodexo and Compass these assumptions could be conservative. For the full year we forecast EBIT of €731m, PBT of €599m and €2.36, below consensus of €761m, €635m and €2.53 respectively. The company's FY2010 guidance is for organic sales of 0.5-1% (we forecast 0.9%) and €770-790m constant FX EBIT (our forecast is €772m constant FX). Sodexo has growth potential from its multi-service strategy, improving its OSS margins, and its vouchers business, but trading on 19x our 2010 EPS forecast we think this is in the price and prefer Compass with its proven capacity for internal margin improvement, greater exposure to cyclical recovery and less demanding valuation.

Foodservice organic growth. We expect Q3 organic growth of 1.3%, broadly in line with the 1.4% reported for Q2. At its Q2 results Sodexo said that it remained concerned about economic volatility in North America and Europe, delays in decision making by prospective clients and contracts getting pushed back. Our full year organic growth forecast of 0.7% is at the top end of the company's guidance for the full year of organic growth of 0.5%-1% for the entire business, which implies foodservice organic growth of 0.25-0.75% (guidance for vouchers organic growth is 0-5%, and vouchers account for 5% of revenues). However, given the strong rebound in growth

in Q2, weakening comps and the rapid recovery underway at Compass, this guidance and our forecasts look somewhat conservative.

Exhibit 5

Our Q3 organic growth forecast looks conservative relative to the strong rebound in Q2



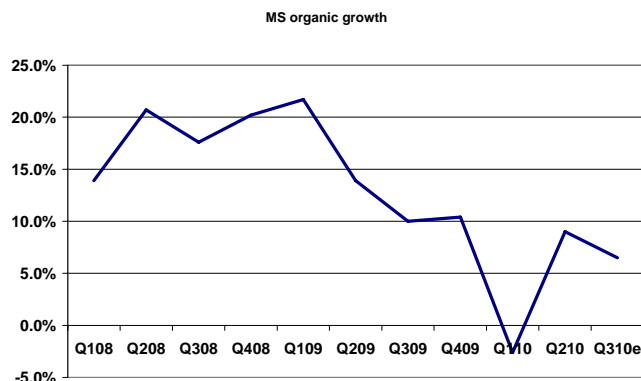
e = Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Vouchers. For the full year we expect organic growth in voucher revenue of 5%, and in Q3 we expect 6.5%. Organic growth here has been volatile – in Q2 it rebounded to +9% from -2.6% in Q1 after +11% in Q409. At the interim results the company restated guidance of 0-5% for the full year for this business, which our forecast is at the top end of. This guidance implies a deceleration from Q2, so, as for foodservice, company guidance looks somewhat conservative. Organic growth here will be affected by both trends in activity at corporates which drive commissions and interest rates on the float. The company said that the impact of lower interest rates on organic growth will be around 2% for the full year, in line with the H1 effect. Operating revenues grew 3.8% in Accor's Q1, a sharp improvement from +0.2% in the preceding quarter.

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Exhibit 6

MS organic growth has been volatile recently



Source: Company data, Morgan Stanley Research, e = Morgan Stanley Research estimates

Margins. The company will only announce sales figures for Q3, but we will be looking for an update from the company on its expectations on full year margins. In the foodservice business the company reported a 50bps margin increase in H1. The company raised its constant FX EBIT guidance by €20m alongside the H1 results, but this was purely as a result of a change in the way taxes in France are accounted for, so combined with the upgraded organic growth guidance, the company is now expecting lower underlying margins than it was previously, despite the good H1 number. The company said that this was due to expected investment in H2 to ramp up, such as on PPP projects including the UK Defence Training Review project and also in the UK the Rugby World Cup and London Olympics. In vouchers, the impact of the devaluation of the Venezuelan Bolivar was a 400bps hit to margins (the Venezuelan business operates at above average margins), and we expect this to continue in H2.

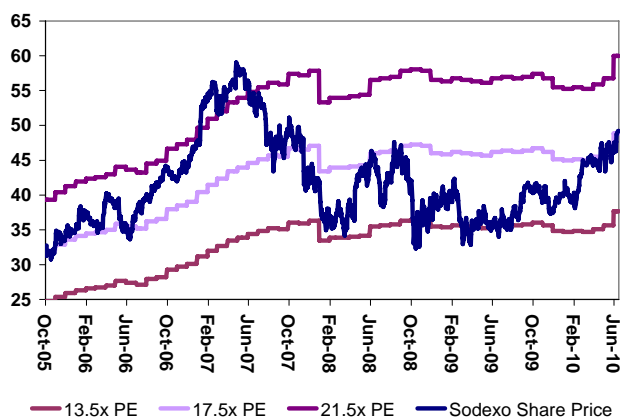
Edenred listing will provide more clarity on the Sodexo valuation. Shares will start trading in Edenred, Accor's former vouchers business, today. Edenred is the main competitor of Sodexo's vouchers business and will be a direct comparator for it, and the multiples the shares trade on will provide clarity as to the valuation the market is putting on Sodexo's foodservice business.

We think Sodexo is a solid long-term holding with margin catch-up potential to Compass, but this is priced into the shares. Sodexo's strategy to target organic growth through expansion in emerging economies, growing its facilities management business and winning more multi-service contracts should support top-line growth. The company has margin catch up potential with its peers – we expect a foodservice margin of 4.3% in 2010 against 7% for Compass –

but given the strategy we do not expect this to emerge in the short to medium-term. Trading on 19x 2010 P/E we think the market is pricing in profit growth from the faster-growing vouchers business and long-term margin improvement, and we prefer Compass which trades on 15x 2010 P/E but has demonstrated its ability to improve margins, and with its larger cyclical exposure has more upside to recovering economic activity.

Exhibit 7

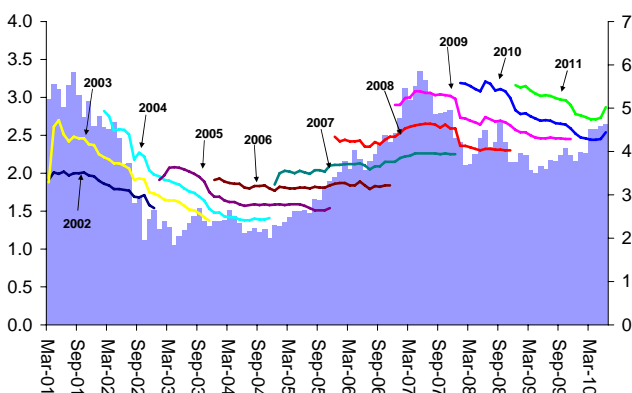
Sodexo's shares trade in line with their historical range



Source: DataStream

Exhibit 8

Forecasts have improved recently



Source: DataStream

JD Wetherspoon – Trading Update

JD Wetherspoon will give a pre-close trading update on 14 July. We expect like for likes down 0.1% for the full year and Q4 broadly flat. We also expect news of progress on new openings. For the full year our forecasts are for £101m of EBIT (+4%), PBT of £72m (+10%) and EPS of 35.1p (+8%), in line

with consensus of £101m, £72m and 35p respectively. Wetherspoon has demonstrated consistent innovation and strong customer value, and we think these are likely to drive continued market share gains. Visibility over like for like trading is low and consumer spending remains under pressure, but given the rollout strategy, we see no reason why it cannot return to generating the 20%-type growth rates that it has for the last 20 years, and the shares are trading on just 6x free cash flow per share. We remain Overweight.

We expect broadly flat like for likes in the fourth quarter.

Trading so far this year has been flat, with overall like-for-like sales -0.2%. Within this growth rates of +0.3%, -0.3% and -0.8% in the first three quarters of the year are impacted by the rise in VAT in January. Comps are weaker for Wetherspoon in Q4 – like for like sales were -0.8% in Q409, and this was the only quarter in which LFLs were negative last year. We expect like for like sales of +0.2% in Q4, and while this would be an improvement from Q3, it would be a further deterioration in the two-year decline from -0.3% in Q3 to -0.6%. The Coffe Peach Tracker, which aggregates trading figures from 15 large managed pub and restaurant companies, including Wetherspoon, showed that like for likes were up 0.7% in April but down 1.2% in May. The May figures were affected by half-term falling in June in 2010 and May in 2009, but given weakness in consumer trends elsewhere and increasing pressure on disposable income we expect news here to remain mixed. Mitchells & Butlers said that like for like sales recovered to +1.9% in the 9 weeks to 15 May from -0.7% in the preceding 9 weeks, but below the 2-3% LFLs the company reported in calendar H2 2009, in part because of the impact of the January VAT rise.

Trading in the quarter should be boosted by the World Cup and early opening.

In previous World Cups Wetherspoon suffered because of its lack of televisions. At the last World Cup the company had just installed televisions in its pubs but had not publicised the change, and like for likes were in line with prevailing trends. This time the company has promoted its pubs as a venue to watch the World Cup so expects a boost to sales. Q4 will also be the first to show any impact from Wetherspoon bringing forward its opening time to 7am from 9am at the end of April. Extra business from early opening is likely to take time to ramp up, but in time it could provide a meaningful boost to sales and profits. Prior to April the company sold 275,000 breakfasts per week at an average price of around £2.20 and around 500,000 teas and coffees at around 50p – a total of £45m of annual sales. Moving forward opening from 9am to 7am has doubled the breakfast trading period. Assuming a 50% boost to breakfast sales, the new opening hours would add £22m to sales, which would be a

2-3% boost to like for likes. The company expects to break even initially, but assuming a conservative 20% conversion margin this would add £4-5m of EBIT, or 5-7% to EPS.

We expect margins to fall by 10 bps in 2010. Operating margins were flat in H1 with a better energy deal being offset by a higher repair bill, partly driven by extra work resulting from the cold snap, and we expect a similar trend in H2. Wetherspoon's cost base has proven surprisingly flexible – the company has been reducing energy usage, improving the efficiency of its scheduling, and 5-15% of staff salaries are paid as bonuses. Margins have been affected by weaker trading, and the full year margin will depend in part on the trading out-turn.

Wetherspoon is in a strong position to take advantage of current weak property prices. Wetherspoon's strong cash flow generation and recently refinanced loan put it in a strong position to push on with its openings programme. The company intends to open 250 pubs in the next 5 years, and while it lowered its 2010 target to 45 from 50 at its Q3 IMS, this was as a result of delays in the opening dates of 5 pubs rather than a pull-back in the expansion programme. Given softness in commercial property markets, a lack of competition from other buyers and the possibility of taking over leases at no premium (and in some cases of negotiating rents downward) the company is now converting more former pubs into Wetherspools. The average cost per square foot for a new opening fell 19% in H110, and the cost in H109 was itself down 36%. The company had opened 26 new pubs by the date of its Q3 IMS so we will be looking for an update here. We estimate that opening 50 pubs a year funded by free cash is worth 12-13% EPS growth pa even without any growth in the base estate.

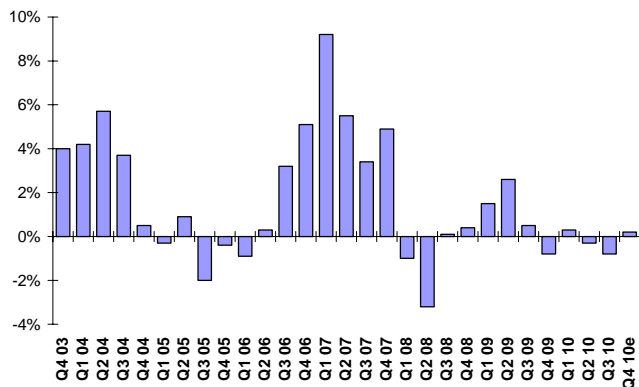
We rate JD Wetherspoon Overweight with a 570p price target.

Wetherspoon's shares are trading on a 2010 EV/EBITDA multiple of 6.3x and a P/E of 11x. The shares tend to trade with the company's like for like performance, and visibility is low here, with uncertainty exacerbated by potential VAT and duty rises in the upcoming Budget. However, we think that JD Wetherspoon will be a long-term winner and will continue to gain market share through a period of weakness in consumer spending due to its value offering and strong track record of product innovation. The company's cost efficiency has reduced its operating gearing. The company thinks there is room for 1,200 to 1,500 Wetherspoon pubs in the country, so it should continue to see strong EPS growth from adding sites funded by free cash for years to come. Trading on 7x free cash flow per share we think the shares look cheap and rate the stock Overweight.

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Exhibit 9

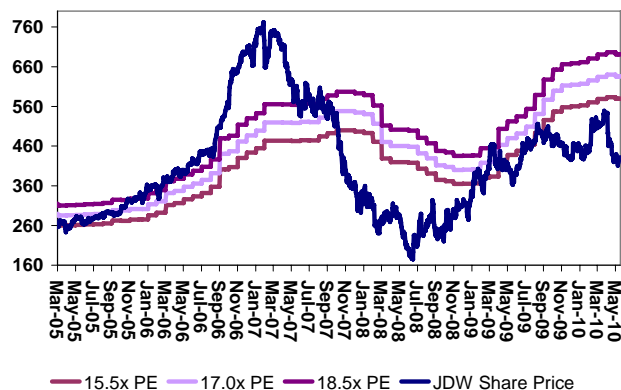
We expect a small improvement in Q4 LFLs, driven in part by weakening comps



Source: Company data, Morgan Stanley Research estimates

Exhibit 10

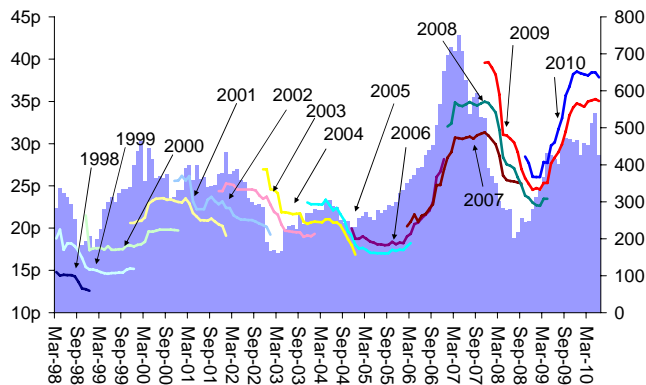
JDW shares trade below their historical range



Source: DataStream

Exhibit 11

JDW forecasts have stabilized



Source: DataStream

Royal Caribbean – Q2 Results

Royal Caribbean will report Q210 results in the third week of July. We are forecasting Q2 EPS of \$0.17 vs. (\$0.16) in Q209, in line with RCL's guidance of \$0.16-\$0.21. Our forecasts assume 6% net yield growth, a 1% net cruise costs increase, and \$170m fuel costs, all in-line with guidance.

Current trading. At its 1Q10 results on April 28th, RCL said that it was seeing a "gradual and steady improvement in the booking environment", following a strong wave season, since when prices and volumes had significantly outpaced last year, with load factors and prices higher for every quarter this year. The company narrowed its guidance for net yield growth from 3-6% to 4-5% for the full year 2010 and mentioned that yield guidance would still be positive excluding the Oasis and Solstice-class ships (we forecast c. 2% yield growth from mix alone this year). Carnival maintained its yield guidance at the 2Q10 results, saying that after a "hiccup" in May caused by the ash cloud and BA strike, demand had recovered strongly in recent weeks, particularly in Europe. Booking volume growth has slowed in the last 2 months as the comps are so strong (2009 was a late booking cycle), and Carnival's pricing is up for H2. Carnival also said that on board spend was recovering well, and that Europe had performed "fantastically" over the previous 6 weeks including Spain. Our most recent US travel agents survey was also very positive. Our customer deposit analysis is supportive of solid yield growth (see chart below). We expect RCL to meet its guidance of 6% yield growth in Q2 and forecast 4.5% yield growth for the full year, at the middle of their range. The year however is pretty well sold now, so material changes to yield guidance are unlikely.

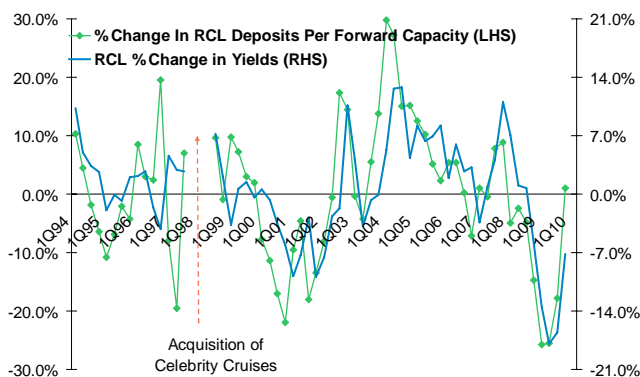
We rate Royal Caribbean Equal-weight and are positive on the cruise subsector. We think that cruise lines' value for

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money proposition, focus on leisure rather than corporate custom, and policy of running 100% full all mean they will see a quicker recovery than hotels and tour operators. RCL is more geared into a yield recovery than CCL given its higher leverage (2010e net debt: EBITDA of 7x vs. 2.4x at CCL) and lower operating margins. The shares have derated sharply, and now trade on a 2010e P/E and EV/EBITDA multiple of 13x and 10x, in line with Carnival, although we do see significant upside risk to 2011 and 2012 if yields can recover to 2008 levels (normalised EPS \$4.00).

Exhibit 12

Positive deposit growth in Q1 supports a solid yield growth forecast for Q2



Source: Company data, Morgan Stanley Research

Exhibit 13

RCL: Q210 and FY10 MS Forecast vs. Company guidance

	Q210e		FY 10	
	MSe	Guidance	MSe	Guidance
Net Yields (not constant FX)	6.1%	~6%	4.5%	4% to 5%
				Flat to slightly down
Net Cruise Costs	1.0%	~1%	0.0%	down
Net Cruise Costs ex Fuel (%)	-1.5%	~(1%)	-1.2%	~(1%)
Fuel Expense	\$170m	\$170m	\$676m	\$678m

Source: Company data, Morgan Stanley Research

Exhibit 14

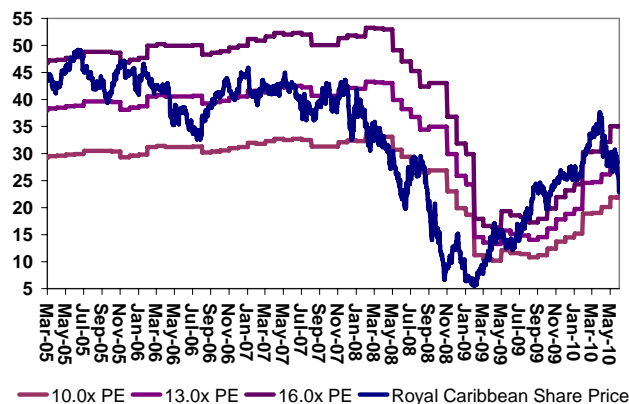
RCL: FY guidance changes

	at Q409 results	at Q110 results
Net Yields (not constant FX)	3% to 6%	4% to 5%
Net Cruise Costs	Flat to up slightly	Flat to down slightly
Net Cruise Costs ex Fuel (%)	Flat to up slightly	~(1%)
Fuel Expense	\$687m	\$678m
EPS	\$1.61 - \$1.81	\$1.76 - \$1.86

Source: Company data, Morgan Stanley Research
Note: EPS adjusted for one-off legal settlement claim (\$0.39)

Exhibit 15

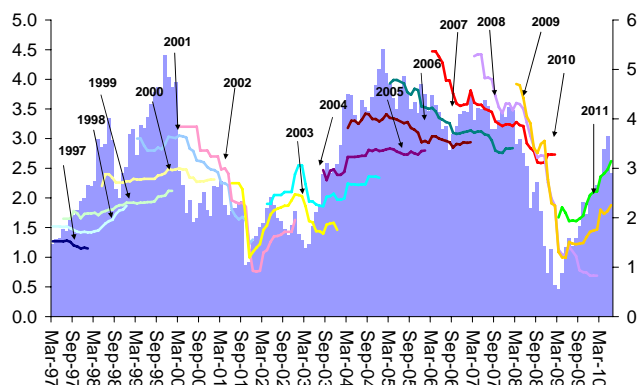
RCL shares trade at the lower end of their range



Source: DataStream

Exhibit 16

RCL: Forecasts have been rising



Source: DataStream

Mitchells & Butlers – Q3 IMS

Summary. Mitchells & Butlers will give a Q3 IMS on 22nd July. Our focus will be on current trading and progress on the company's strategy to focus on expanding six of its food-led brands. Trading in the company's second quarter was mixed, but improved towards the end of the period. Like for like sales in the industry have been somewhat weak since then, and although the World Cup is likely to have boosted sales in wet-led pubs, the competition's effect on the company's pub restaurants is likely to have been negative. For the full year we forecast sales of £2,007m, EBIT of £327m, PBT of £172m and EPS of 29.8p, ahead of consensus of £1,989m, £313m, £157m and 27.6p respectively. MAB is highly leveraged, with a net debt EBITDA ratio of 5.4x in 2010e, but on our forecasts it will reduce debt to below the levels its facility steps down to, and with the triennial review for the pension agreed this is no longer

a cause of uncertainty. We think that MAB is a high quality pub operator and, along with Wetherspoon, will be a long-term winner. Trading on 9x 2010e P/E and 8x EV/EBITDA, the shares are not particularly expensive, and there is 19% upside to our price target, but with uncertainty over the strength of UK consumer spending, we remain Equal-weight the shares.

Trading. Trading so far in 2010 has been somewhat volatile. Like for like sales growth in the 14 weeks into the new year was strong at +3.3%, and this partly reflected price rises the company put through ahead of the January VAT rise. Trading from January until March was significantly weaker at -0.6%, with like for like sales affected by the VAT rise and the severe weather at the start of the year. Trading then recovered to +1.9% in the 9 weeks to mid-May, and the company said that this period was most representative of the underlying run rate. Trading in the managed pub industry more broadly has been somewhat mixed recently, The Coffey Peach Tracker, which aggregates trading figures from 15 large managed pub and restaurant companies, including Mitchells & Butlers, showed that like for likes were up 0.7% in April but down 1.2% in May. The May figures were affected by half-term falling in June in 2010 and May in 2009, but given weakness in consumer trends elsewhere and increasing pressure on disposable income we do not expect strong growth here in the short to medium term. The company has said that it expects the World Cup to be broadly neutral for the company – while the competition will be a boost in wet-led pubs, it is likely to be a drag on business in the pub restaurants. In the nine weeks to mid-May food like for like sales grew 4%, and drinks +0.3%, both of which were recoveries from the start of the calendar year but well below October to December, and although Mitchells and Butlers continues to win share on both fronts this is against a weak industry backdrop. Q2 also saw the residential estate continue to outperform the high street, with like for like growth of +1.1% and -1.5% respectively.

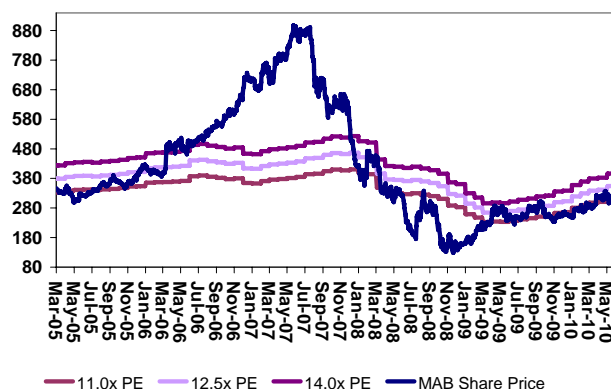
Margins. The company reported a 160bps margin increase in the first half, driven by a reversal of the energy cost rises in H1 2009, cost savings, lower promotional activity and some benefit from the Whitbread pub conversions. The company does not expect much improvement in H2 as comps are much tougher (H2 2009 17.2% vs 13.6% in H1 2009), including no energy reversal and no additional benefit from the Whitbread pub acquisitions. The company has a cost savings target of £25m for this year, and the company said at the time of its strategy review that it intends to raise margins by 2-300bps from their 2009 levels. For the full year we forecast a margin of 16.3%, a rise of 100bps.

Strategy. The company said at its strategy review earlier this year that it intends to reshape the estate into a food-led business focused around core concepts which have significant growth potential. It said it will focus on brands that can generate at least £10m of EBIT in over 100 locations. The company has six brands which it intends to drive to 3-400 pubs each, taking these from 900 pubs in total to around 1,800. The company has said that the internal conversion opportunity is 150 pubs, and that it plans to dispose of 10-15% of the estate, and proceeds here should allow it to buy another 250 pubs. This leaves it with around 500 pubs it would have to buy to hit its target, and at £1-2m per pub this would require capex of £500m to £1bn. On the company's budgeted £40-60m annual expansion capex, this would take a long time to achieve. The company is reported to have hired advisors to dispose of 300 pubs (Independent, 3 May), and has said it will give an update on progress here over the summer.

Debt position. MAB remains highly leveraged, and we forecast debt to EBITDA of 5.4x at the end of 2010. In May drawings on the bank facility were £296m, below the £338m that the facility will step down to in December 2010. The securitisation vehicle where most of the company's debt is held looks relatively safe – pubs held in the vehicle need to maintain FCF above 1.1x and DSCR above 1.7x to continue to upstream cash to the plc, and on our forecasts we calculate 27% headroom to the cash traps in 2010 and 60% headroom to the covenants. We think the disposals MAB plans could generate proceeds of £200-300m in total so if the pace of these is faster than we expect this should add to headroom on the facility.

Exhibit 17

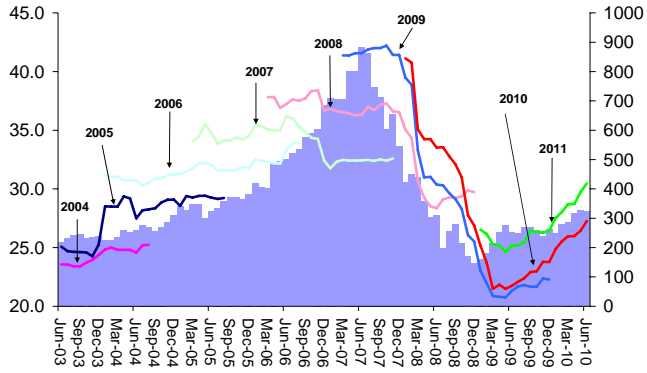
MAB is trading at the bottom end of its valuation range



Source: DataStream

Exhibit 18

Consensus forecasts have been rising



Source: DataStream

This Week

- Equity Derivative Dynamics – SXTP – Time to Hedge?**
Christian Kober (June 28) – Our analysts still see some upside to SXTP sub industries and investors might wish to run a continued long exposure regardless of recent price performance.
- Lufthansa – Investor Day Feedback** *Penny Butcher (June 28)* – Yield levels on intercontinental routes turned positive in March and have accelerated in the months since. Intra-European recovery continues to lag with short-haul yields remaining below 2009 levels.
- Airlines – Getting Above the Weather** *Penny Butcher (June 29)* – We believe there is room for upside surprise on long-haul passenger and cargo yields in the June quarter, which should become apparent in 2Q10 results and could lead to upgrades.
- Cruise Chat – July 2010 Feedback** *(July 2)* – Our monthly survey of US cruise travel agents is again fairly positive with most agents seeing an upward volume trend and prices improving versus last year's discounted rates.

SXTP – Time to Hedge?

Analyst: Christian Kober +44 207 425 2025

In the United States, portions of this report regarding non-US options are intended for Morgan Stanley's Institutional Clients only.

DJ STOXX Travel and Leisure (SXTP) has been a strong outperformer ... While fundamentally our analysts are still constructive on SXTP subsectors, they acknowledge that for many sub industries valuation is now reflecting a lot of the positive sentiment visible in investor positioning and revisions, while macro risks are increasing.

... but is it time to protect long positions? Because our analysts still see some upside to SXTP sub industries, investors might wish to run a continued long exposure regardless of recent price performance. However, we note that historically the sector mean reverted following such a strong outperformance reading, while valuation, ownership and EPS revisions momentum look at the higher end of historical ranges. Hence, we feel that now could be a good time to consider hedging strategies for long SXTP exposure, which would protect investors from a potential softening of growth leading indicators (much of the index is cyclical) or the risk of a

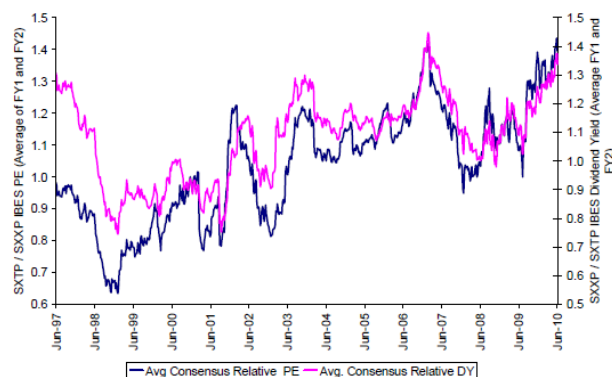
slowdown in revisions momentum, which might be necessary to sustain the current strong outperformance.

Implied volatility for the SXTP is attractive. We think that the absolute level of implied volatility is attractive relative to realized and relative to the market. We would use SXTP put spread strategies to hedge long sector positions due to the steep implied volatility skew.

Risks: Overlaid on a long stock position, the position is protected between the strikes (but not below) at expiration. The maximum potential loss in isolation is the premium paid.

Exhibit 19

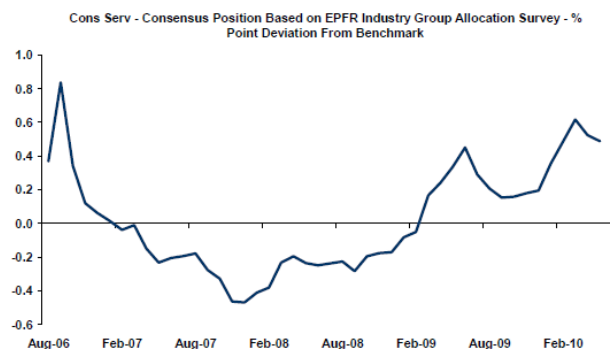
SXTP – Market relative valuation close to highs



Source: Morgan Stanley Equity Research, DataStream

Exhibit 20

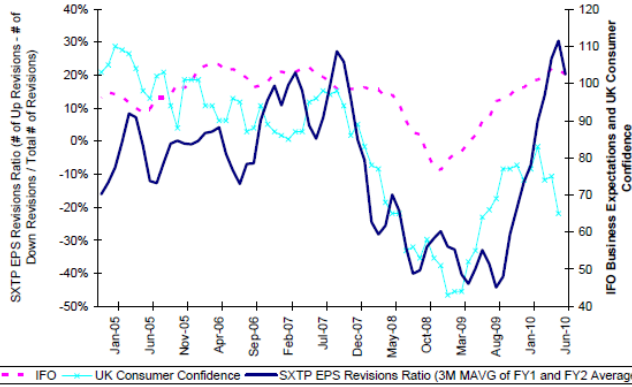
Consensus ownership data for Consumer Services



Source: Morgan Stanley Equity Research, EPFR

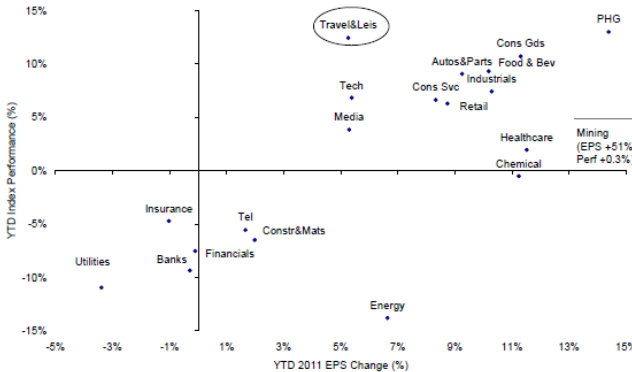
July 2, 2010
Leisure and Hotels

Exhibit 21
SXTP IBES earnings revisions close to the peak



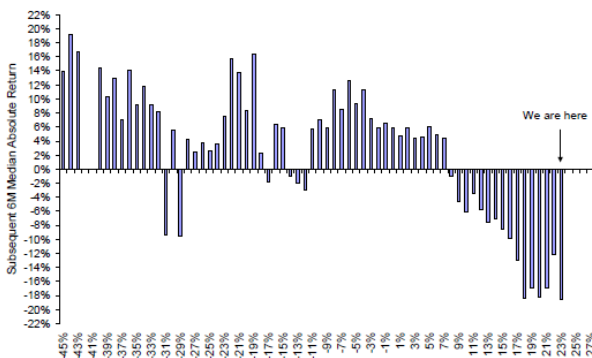
Source: Morgan Stanley Equity Research, DataStream

Exhibit 22
Sector EPS revisions momentum vs price performance



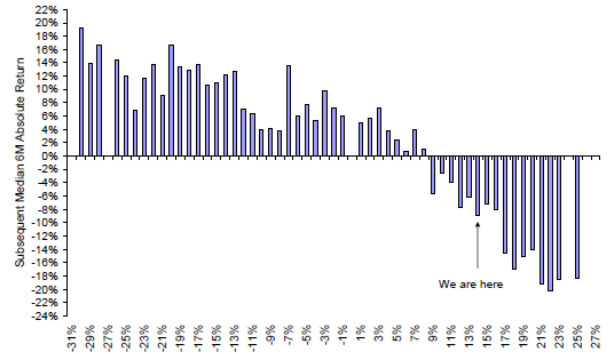
Source: Morgan Stanley Equity Research, Bloomberg

Exhibit 23
SXTP: Subsequent 6M absolute performance was negative after 23% outperformance vs. SX5E



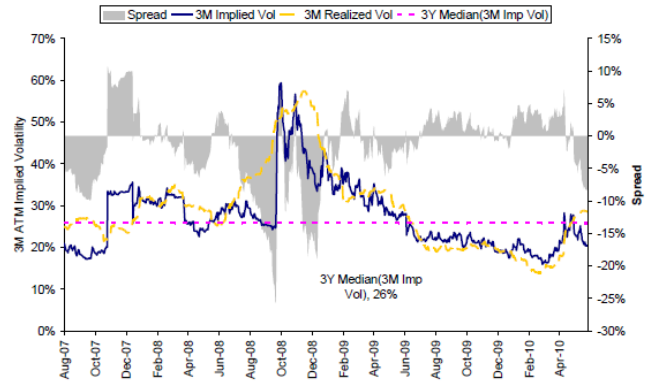
Source: Morgan Stanley Equity Research, Bloomberg

Exhibit 24
Subsequent 6M absolute performance was negative following 14% outperformance vs. SXXP



Source: Morgan Stanley Equity Research, Bloomberg

Exhibit 25
SXTP – 3M implied volatility vs. realized



Source: Morgan Stanley Equity Research

Lufthansa – Investor Day Feedback

Analyst: Penny Butcher +44 207 425 6698, Suzanne Todd +44 207 425 8316

FY10 guidance confirmed as yields steadily climb. LUFT maintained its guidance of "slightly improved" revenues and operating result for FY10 (FY09 revenues EUR4.68bn and operating result EUR130m) at its Investor Day held today. Consensus currently expects an operating result of around EUR360m for FY10; we forecast EUR403m based on passenger yield growth of 5% and 15% for cargo.

Long haul pax yield growth accelerates. Yield levels on intercontinental routes turned positive in March and have accelerated in the months since. Cumulative long haul yield growth stands at +6% for the period Jan-May. Intra-European

recovery continues to lag with short-haul yields remaining below 2009 levels (-4% cumulative for Jan-May).

EUR weakness provides small net benefit. FY10 fuel guidance increases slightly to EUR5.3bn from EUR5.2bn as guided at 1Q10 results with the additional cost driven by appreciation in USD against EUR. However, enhanced USD revenues from LHA's diversified long haul network and the group's MRO segment offset increased costs, leading to a small net gain of EUR1.3m in earnings per 1% EUR weakness.

Pilots' union agreement a positive as cabin & ground crew talks continue. Wage freeze until 31 March 2011 safeguards the CLIMB EUR1bn saving programme, while expansion of maximum seat capacity on regional routes from 70 to 95 will increase flexibility in subsidiary fleet deployment.

We reiterate our LUFT Overweight, with a price target of EUR15.20 per share. We maintain our OW rating on the basis of the positive trading trends and the limited negative exposure to weaker EUR. We expect further update on yield and FY10 outlook at the 1H10 results presentation on 29 July.

Airlines – Getting Above the Weather

Analyst: Penny Butcher +44 207 425 6698, Suzanne Todd +44 207 425 8316

Room for 2Q upside surprises based on improving fundamentals. Weakening EUR, concern over European austerity measures and creeping fuel price have weighed on airline shares in recent weeks. While valid, we believe these macro concerns have overshadowed the improvement in fundamentals. We believe there is room for upside surprise on long-haul passenger and cargo yields in the June quarter, which should become apparent in 2Q10 results and could lead to upgrades.

1. FY11 guidance seems cautious in light of yield development. Company views were based on moderate improvements in passenger yields. Yet AF-KLM recently noted it has seen ~20% momentum in both passenger and cargo operations in 1Q11.

2. Current valuations stand low relative to history. On our forecasts the major carriers are trading at 6-8x 2012 earnings, below mid-cycle averages. Our preferred airline plays, AF-KLM and Lufthansa, currently trade at 3.1x and 5.8x calendar 2012e EPS. Stripped of the market value of the Amadeus stake

investments, the multiples decrease to 2.4x and 5.3x, respectively.

3. Key macro risks: Greater than forecast Euro weakness, oil price rise and fiscal tightening. Risk of a major fluctuation in EUR:USD is not priced in, in our view. Parity could reduce EBIT by ~60-100% for most major carriers during 2010. An increase in oil price of \$10/bbl could decrease EBIT by ~50% on average. Approx 60% of airlines' financing costs are variable. We calculate that a 100bps rise in interest rates in 2010 is likely to lead to flat to up to a 16% increase in net financing cost in 2010.

For more details please see our Note; "Airlines: Getting Above the Weather", June 29, 2010

Cruise chat – July Feedback

Our monthly survey of US cruise travel agents is again fairly positive with most agents seeing an upward volume trend and prices improving versus last year's discounted rates. While there was some weakness post the volcanic ash cloud and stock market jitters in May, pricing and volume have held firm. Premium destinations and longer duration cruises seem to be driving yields, though there are some weak spots in the Caribbean, and NCL's new *Epic* ship (despite being met with mixed reviews) seems to have taken the shine off the significant premium RCL's *Oasis* has been generating. The overall pricing recovery is slow, with many consumers holding out for discounts, but the cruise lines are so far generally holding firm with their y-o-y price increases. Carnival on its call last week said that fleet-wide bookings for its cruises over the next three quarters were ahead of last year, and significantly ahead in Europe, with prices for those bookings "nicely higher". With CCL having weak comps (H110 yields 0%, H210 4-6%), we think 2011 yields should be able to rise (we assume +4%, giving EPS of \$3.00). CCL has lost a lot of its relative outperformance in recent weeks, and is now trading on a 2010e P/E of 13.5x falling to 10.7x in 2011e, and we think this is a good entry point (even if, with most of the year sold, we are unlikely to get much movement on 2010 forecasts now).

All comments are direct quotes and are unattributed and unedited. Ticks and crosses denote positive and negative comments, equal sign is neutral.

1. Bookings

- ✓ The first half of 2010 was a much better than same time 2009. Booking environment is significantly more upbeat and continues to be positive overall.
- ✓ Cruise booking volumes up 5% over May 2010 volume

- ✓ Sales in June increased 7% Vs 2009 with respect to cabins sold. Revenue was up 12% Vs June 2009. The large revenue increase was due to an increase in luxury lines bookings.
- ✓ Call center volume up 7% over May 2010 volume.
- ✓ Business has improved since the slowdown in April and May and signs of pent up demand returning starting to appear. This is being stimulated by new discounting and promotions, but positive momentum is returning.
- = Cruise booking volumes flat over June 2009 volume.
- = Bookings seem to be doing better than last year at this time but it is still a slow recovery.
- = The low prices of past seasons has had an effect on customer satisfaction. There were many complaints about the quality of food and service. This year with pricing up in general new emphasis is on food. There are many new programs to get consumers excited about the product again.
- ✗ The increase overall for June was less than has been the trend so far this year. We believe that one reason for this is that the increased pricing was a factor in some people not booking, but holding out to see if prices drop closer to the sailing.

2. Prices

- ✓ Pricing for Q1 2011 rising slightly 2% -3% over 2010 pricing levels. Sustainability is an issue.
- ✓ Consumer confidence is reflected in current/ future cruise line pricing and future itineraries that have been planned and announced.
- ✓ Cruises of 7 nights and longer are still trending upward Vs shorter cruises. This has an overall effect on the increased revenue. Seven night and longer cruises represented 70% of bookings for June 2010 Vs 45% in June 2009. This factor alone explains the increase in average pricing June 2010 Vs June 2009. Cost per day for cruises of 3-5 nights are running at \$45 per person per day to close to \$90 per person per day, depending on the ship and itinerary.
- ✓ I think that pricing will continue to increase because it needs to and that bookings will improve though slowly.
- = Pricing for summer 2010 dropping slightly which is stimulating booking volume
- = Whereas bookings since May were made 90 days+ in advance of sailing, June saw bookings made 45-60 days in advance of sailing. Consumers were holding back waiting for prices to drop for the summer. This did not happen across the board. In fact, prices increased on average 8%-12% over the prices in 2009. However the cruise lines appear to be almost fully occupied for July and August departures. In some case lines such as Carnival, and Royal Caribbean lowered prices on their slower

booking ships and sail dates. These lower prices were more than offset by higher prices on their popular newer ships.

- ✗ The fact that significant discounts are still currently available for remainder of 2010 and into 2011, highlight my conclusion and their artificially inflated prices.
- ✗ Fourth quarter bookings are running 15% behind last year with respect to cabins sold. Revenue is down for this period 11% as prices are higher for sailings in 2010 than 2009. We suspect that more aggressive pricing will be promoted within a month in order to attract 4th quarter bookings.
- ✗ Pricing for Q4 2010 dropping 3%-4% in the longer, higher end cruises.
- ✗ The luxury market continues to trail in the recovery, despite Regent's "threat" of raising prices on June 30. No tangible signs that consumers took them seriously as no intelligible evidence of a surge in demand for their product resulted from their price increase announcements.

3. Bookings and prices by region

- ✓ Europe remains strong through July-August-September and October.
- ✓ Europe continues to amaze. Pricing continues to rise as does future deployments. Demand by North Americans continues to be met with more ships being scheduled is the reason, which mandates new destinations to be included. The value prospect of cruising continues to expand around the globe making cruising more of a mainstream product.
- ✓ Alaska cruises for summer 2010 doing well as more US consumers opt to fly shorter domestic routes.
- ✓ Summer Caribbean bookings have been strong, with a last minute surge. Most available cabins have two passenger restrictions, forcing interested consumers to purchase two cabins for four passengers, rather than allowing for the purchase of one.
- ✓ We are seeing that June and July sailings from New York and in the Europe and Alaska markets remain strong, both capacity and pricing are excellent.
- = Alaska 2010 has little remaining inventory and will sell-out soon. The newly signed Alaska head-tax bill is now law and consumers could care less. The whopping \$11.50 reduction isn't fooling anyone and consumers are wondering "what was the big deal" and what was really the core issue, because the bill didn't really address the actual problem. 2011 bookings should remain unaffected.
- ✗ European cruises for summer 2010 not as strong as expected due to travel concerns

- ✗ Summer Caribbean cruises for all other ships besides Oasis and Epic showing weakness as cruise line scramble to fill up remaining inventory.
- ✗ There is a surprising unsold inventory of Alaska cruises. This is primarily due to the price of airfare to Alaska, despite many promotions such as 2 for one fare, and reduced air in a few cases.
- ✗ Pricing is up in general but there are some weak itineraries that the cruise lines were not counting on.
- ✗ Alaska and Caribbean demand has lessened for August and September and pricing is leaking.

4. Oil spill / Stock market volatility / Travel disruption concerns

- ✓ Currently, the Gulf of Mexico oil spill is NOT disrupting current and future reservations. Passenger bookings are very strong in the Gulf ports of New Orleans, Galveston (Houston), Tampa and Mobile. Carnival will be redeploying Conquest and Ecstasy back to New Orleans, which restores them to pre-Hurricane Katrina (2005) numbers as a show of confidence and demand.
- ✓ The oil in the gulf continues to be the big story and the effect on the cruise industry has yet to be felt.
- ✓ Cancellations return to normal level at about 5% of bookings after peaking in late spring.
- ✗ Stock market volatility and oil spill concerns still weighing on demand creating pent up demand.
- ✗ Some hulls have had to be cleaned but the cruise lines have not changed course yet on any itinerary. New Orleans, Tampa, Galveston are all gulf related ports. The toxic fumes from the spill and hurricane season are reasons I think this situation could grow worse in the months ahead.
- ✗ The volcano played a big role in European travel + high airfares. Also the European economy is following in the footsteps of the U.S so that is creating new sets of problems for the cruise lines in Europe.

5. Brand comments

- One cruise line that appears to be running very well is Norwegian. Sharp pricing and their new ships are attracting people who have never sailed on this cruise line. We see them as a possible future threat to the Carnival brand with respect to features and pricing. They are also more aggressive in granting group bookings favorable pricing and amenities than is Carnival, which has recently reduced the ""Give Aways"" for group bookings. Also the discounts given for groups is not as sharp as Norwegian. On the other hand, Royal Caribbean too has resorted to not lowering their group pricing in most cases Vs their FIT prices. They still however offer more amenities than their

competition. Royal Caribbean's ships are still drawing many passengers due to the features and marketing being done promoting the Oasis and the soon to be completed, Allure. Royal Caribbean's ships are the destination that consumers are drawn to. The experience of these people who sail these super liners of Royal Caribbean are nothing short of excellent. Many people are rebooking these ships as they felt they did not experience everything the ship had to offer.

- A lot of Anti-Carnival Cruise Line letters and editorials continue to be written in the US Trade Press (see Travel Weekly - the main trade publication in the US). Carnival continues forward with strong direct marketing efforts, lower commissions to agents (through increased NCF fees) and reduced service to agents. Basically many agents have tried to sell away from Carnival and push sales to their competitors.
- New ship for Norwegian Cruise Line (The Epic) launched for summer 2010 Caribbean market creates some strong competition for Royal Caribbean Oasis class ships, dropping some of their pricing premium.
- June was supposed to be about the delivery of Norwegian Cruise Line's "brand new" Norwegian Epic. After recent news stories of a blown engine, followed by four suspect fires and then a broken propeller shaft, Epic limped from Rotterdam to Southampton. The ship that lacks exterior good looks has been met with very mixed reviews. Epic was supposed to command a premium price, higher than their other ships, not similar to Royal Caribbean's Oasis of the Seas, though. In a recent announcement, NCL claimed they were impressed that their inaugural trans-Atlantic sold-out three weeks sooner than expected, personifies their low expectations or unrealistic revelations. It took 8.5 months for them to sell-out the very first revenue sailing, just one month shy of the sailing.
- While Epic's lack of traditional cabin bathroom design will be met with continued skepticism, people will still book because of the 100 single cabins, vast entertainment and restaurant venues, lower than Oasis of the Seas prices, but won't be the significant revenue generator. There's no chance the new cabin design will be emulated by other cruise lines.
- Carnival Corp has had a busy year with 6 new ships including the Cunard Queen Elizabeth, HAL Nieuw Amsterdam and Seabourn Sojourn among them.

Carnival 2Q 10 Conference Call transcript highlights

On a fleet-wide basis, booking volumes and pricing since our last earnings call, that's in the last 13 weeks or so, covering the

next three quarters have held up quite well. Even booking volumes for the last six weeks during a significant downturn in global equity markets have held up well, although we have seen reduced booking volumes for certain itineraries, which I will comment on later.

For our North American brands on slightly lower year-over-year booking volumes for the last 13 weeks, we have experienced double-digit price increases. Keep in mind our comparisons of this year's booking volumes are against a 26% increase in booking volumes for the same period as last year, when we were selling at deeply discounted prices to move our inventory. With respect to bookings by itinerary during the last 13 weeks for North American brands, we have seen strong volumes and pricing for Caribbean programs, which comprise 52% of North American brand capacity over the next three quarters.

Alaska, which is 11% of our North American capacity, on lower booking volumes has experienced significantly higher year-over-year pricing, and Europe itineraries, which comprise 9% of our capacity, has also experienced lower booking volumes but with significantly higher pricing as well.

We have also seen stronger year-over-year pricing for our Mexican Riviera itineraries. For the first time in a while, all of our North American brand itineraries have booked quite well during this 13-week period with good pricing.

For our European brands during the last 13 weeks, booking volumes for the next three quarters have been quite strong, with moderate year-over-year local -- current pricing improvements. Booking volumes for European itineraries during the 13-week period, which comprise two-thirds of European brand capacity during the next nine months, have been higher and are keeping pace with year-over-year European brand capacity increases. These bookings are showing moderate increases in prices on a local currency basis, which is quite satisfactory considering the large increase in European brand capacity during the next nine months.

So looking back over the last 13 weeks, it's fair to say that demand for cruises has been solid and we've continued to

achieve higher year-over-year price increases. Now, let me talk a little bit about the last six weeks.

Beginning in early May, the effect of the volcanic ash issue in the UK and Western Europe did cause nervousness about air travel, particularly for North American consumers taking airline flights across the Atlantic. Compounding this was the European sovereign debt crisis and the resultant negative effect it had on global equity markets. Indeed, from late April through late May, U.S. equity markets, as we all know, were down about 12% or so. We believe this caused consumers, especially those in North America, to re-think their discretionary travel decisions.

But even with these events, fleet-wide bookings for the last six weeks for our cruises over the next three quarters continue to run ahead of last year on a fleet-wide basis, significantly ahead for Europe and just slightly behind for North American brands. And prices for bookings for North America and Europe brands continue to be running nicely higher.

Looking at bookings over the last six weeks by major trades for North American brands, Caribbean itineraries, which are more than 50% of North American capacity over the next nine months, continue to be strong at higher prices. Bookings for Alaska cruises, however, ran behind the last six-week period but at substantially higher prices. But fortunately there is very little Alaskan inventory left to sell. Bookings for North American brand Europe programs were also lower, but there's also not much inventory left to sell in Europe for the remainder of the year.

Despite the brief slowdown in these trades, we are still expecting significant year-over-year pricing improvement for Alaska and Europe for 2010. We have seen anecdotally over the last couple of weeks that with the recent strength in the equity markets that demand for -- in North America for these trades has started to pick up.

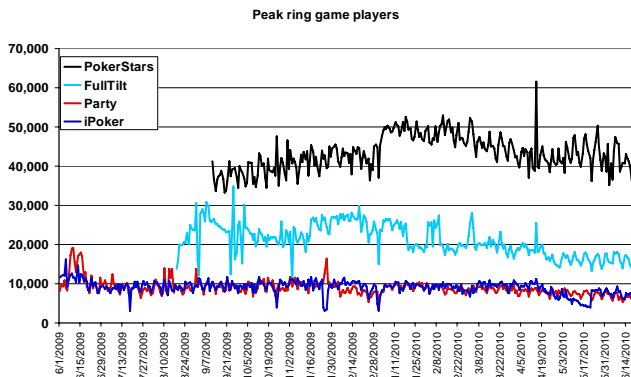
Online Gambling – Monthly Form Guide

Summary: This is the thirteenth edition of our “Monthly Form Guide”. We trawl the web for the latest developments in online gambling, and pick out some of the most interesting articles, opinion and developments, with links to what we consider to be best articles (most of which do not make it to the mainstream press). At the federal level in the US there was not much progress during June, although Barney Frank’s bill is due a vote in the House Financial Services Committee in July, and Harrah’s has stepped up its lobbying efforts in Washington. The implementation of the UIGEA rules does not seem to have had a significant impact on the industry. At the state level in New Jersey legislators are considering a referendum on allowing sports and internet betting in the state. In California Senator Wright pulled his bill to legalise online poker from a committee vote, but intends to work on it to garner more support. In Europe, France issued licences and opened the sports-betting market up to strong demand in time for the World Cup, and poker has recently followed. There are also further signs of progress towards regulation in Germany and Greece.

Poker Traffic update: Traffic was weak again in June, with most of the major operators showing MoM declines on H2 Gambling Capital European peak hours average ring game player data. PartyGaming’s traffic was down 13% on the May average, and Q2 has been down 18% on Q1; for Pacific Poker the equivalent numbers are 10% and 14%. This weakness has also affected the US-facing operators, with PokerStars and Full Tilt down 8% and 3% respectively on the month, and 12% and 22% on the quarter.

Exhibit 26

Peak ring game players



Source: H2 Gambling Capital, Morgan Stanley Research. Average seated players between 1800 and 2400 BST

Ready to Roll: We highlight some of the key forthcoming dates and events.

Exhibit 27

Calendar of events

	Event	Details
06/07/2010	PartyGaming Pre-close update	Confirmed
08/07/2010	ECJ judgments due on Swedish cases	
29/07/2010	William Hill H1 results	Confirmed
29/07/2010	Rank interim results	Confirmed
July	Frank bill hearing	
05/08/2010	Ladbrokes H1 results	Confirmed
06/08/2010	PartyGaming interim results	Confirmed
11/08/2010	Unibet Q2 results	Confirmed
19/08/2010	bwin Q2 results	Confirmed
25/08/2010	Paddy Power interim results	Confirmed
26/08/2010	OPAP H1 results	Confirmed
31/08/2010	888 Interim Results	Confirmed

Source: Company data, Morgan Stanley Research

Biggest Pot

Durrrr (Tom Dwan) won the biggest pot of the last 30 days from Ziigmund (Ilari Sahamies). The pot was worth \$199k. Ziigmund also lost the second, third and fourth biggest pots of the month.

US Regulation and Prohibition

[A month after the implementation of UIGEA regulations there has been little impact on US-facing online gambling sites.](#)

Online horse-racing operators, who were given an exemption from the UIGEA rules, have been more affected through over-blocking by credit card companies. (*Pokernews.com, 25 June*)

[A bill that would allow online poker in California was pulled from a committee vote.](#)

Senator Roderick Wright said the bill needed work to win more support. (*Daily Bulletin, 29 June*)

[The legislation had been amended to reduce the state’s share of gross revenues from 20% to 10%, although operators would be able to offer more in order to make their licence bids more attractive.](#)

The duration of licences was also lengthened from 5 years to 20 years. (*Los Angeles Times, 24 June*)

[Three groups representing California Indian nations opposed the proposals in their current form.](#)

Several card rooms also objected to the legislation. (*mydesert.com, 26 June*)

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Leisure and Hotels

[New Jersey is considering a referendum in the state to allow constitutional changes that would permit sports and internet betting.](#) *(The Associated Press, 17 June)*

[New Jersey's Assembly gaming committee also released a bill that would allow exchange betting in the state.](#) *(BloodHorse.com, 18 June)*

[Atlantic City casino revenues fell 13% in 2009, in part due to competition from casinos in Pennsylvania.](#) The declines are part of the reason for the push towards internet and sports betting in New Jersey. *(The Wall Street Journal, 21 June)*

[The New Hampshire Lottery will launch a website in July on which state residents can play slots, bingo and poker.](#) Tickets must be purchased from retail locations in order to play. *(WMUR.com, 24 June)*

[Harrah's has hired another lobbyist as part of its efforts to see online gambling legalised at the federal level.](#) Disclosure records show the first spent \$905k lobbying in the first quarter of this year. *(legaltimes.typepad.com, 08 June)*

[Virgin launched a US website where video game players can compete against each other for real money.](#) The internet video game tournament business is legal in 11 states because video games are considered games of skill rather than chance. *(The New York Times, 14 June)*

Bolaverde media group produced useful summaries of online gambling legislation in [individual US states](#) and at the [federal level](#). *(bvmediagroup.com, 14 & 29 June)*

European Developments

[England's defeat to Germany in the World Cup removed the risk of a big payout for the British-focused bookmakers, but is likely to lead to reduced interest in the rest of the competition...](#) Coral said that the industry had been spared a potential £50m payout. *(sportinglife.com, 27 June)*

[... although William Hill said that they think the World Cup could be the first tournament to see \\$2 billion of turnover in British bookmaking history.](#) *(The Wall Street Journal, 29 June)*

[French operator BetClic has broken all of its records in France since being licensed to operate in the country.](#) *(egrmagazine.com, 21 June)*

[Bwin, BetClic, Everest, FDJ and the PMU were amongst the first operators to be awarded licences to operate in France.](#) The first operators offered sports betting in the country in time for the start of the World Cup. *(egrmagazine.com, 08 June)*

[PokerStars has blocked French players from the pokerstars.com website ahead of the opening up of the regulated French market.](#) PokerStars was amongst the second batch of companies to receive a licence for poker in France along with PartyGaming. Sports betting has been permitted since before the World Cup, and poker opened at the start of July. *(Poker News Daily, 25 June)*

[European countries agreed a common definition of online gambling, with only Malta objecting.](#) The move could be the first step towards European collaboration in the area. *(Times of Malta, 03 June)*

[Greece will 'soon' release a draft law on gaming machines and internet betting.](#) *(Reuters, 15 June)*

[Google is now allowing licensed UK gambling companies to run display advertising campaigns on Youtube.](#) Ladbrokes was the first brand to run a campaign on the site. *(mad.co.uk, 21 June)*

[Olswang produced a useful summary of the progress of online gambling regulation throughout Europe.](#) *(olswang.com, 03 June)*

News from around the world

[A New Zealand court ruled that poker tournaments are not gambling but a form of competition.](#) It also ruled that .net websites are not promotions for gambling operators. *(pokernews.com, 23 June)*

[The Australian government rejected recommendations of the Productivity Commission report to repeal the Interactive Gambling Act which prohibits offering poker and casino to Australian residents.](#) *(egrmagazine.com, 24 June)*

[Sponsorship deals between Full Tilt and PokerStars and two Australian rugby league teams were referred to the police.](#) The sponsorship deals were for .net sites which do not allow play for money. *(The Sydney Morning Herald.com, 28 June)*

[The Chinese government launched a crackdown on online football gambling during the World Cup.](#) The government had already arrested more than 3,600 suspects by the middle of June. (*ShanghaiDaily.com, 14 June*)

[South America could be the next region to drive growth in online gambling markets.](#) (*egrmagazine.com, 07 June*)

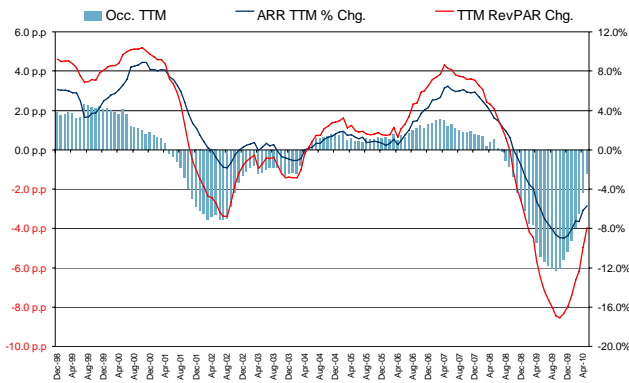
Industry Information

Latest Industry Data

MKG European RevPAR Data

Exhibit 28

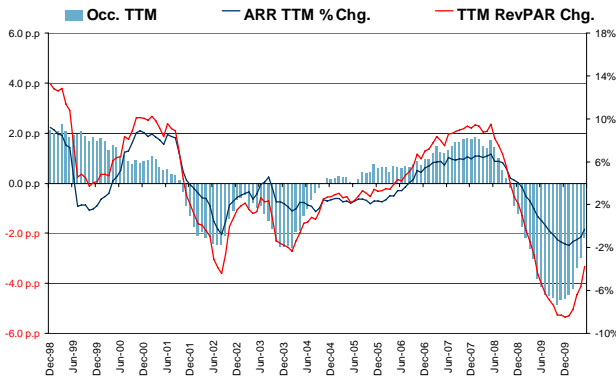
RevPAR in Europe was up 3.2% in May



Source: MKG, Morgan Stanley Research

Exhibit 29

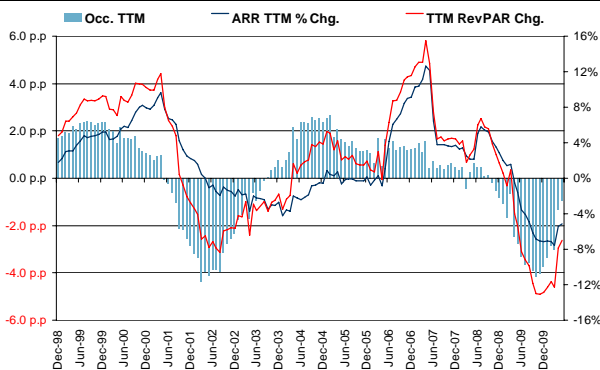
RevPAR in France was up 10.7% in May



Source: MKG, Morgan Stanley Research

Exhibit 30

RevPAR in Germany was down 0.6% in May



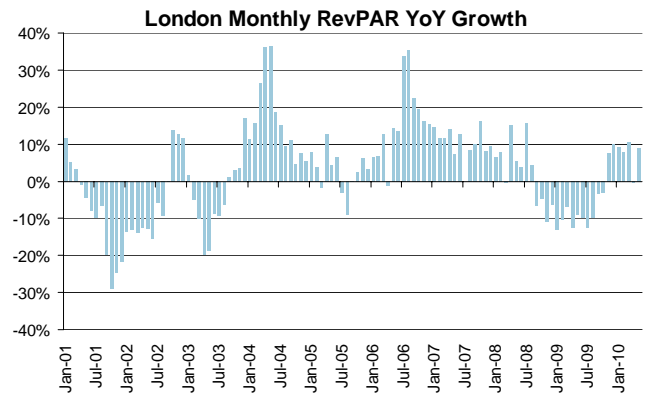
Source: MKG, Morgan Stanley Research

TRI UK RevPAR Data

In the UK, RevPAR was up 7.2% in May driven by 9% growth in London and 5% growth in the regions, a sharp increase versus previous months.

Exhibit 31

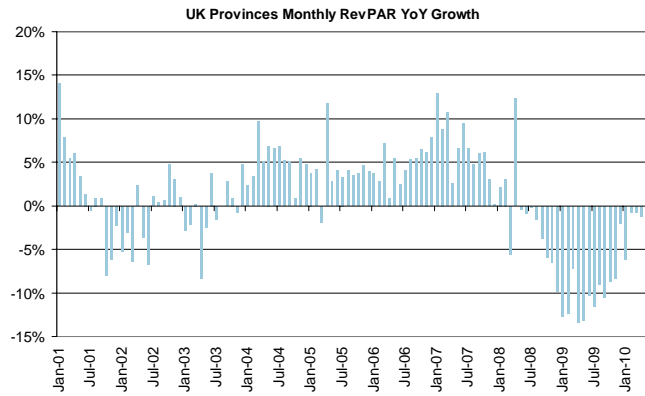
RevPAR in London was up 9% in May



Source: TRI, Morgan Stanley Research

Exhibit 32

RevPAR in the regions was up 5%



Source: TRI, Morgan Stanley Research

July 2, 2010
Leisure and Hotels

Smith Travel Research US Lodging Data

Exhibit 33

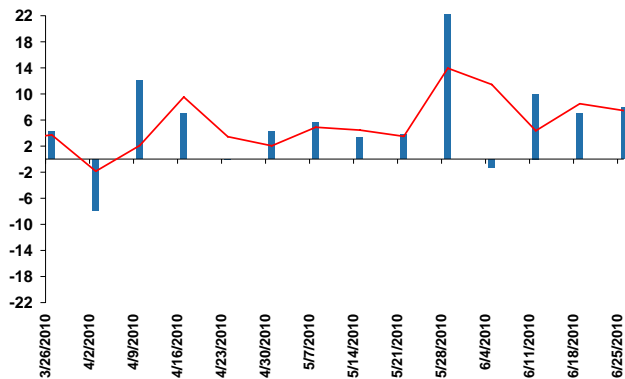
Chain Scale, US, w/e 26/06/10

	% Occ	% Chg	ADR (\$)	% Chg	RevPAR	% Chg
Luxury	74.2	8.7	231.2	6.0	171.7	15.2
Upper Upscale Chains	78.8	6.5	141.7	1.4	111.6	8.0
Upscale Chains	77.0	7.3	107.9	0.6	83.2	7.9
Midscale W/F&B Chains	64.8	6.2	86.6	-0.1	56.1	6.1
Midscale W/O F&B Chains	71.7	6.1	87.9	0.1	63.1	6.2
Economy Chains	62.1	7.8	53.3	-2.7	33.1	4.9
Independents	67.7	6.3	96.5	1.8	65.3	8.2
Total US Market	69.7	6.8	98.8	1.1	68.9	7.9

Source: Smith Travel Research

Exhibit 34

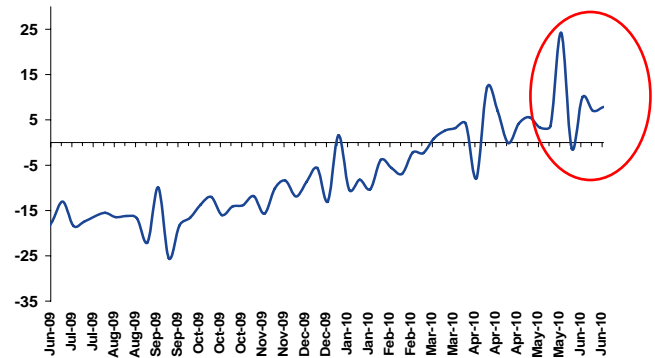
US Lodging Weekly RevPAR Growth (line = 3 month moving average)



Source: Smith Travel Research

Exhibit 35

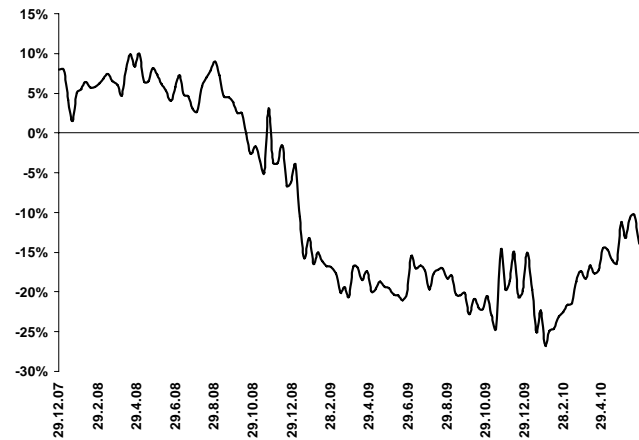
US Lodging Weekly RevPAR Growth



Source: Smith Travel Research

Exhibit 36

Two-year US RevPAR change improving rapidly



Source: Smith Travel Research

News Snippets *(Unless stated otherwise, the press reports below have not been confirmed)***TOURISM / CRUISE / AIRLINE NEWS**

- **Fred Olsen** marketing boss Nigel Lingard has predicted that cruise prices will need to rise by at least seven or eight per cent next year if the industry wants to continue investing in itself.
- The chairman of **Shanghai International Port Group** said that the market value of the cruise industry in China will see double-digit growth in the next few years with huge potential in the market and a booming domestic economy. Travelers departing from China's ports on international cruises totaled 380,000 last year, compared with fewer than 10,000 in 2005.
- Within an hour of England's defeat to Germany, **lowcostholidays.com** reported a sudden surge in web traffic, around 40% increase compared to the previous week.
- The **Co-operative Travel** also said it had seeing an "encouraging increase in enquiries" since England was eliminated.
- **TUI Travel's** Finance Director Paul Bowtell held talks with Marks & Spencer about taking the same post at the retailer, reported *The Sunday Telegraph* on June 27.
- **Travelzest**, the specialist tour operator, said that its half-year revenues had risen by 9% to £18.9 million. Pretax profits had more than doubled to £1.4 million, helped by cost savings and a growth in UK trading.
- **Ryanair** announced it will cut UK winter capacity by 16% from November with the loss of over 2m passengers at UK airports this winter (vs. winter '09)
- **Passenger traffic** rose 12 per cent in May compared with the same month last year, while freight demand, a significant indicator of global economic activity, jumped 34%, reported the *Financial Times* on June 30.

HOTEL NEWS

- Pebblebrook Hotel Trust purchased the luxury, 422-room **InterContinental** Buckhead Atlanta for \$105 million in cash in one of the largest hotel deals so far this year. IHG will continue to manage the hotel for up to 40 years under a contract struck with Pebblebrook.
- **Travelodge** was understood to be close to agreeing a deal to lease most of the 80 lodges owned by Mitchells & Butlers and to run them under its own brand. M&B would continue to own the properties and to run the adjoining pub-restaurants, reported *The Times* on July 1.
- RBS sold London's **Cumberland Hotel** to London & Regional Properties and Starwood Capital. RBS declined to confirm a report in Property Week magazine that the closely held purchasers paid almost £215m pounds for the 1,019-bedroom hotel at Marble Arch in central London
- **InterContinental Hotels Group** confirmed plans to double its presence in Greater China to over 250 hotels over the next five years. This year it is opening over 30 hotels in Greater China. This includes seven InterContinental and seven Crowne Plaza.

PUBS / RESTAURANTS / FOOD SERVICE NEWS

- **Greene King** reported a strong improvement in trading in managed in the last 8 weeks to 6%. Leased was actually a small deceleration, flat versus +1% in the previous quarter. The company revealed plans to increase the size of its managed estate by a quarter - and said it aims to up its estate from 888 pubs to 1,100 in the next three to five years.
- **JD Wetherspoon** said it would open 12 new pubs next months. A number of the pubs are being developed from former Chicago Rock Cafe sites. In others Wetherspoons is overhauling closed pubs which it bought on a site-by-site basis.
- According to the **Independent Operators Association**, tenanted pubcos will earn around £3 less each week from every gaming machine when the VAT hike comes in next January. Managed operators will earn around £5 less.
- **Starbucks** announced plans to serve beer and wine in a third US-based site, after it reopens a store in Seattle this autumn.

BETTING AND GAMING NEWS

- **California's** Senate Governmental Organization Committee put on hold plans to legalize Internet poker for players 21 years and older until more of the concerns over S.B. 1485 could be addressed.
- **New Jersey** moved closer to becoming the first state to approve exchange betting this week when the state assembly voted 78-0 to pass a bill that would allow gamblers to set their own odds for horse races and wager against each other.
- **Bwin** insisted that talks over a potential £2 billion merger with UK online poker giant PartyGaming continue. Over the weekend it emerged that Bwin's supervisory board chairman Hannes Androsch told Austrian magazine Trend that merger talks had collapsed, reported *Dow Jones* on June 28.
- **Ladbrokes** brought in consultants Alix Partners to assist with a review of key issues such as improving machine income from the betting shops, the long-term future of Ladbrokes' Odds On! loyalty card and the group's underperforming online gambling operation.
- **PartyGaming** announced that it had been awarded licences by ARJEL, the French Gaming regulator, to operate online poker and sports betting websites for residents in France.
- Following the launch of its sports betting line-up and license bid on 8 June, **bwin** launched its poker line-up on the French market.
- **International Game Technology**, one of the world's leading manufacturers of slot machines and gaming products, is seriously considering purchasing up to 11% of Bwin, reported *Gambling Compliance* on Jun 30.
- Dragonfish, the independent B2B division of **888** Holdings, announced an agreement with MTV Networks UK & Ireland to provide a bingo product to launch on the Dragonfish network.

July 2, 2010
Leisure and Hotels

Global Valuation Comparables

	Closing Price	Price Target	Rating	Market Cap Local	P/E 2009e	P/E 2010e	P/E 2011e	3 Yr EPS Growth (09-12e)	2009e EV/EBITDA	2010e EV/EBITDA	2011e EV/EBITDA	Div Yield (pc) 2010e	2009e FCF Yield (pc)	2010e FCF Yield (pc)	2011e FCF Yield (pc)	
HOTELS (Europe)																
Accor	€38.25	€44	E	8,473	25.9	24.3	19.5	19.5	9.3	8.5	6.9	2.7	6.3	5.3	6.0	
InterContinental	1063p	1320p	E	3,123	19.7	17.1	15.7	13.4	12.6	10.6	9.5	2.8	7.2	4.3	6.0	
NH Hoteles*	€2.43	-	NC	599	(6.4)	(16.9)	63.5	NA	24.1	13.7	9.2	0.0	NA	NA	NA	
M&C	407p	440p	U	1,248	20.1	17.9	14.8	14.8	12.1	10.6	8.8	1.5	5.2	3.8	5.0	
Rezidor*	32 kr	-	NC	4,815	(16.5)	(414.1)	25.5	NA	103.6	17.1	8.3	0.3	NA	NA	NA	
Sol Melia*	€5.05	-	NC	933	32.7	34.0	15.9	NA	9.6	9.3	7.4	0.4	NA	NA	NA	
Whitbread	1409p	1760p	O	2,449	14.6	13.4	12.2	6.0	8.3	7.7	6.9	2.8	7.5	7.5	9.0	
Weighted Average (ex NHH)					20.5	8.8	16.4	15.0	12.2	9.0	7.5	2.4	6.6	5.3	6.5	
HOTELS (US)																
Choice Hotels*	\$30.42	-	NC	1,812	17.8	18.0	16.7	NA	12.5	12.1	10.7	2.5	NA	NA	NA	
Host Hotels*	\$13.45	NA	N	8,853	(61.1)	(52.7)	(538.0)	NA	16.6	16.3	14.1	0.5	NA	NA	NA	
Marriott Int'l*	\$30.12	NA	N	10,883	31.4	28.6	22.7	NA	14.6	13.0	10.8	0.6	NA	NA	NA	
Starwood*	\$41.58	NA	N	7,879	40.8	45.5	30.8	NA	14.6	13.0	11.1	0.7	NA	NA	NA	
Sunstone*	\$10.08	NA	N	993	(4.1)	28.0	19.4	NA	12.7	13.2	12.6	0.0	NA	NA	NA	
Weighted Average (ex Host Hotels)					33.8	34.1	25.3	NA	14.4	12.9	11.0	0.8	NA	NA	NA	
PUBS/RESTAURANTS																
Mitchells & Butlers	274p	350p	E	1,122	11.6	9.2	8.1	19.7	8.7	7.9	7.3	0.0	18.5	16.5	15.9	
JD Wetherspoon	391p	570p	O	546	12.0	11.1	10.5	8.0	6.5	6.3	6.1	4.9	15.8	15.8	14.0	
Enterprise Inns	87p	NA	U	442	2.9	3.9	4.3	(11.1)	9.1	9.5	9.6	0.0	27.9	18.9	20.6	
Punch Taverns	58p	NA	U	373	1.6	4.3	4.1	(25.6)	7.2	7.9	7.7	0.0	62.1	37.4	24.1	
Greene King*	395p	-	NC	853	9.0	8.7	8.3	NA	8.3	7.9	7.7	5.6	NA	NA	NA	
Marston's*	90p	-	NC	516	6.6	9.1	8.6	NA	8.5	8.4	8.1	6.3	NA	NA	NA	
Weighted Average					8.4	8.3	7.7	4.8	8.2	7.9	7.6	2.8	26.2	19.9	17.5	
TOURISM																
TUI AG	€7.25	€10.50	O	1,821	(9.5)	(54.8)	14.1	(203.3)	4.6	4.5	3.9	0.0	20.6	8.0	13.6	
TUI Travel	209p	290p	E	2,340	8.9	8.7	7.6	7.7	4.0	4.0	3.4	5.5	11.6	18.7	17.3	
Thomas Cook Group	179p	230p	E	1,534	7.2	7.2	7.0	3.4	3.9	4.1	3.8	6.3	13.2	14.6	15.3	
Kuoni*	SFr300	-	NC	857	61.9	18.0	10.8	NA	7.4	5.3	3.4	2.1	NA	NA	NA	
Weighted Average					7.7	7.4	9.4	6.0	4.4	4.3	3.6	4.0	11.0	15.3	14.8	
SHIPPING																
Yang Ming Marine	NT\$17.55	NT\$15.50	O	44,948	(2.7)	128.9	31.6	NA	(83.4)	7.3	6.0	0.0	(48.3)	3.2	6.8	
China Shipping CL	HK\$2.80	HK\$3.70	E	26,170	(4.8)	(369.7)	16.8	NA	(32.0)	9.0	6.5	0.3	(22.8)	(3.3)	1.4	
Evergreen Marine	NT\$21.85	NT\$25.00	O	67,358	(6.9)	24.1	12.0	NA	(14.3)	12.6	9.1	0.0	(22.8)	(7.9)	(15.5)	
Neptune Orient Lines	SGD 2.00	SGD 2.35	O	3,232	(3.3)	(133.0)	22.0	NA	21.2	8.1	6.9	0.0	(3.1)	(6.8)	(5.2)	
Orient Overseas Int'l Limited	HK\$56.20	HK\$69.00	O	3,517	(15.4)	367.7	28.6	NA	114.2	65.4	50.8	0.1	(2.2)	3.5	0.6	
Wan Hai Lines	NT\$19.85	NT\$20.50	E	41,255	(37.2)	17.8	14.6	NA	7.3	4.5	4.0	0.0	8.2	11.3	5.3	
AP Moeller - Maersk	kr 48,460	kr 50,000	E	199,396	(30.7)	14.4	13.4	NA	6.2	4.0	3.5	0.6	(1.9)	7.1	7.7	
Weighted Average					(6.0)	(118.2)	19.4	NA	(16.5)	11.9	9.1	0.1	(20.8)	(3.4)	(2.6)	

continued

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Leisure and Hotels

	Closing Price	Price Target	Rating	Market Cap Local	P/E 2009e	P/E 2010e	P/E 2011e	3 Yr EPS Growth (09-12e)	2009e EV/ EBITDA	2010e EV/ EBITDA	2011e EV/ EBITDA	Div Yield (pc) 2010e	2009e FCF Yield (pc)	2010e FCF Yield (pc)	2011e FCF Yield (pc)
CRUISES															
Carnival Plc	2110p	3200p	O	3,524	14.2	13.6	10.6	14.4	9.8	9.3	7.7	1.3	10.9	11.6	14.0
Carnival Corp.	\$31.31	\$49	O	19,389	14.0	13.3	10.4	14.4	9.8	9.3	7.7	1.3	10.9	11.6	14.0
Royal Caribbean	\$23.47	\$35	E	5,082	31.3	12.8	8.7	67.6	12.3	10.0	8.1	0.0	10.1	17.1	19.6
Star Cruises*	\$1.46	-	NC	1,084	NM	NM	NM	NA	NA	NA	NA	NA	NA	NA	NA
Weighted Average					17.0	13.3	10.2	23.4	10.2	9.4	7.8	1.1	10.8	12.6	15.0
GAMING															
William Hill	171p	210p	E	844	8.4	9.0	8.8	2.2	5.8	5.8	5.5	4.8	11.2	10.6	10.6
Ladbrokes	127p	165p	E	1,150	9.1	9.1	8.2	5.9	5.8	6.5	6.0	5.0	15.1	21.3	12.8
Paddy Power	€25.42	€24	U	1,224	21.0	18.0	16.0	15.2	13.4	10.4	9.1	2.3	5.6	5.7	5.9
Rank Group*	95p	-	NC	370	10.8	10.6	9.9	NA	5.2	5.1	4.5	2.4	NA	NA	NA
OPAP	€10.21	€12	U	3,257	4.7	7.4	8.0	(15.9)	2.6	2.8	3.1	12.9	21.0	14.4	12.5
Intralot SA*	€2.64	-	NC	420	6.7	6.0	5.3	NA	4.3	3.8	3.4	6.0	NA	NA	NA
Lottomatica SpA*	€10.52	-	NC	1,810	11.1	11.6	10.6	NA	5.4	5.9	5.4	6.7	NA	NA	NA
Weighted Average					9.4	10.1	9.6	3.3	5.5	5.4	5.1	7.6	15.6	13.7	11.1
ONLINE GAMBLING															
888	37p	100p	O	130	5.8	7.1	6.9	(4.4)	2.2	3.1	3.8	6.3	15.8	10.5	12.8
bwin	€36.35	€49	O	1,353	22.4	17.7	15.7	20.9	12.0	9.8	8.5	2.7	3.0	6.4	6.7
PartyGaming	216p	390p	O	908	11.6	10.8	10.0	7.4	8.9	7.7	6.6	0.0	10.9	15.0	16.5
Playtech*	464p	-	NC	1,125	13.2	12.5	10.9	NA	12.8	12.0	9.9	3.9	NA	NA	NA
Sportingbet*	54p	-	NC	269	9.4	8.8	7.9	NA	6.0	5.1	4.2	2.7	NA	NA	NA
Unibet	SEK 140	SEK 140	U	3,931	12.5	11.0	14.3	(2.4)	8.8	8.4	9.9	4.7	10.3	9.1	7.3
Weighted Average					15.2	13.2	12.2	14.8	10.5	9.3	8.1	2.7	6.5	10.2	11.1
AIRLINES															
Air Arabia	€0.86	€1.08	E	3,995	8.8	10.1	8.5	13.6	7.1	8.4	6.7	9.9	16.0	3.2	5.4
Air France-KLM	€9.82	€17.2	O	3,497	(2.3)	(480.3)	4.6	NM	762.4	5.3	3.1	0.0	(66.2)	4.1	31.1
British Airways	196p	++	+	2,497	NM	NM	NM	NM	9.1	4.6	3.9	0.0	0.4	3.8	17.5
Deutsche Lufthansa AG	€11.39	€15.20	O	5,244	(42.0)	91.1	10.8	NM	5.5	4.7	3.7	0.0	(28.3)	(12.2)	(7.5)
EasyJet	398p	500p	E	1,729	24.0	15.6	8.4	53.8	10.4	6.2	4.6	0.0	(18.6)	(6.3)	1.3
Iberia	€2.33	++	+	2,224	NM	67.2	21.7	NM	48.9	5.4	4.1	0.0	1.5	(6.4)	8.4
Ryanair	€3.60	€4.70	O	5,334	17.4	16.6	9.9	29.8	8.0	7.6	6.2	0.0	(1.4)	(2.2)	11.5
Air Berlin	€3.32	€4.40	E	198	(20.0)	6.5	5.0	NM	3.6	2.9	2.9	0.0	NM	NM	NA
Weighted Average					(4.8)	(67.1)	17.1	44.4	265.0	14.2	11.0	3.6	(22.2)	(4.0)	14.1
FOOD SERVICE															
Compass Group	512p	610p	O	9,532	17.3	14.7	12.9	14.1	9.4	8.2	7.1	2.9	7.8	8.4	9.6
Sodexo	€45.09	€43	E	6,984	17.7	19.1	15.6	10.4	9.0	9.3	8.0	2.8	5.0	7.0	6.6
Autogrill S.p.A*	€9.64	-	NC	2,452	35.7	20.3	16.7	NA	7.3	6.7	5.9	1.5	NA	NA	NA
Weighted Average					19.6	16.8	14.2	12.7	9.0	8.4	7.3	2.7	7.8	8.4	8.5

++ Rating and price target for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time.

Note: EV/EBITDA is basic for all stocks. Time period: Financial year-end, except for Whitbread which has a February year-end, so we show our estimates in the previous year (i.e., F2010 under 2009)

* Estimates for companies not covered are First Call or IBES estimates.

e = Morgan Stanley Research estimates, NA = Not applicable, NC = Not covered

Source: First Call, IBES, Morgan Stanley Research

July 2, 2010
Leisure and Hotels

Morgan Stanley Estimates

	Sales			EBITDA			EBIT			PBT			EPS			DPS			Net Debt		
	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
HOTELS (Europe)																					
Accor (€)	7,064	7,388	7,254	1,092	1,187	1,270	594	687	791	448	526	652	1.47	1.58	1.96	1.05	1.05	1.23	1,624	1,434	187
InterContinental (\$m)	1,538	1,608	1,726	470	547	604	363	439	495	309	378	431	0.82	0.94	1.02	0.43	0.44	0.48	1,178	1,045	935
M&C (£m)	654	695	744	124	137	160	92	106	129	84	99	121	20.2	22.7	27.5	6.25	6.25	8.50	251	192	150
Whitbread (£m)	1,335	1,435	1,566	361	394	434	255	265	292	239	263	288	96.7	105.3	115.1	38.00	39.90	43.89	514	558	506
PUBS/RESTAURANTS																					
Mitchells & Butlers (£m)	1,958	2,007	2,080	428	455	476	300	327	344	134	172	196	23.5	29.8	33.9	0.00	0.00	10.00	2,600	2,449	2,374
JD Wetherspoon (£m)	955	997	1,059	142	146	153	97	101	108	66	72	76	32.6	35.1	37.1	0.00	19.13	12.08	387	380	387
Enterprise Inns (£m)	811	710	665	450	400	369	438	385	352	208	153	140	30.6	22.4	20.6	0.00	0.00	0.00	3,679	3,357	3,096
Punch Taverns (£m)	1,442	1,299	1,275	514	423	402	452	373	353	160	121	126	36.0	13.5	14.1	0.00	0.00	0.00	3,538	2,981	2,726
TOURISM/CRUISING																					
TUI AG (€)	16,504	15,867	15,906	954	1,002	1,114	558	615	715	-82	140	489	-0.77	-0.13	0.51	0.00	0.00	0.00	2,263	2,156	1,921
TUI Travel (£m)	13,863	13,308	13,435	674	715	784	443	480	537	366	370	424	23.5	24.0	27.5	10.50	11.55	12.47	338	520	345
Thomas Cook Group (£m)	9,269	8,949	8,856	570	588	597	411	409	417	295	294	301	24.8	24.9	25.5	0.11	0.11	0.12	675	857	740
Carnival Plc (US)	13,157	14,200	15,399	3,463	3,733	4,429	2,154	2,292	2,874	1,806	1,857	2,433	2.24	2.35	3.00	0.00	0.40	0.80	9,101	9,768	9,519
Royal Caribbean (US\$)	5,890	6,831	7,808	1,057	1,393	1,687	489	744	1,015	162	399	583	0.75	1.84	2.69	0.00	0.00	0.00	8,057	9,045	8,746
GAMING																					
William Hill (£m)	998	1,035	1,065	296	305	309	259	268	270	203	211	217	20.5	19.0	19.4	7.50	8.27	9.50	597	544	499
Ladbrokes (£m)	1,119	1,075	1,090	289	251	256	235	200	204	191	165	173	14.0	13.9	15.5	3.50	6.30	7.56	712	487	400
Paddy Power (€)	296	367	398	85	108	119	67	88	97	67	88	98	1.21	1.41	1.59	0.58	0.60	0.71	-64	-96	-128
OPAP (€)	5,441	5,493	5,410	967	885	815	927	849	783	950	867	802	2.18	1.38	1.27	1.75	1.32	1.22	-700	-749	-765
888 (\$m)	247	234	240	46	34	36	36	28	30	36	29	31	0.10	0.08	0.08	0.07	0.03	0.04	-88	-83	-52
PartyGaming (US\$)	446	509	546	135	148	160	123	137	150	125	140	154	0.28	0.30	0.33	0.00	0.00	0.00	-165	-234	-327
Bwin (€)	434	475	520	92	120	134	51	79	102	50	82	106	1.62	2.05	2.31	0.62	0.99	1.20	-158	-216	-274
Unibet (£m)	138	155	157	42	42	34	33	33	26	29	33	26	95.63	108.52	83.39	71.00	75.96	58.37	24	4	-4
AIRLINES																					
Air France - KLM (€)	23,970	20,994	23,699	11	1,934	2,962	-235	-1,629	284	-2,126	-11	1,045	-4.32	-0.02	2.15	0.00	0.00	0.51	4,889	6,779	5,804
Deutsche Lufthansa (€)	22,283	25,682	27,562	2,095	2,387	2,973	359	542	1,102	-248	142	710	-0.27	0.13	1.05	0.00	0.00	0.37	6,256	6,091	5,835
EasyJet (£m)	14,681	2,957	3,261	197	346	461	65	191	314	52	144	268	16.6	25.6	47.3	0.00	0.00	0.00	352	452	421
Air Berlin (€)	3,283	3,917	4,212	504	603	589	119	208	198	-26	62	80	-0.17	0.51	0.66	0.00	0.00	0.00	1,559	1,488	1,400
SAS (SEK)	45,383	45,105	46,582	2,881	4,212	3,918	-178	1,473	2,247	-1,633	350	1,338	NA	NA	NA	NA	NA	NA	12,596	11,038	9,606
BUS & RAIL																					
Arriva (£m)	3,148	3,235	3,404	324	348	366	158	175	182	120	137	144	58.6	52.6	55.4	25.3	26.4	27.7	927	923	941
National Express (£m)	2,711	2,262	1,746	284	327	327	160	202	209	81	153	163	19.2	22.5	23.8	0.0	7.8	8.8	766	692	667
FOOD SERVICE																					
Compass Group (£m)	13,444	14,053	14,872	1,109	1,229	1,358	877	978	1,077	780	894	1,022	29.5	34.8	39.7	13.2	15.0	16.6	943	597	97
Sodexo (€m)	14,681	14,683	15,695	985	979	1,134	758	744	863	638	599	728	2.54	2.36	2.88	1.27	1.27	1.33	1,801	1,979	1,980

Source: Morgan Stanley Research

E= Morgan Stanley Research Estimates

Definitions:

PBT (clean, pre-exceptionals, pre-goodwill)

EPS (clean, pre-exceptionals)

US companies EPS calculation includes ESO expense

Net Debt is basic. It has not been adjusted for leases

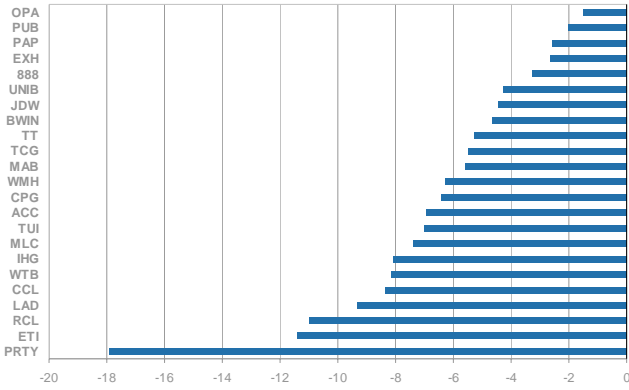
*Time period: Financial Year End, except for Whitbread which has a February year end and we put this under the previous year (i.e. F2010 under 2009 heading)

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Share Price Performance

Exhibit 37

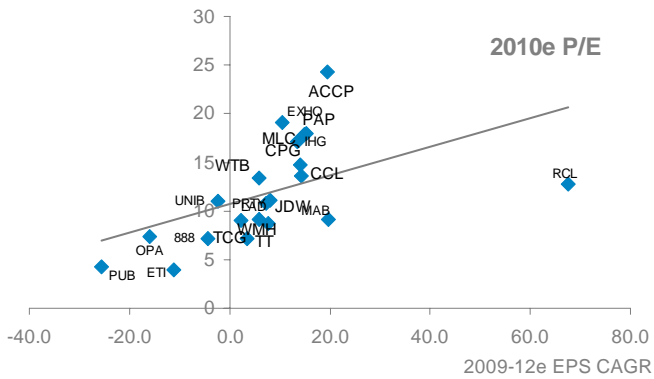
Stock Price Performance, 1 week change



Source: Bloomberg, FactSet; prices taken from Thursday close to Thursday close

Exhibit 38

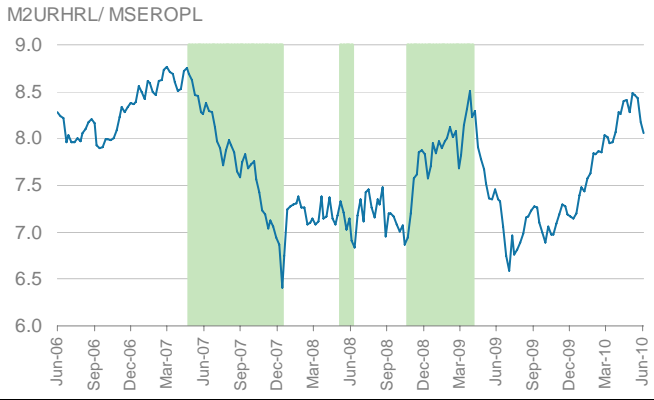
Leisure Stocks 2010 P/E vs. 09-12e EPS CAGR



e = Morgan Stanley Research estimates Source: FactSet, Morgan Stanley Research

Exhibit 39

European MSCI Leisure Relative to MSCI Europe



Source: DataStream

Exhibit 40

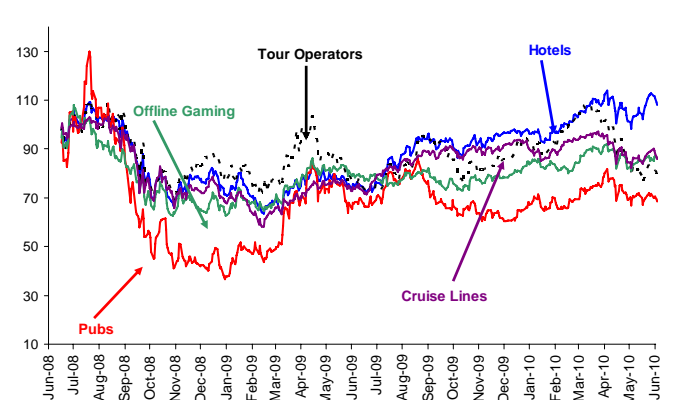
Absolute Share Price Movements

Name	1 Week	1 Month	3 Month	6 Month	YTD	12 Month
Accor	-6.9	-4.2	-12.5	-2.9	-2.9	31.4
Bwin	-4.7	-7.0	-22.2	-18.0	-18.0	7.3
Carnival	-3.2	-15.5	-20.2	-1.2	-1.2	23.5
Carnival Plc	-8.3	-19.9	-22.3	-1.2	-1.2	31.1
Club Med	-4.7	11.2	-13.5	-6.0	-6.0	16.3
Compass Group	-6.4	-10.5	-5.6	12.8	12.8	50.1
Enterprise Inns	-11.4	-20.8	-30.2	-7.9	-7.9	-35.5
Greene King	-1.0	-0.8	-13.6	-3.2	-3.2	-6.5
InterContinental	-8.1	-5.7	0.1	17.1	17.1	68.4
Intralot	-2.9	-8.0	-20.5	-35.6	-35.6	-41.1
JD Wetherspoon	-4.4	-10.2	-24.7	-7.8	-7.8	-3.7
Kingdom Hotel	#N/A	0.0	2.0	42.9	42.9	66.7
Kuoni	-3.5	-7.6	-28.2	-14.0	-14.0	-10.7
Ladbroke	-9.4	-10.2	-22.0	-9.1	-9.1	-19.7
Lottomatica	-5.5	-14.1	-27.9	-25.0	-25.0	-23.6
M&C	-7.4	-2.5	-20.0	5.7	5.7	64.4
Marstons	-4.4	-3.0	-3.6	2.7	2.7	-2.9
Mitchells & Butlers	-5.6	-14.4	-13.0	11.1	11.1	11.6
MSCI Europe	-5.3	-4.6	-14.2	-10.6	-10.6	8.7
MSCI Leis	-6.6	-7.7	-13.7	0.4	0.4	20.2
NH Hoteles	-3.8	-4.1	-23.7	-34.7	-34.7	-15.9
OPAP	-1.5	-16.0	-37.5	-31.6	-31.6	-44.7
Paddy Power	-2.6	1.4	-4.3	2.4	2.4	49.1
Park Plaza	0.0	5.1	0.0	12.6	12.6	36.7
PartyGaming	-17.9	-22.0	-35.2	-20.8	-20.8	-18.3
Punch Taverns	-2.0	-10.1	-21.9	-7.5	-7.5	-37.1
Rank Group	-10.5	-20.3	-19.4	14.1	14.1	48.0
Royal Caribbean	-11.0	-21.4	-30.6	-7.2	-7.2	75.7
Sodexo	-2.6	-3.5	0.1	13.1	13.1	21.2
Sol Melia	-8.1	-7.5	-23.4	-14.4	-14.4	14.8
Thomas Cook	-5.5	-13.4	-34.6	-22.8	-22.8	-11.5
Unibet	-4.3	-8.2	-35.4	-19.8	-19.8	-28.5
TUI AG	-7.0	-2.2	-16.4	21.4	21.4	40.3
Tui Travel	-5.3	-10.3	-32.9	-19.2	-19.2	-11.1
Whitbread	-8.2	-2.9	-9.1	-3.5	-3.5	66.8
888 LN Equity	-3.3	-29.7	-63.1	-66.9	-66.9	-64.0
William Hill	-6.3	-4.1	-21.7	-9.2	-9.2	-15.0

Source: Bloomberg

Exhibit 41

Sub-Sector Performance



Source: DataStream

Calendar of Events

2010		
Date	Company	Details
29 Jun	TUI AG Roundtable	Please contact jessica.higgins@morganstanley.com for details
29 Jun	Accor AGM	Confirmed
1 Jul	Virgin Games Roundtable	Please contact jessica.higgins@morganstanley.com for details
2 Jul	Edenred Starts Trading	Confirmed
6 Jul	Punch Q3 Trading Update	8.30am UK +44 (0) 1452 555 566 - ID: 85600358
6 Jul	PartyGaming Pre-close Trading Update	Confirmed
7 Jul	Sodexo Q3 Results	7.30am UK +33 (0)1 72 00 09 91
13 Jul	Costa Roundtable	Please contact jessica.higgins@morganstanley.com for details
14 Jul	JD Wetherspoon Trading Update	Confirmed
15 Jul	Marriott International Q2 Results	Confirmed
20 Jul	Enterprise Inns IMS	Confirmed
20 Jul	Accor Q2 Revenues	Confirmed
20 Jul	Royal Caribbean Q2 Results	TBC
20 Jul	Ryanair 1Q Results	Confirmed
22 Jul	Mitchells & Butlers Q3 IMS	Confirmed
22 Jul	Starwood Hotels Q2 Results	TBC
23 Jul	Rezidor Interim Results	Confirmed
28 Jul	Compass IMS	Confirmed
28 Jul	easyJet Q3 Results	Confirmed
28 Jul	Air France-KLM Q1 Results	Confirmed
29 Jul	William Hill H1 Results	Confirmed
29 Jul	Rank Interim Results	Confirmed
29 Jul	Lufthansa Q2 Results	Confirmed
30 Jul	British Airways 1Q Results	Confirmed
4 Aug	Betfair Annual Results	TBC
5 Aug	Ladbrokes H1 Interims	TBC
5 Aug	Millennium & Copthorne Interim Results	Confirmed
5 Aug	Thomas Cook Q3 Results	TBC
6 Aug	PartyGaming Interim Results	Confirmed
10 Aug	InterContinental Hotels Interim Results	Confirmed
10 Aug	TUI Travel Q3 Results	TBC
11 Aug	TUI AG Q3 Results	TBC
11 Aug	Unibet Q2 Results	Confirmed
18 Aug	SAS Q2 Results	Confirmed
19 Aug	Bwin Q2 Results	Confirmed
19 Aug	Kuoni H1 Results	Confirmed
24 Aug	Punch - Pre Close Trading Statement	TBC
25 Aug	Paddy Power Interim Results	Confirmed
25 Aug	Edenred Interim Results	Confirmed
26 Aug	Accor Interim Results	TBC
26 Aug	OPAP H1 Results	Confirmed
26 Aug	Air Berlin H1 Results	Confirmed
27 Aug	Iberia H1 Results	Confirmed
31 Aug	888 Interim Results	Confirmed
7 Sep	Whitbread Q2 Trading Update	Confirmed
9 Sep	Michael East (MD) Eastcastle Management Group	Please contact jessica.higgins@morganstanley.com for details
10 Sep	JD Wetherspoon FY Results	TBC
21 Sep	Carnival Q3 Results	TBC

	Leisure & Hotels
	Transport (Airlines only)
	Leisure Roundtables

Valuation and Risks

Punch Taverns

No PT

Underweight

We estimate the fair value of Punch Taverns' shares as 65p calculated as the average of applying a 7x P/E multiple to our 2010 EPS estimate, applying a 9x EV/EBITDA multiple, applying a 20% target free cashflow yield and a DCF with a WACC of 7.8% and zero terminal growth. The main risks to our fair value estimate include: a severe UK economic recession, a major deterioration in tenant profitability, significantly weaker UK property prices, rising maintenance capex requirements, and worse than expected trading due to consumer weakness and the widening price gap in the off-trade.

PartyGaming

390p

Overweight

In our base case we value the business using a combination of DCF (WACC 9%, terminal growth 2%), P/E (multiple of 14x in line with its average since listing) and free cash flow yield (7.5%, in line with its average since listing). For our price target we take 33% of our bull price target and 67% of our base target to reflect the option value the company has. The main downside risks are: 1) High valuation. The 2010 P/E of 15x on our estimates is not far from a fair multiple for the business as it stands. We value the core business at 300p, and investors need to believe in structural change to buy, we think. 2) Poker pressure continues. If no new markets emerge, and PokerStars and Full Tilt continue to operate, we think that market share losses in poker would continue. 3) Poor acquisition. PartyGaming has stated its intention to pursue M&A. Although it has successfully integrated the Gamebookers and EOL and IOG deals in the past, and the Cashcade integration appears to be going well, there is some risk that it is rushed into a poor deal due its declining revenues in poker.

Sodexo

€43

Equal-weight

Our €43 target price is based on the average of three valuation methodologies: (i) P/E - we use a target multiple of 18x applied to our F2010 forecast. This results in a valuation of €41. (ii) We apply a 9% FCF yield to our F2010 forecast which leads to a €36 valuation. (iii) DCF - Using a WACC of 8.5% and terminal growth of 1.5% we derive a €51 valuation. The main upside risks to our price target include: 1) Food inflation subsides 2) Wage inflation falls below current levels 3) Higher than expected cost efficiencies. Downside risks include: 1) Higher than expected food inflation 2) Wage inflation rises above its historical average 3) Limited cost efficiencies 4) Becoming too lean, and therefore limiting growth prospects 5) Missing earnings expectations, leading to a P/E de-rating.

JD Wetherspoon

570p

Overweight

Our 570p price target is based on different valuation measures. i) Market relative P/E. We use a P/E multiple of 13x. This is

based on our forecast market P/E to growth ratio of 1.4x and our estimated EPS growth rate of 9% over the next 3 years. ii) DCF. We use a terminal growth rate of 1% and a WACC of 8.2%. This implies a terminal value of 5.1x EV/EBITDA. iii) Comparable EV/EBITDA multiples. We use a multiple of 8.8x, which is a 5% discount to the average multiple for managed pub transactions. iv) Historical average P/E. The recent average P/E multiple (2002-2008) is 15.4x. v) Residual income. We take a cost of equity of 9%, terminal return on equity of 15% and 15-year horizon to reach steady state. The risks are a sales decline, which may accelerate this year if the economy continues to weaken, and could necessitate major refurbishment work or repositioning, as well as perhaps further pub disposals. Upside risks include better than expected trading, which may lead investors to reassess current multiples.

Royal Caribbean

US\$35

Equal-weight

Our \$35 price target is based on different valuation measures: (1) Applying an average historical P/E multiple of 15x to our 2011 EPS estimate gives a value of US\$37.8. (2) DCF gives a value of US\$32.3 based on a 1% long-run growth rate and a WACC of 7.5%. (3) EV/Berth gives a value of US\$34.5 based on the average EV/Berth over 1995-2009 applied to 2011e berths, subtracting net debt and adjusting for higher fuel costs. (4) EV/Sales gives US\$34.4, based on average EV/Sales of 2.5x applied to 2011 sales, adjusted for higher fuel costs. (5) FCF yield gives a value of US\$37.2, assuming a free cash flow yield of 12% and applying it to our 2011e free cash flow estimate. The main risks to the cruise lines' price targets are: geopolitical shocks, an economic slowdown, rising interest rates, capacity risk, weakness in the US dollar (for European investors) changes in buying patterns, external forces outside cruise lines control and a higher oil price.

Mitchells & Butlers

350p

Equal-weight

We have valued MAB in four ways. On P/E, we take use 12x. On EV/EBITDA, we take 9.0x, the average for the sector, less £400m pension. On DCF, we use our new explicit forecasts out to 2013 and 1.0% terminal growth after that. And we have included a FCF yield measure, with 8% being the sector average, on a normalized tax charge. The risks are a sales decline, which may accelerate this year if the economy continues to weaken, and could necessitate major refurbishment work or repositioning, as well as perhaps pub disposals. Upside risks include better than expected trading, which may lead investors to reassess current multiples.

Lufthansa **€15.20** **Overweight**

Our €15.20 price target is based on the weighted average of multiples, calculated by 1: 2012 EPS discounted by the cost of equity 2: DCF based on US\$85/bbl fuel to perpetuity (using an 8.5% WACC) and 3: NAV with distressed asset sales (20% discount to fleet value). Risks to our price target include a tepid increase in passenger volume and yield growth in 2010 relative to our forecasts, volatility in fuel prices and the key exchange rate of the EUR/USD.

AF-KLM **€17.20** **Overweight**

Our price target is based on the weighted average of multiples, calculated by 1: 2012 EPS discounted by the cost of equity (12.6%) 2: DCF (using an 7.7% WACC and a terminal growth assumption of 0%) and 3: NAV with distressed asset sales (20% discount to fleet value). Risks to our price target include slowing or spiking of demand, of which business traffic is particularly important for the network airlines. On the cost side, the oil price presents considerable risks, as does the USD exchange rate, as European airlines purchase oil, leases, maintenance services and insurance in USD.

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(as of June 30, 2010)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1086	42%	362	43%	33%
Equal-weight/Hold	1114	43%	391	46%	35%
Not-Rated/Hold	14	1%	4	0%	29%
Underweight/Sell	348	14%	94	11%	27%
Total	2,562		851		

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Industry Coverage: Leisure and Hotels

Company (Ticker)	Rating (as of)	Price* (06/30/2010)
Vaughan Lewis, CFA		
888 Holdings Plc (888.L)	O (05/14/2010)	36p
Accor (ACCP.PA)	E (01/06/2009)	€38.25
Bwin Interactive Entertainment AG (BWIN.VI)	O (05/12/2009)	€36.34
JD Wetherspoon (JDW.L)	O (06/22/2009)	391p
Ladbrokes (LAD.L)	E (12/10/2007)	127p
Millennium & Copthorne (MLC.L)	U (04/29/2009)	407p
OPAP (OPAr.AT)	U (06/17/2008)	€10.21
Paddy Power plc (PAP.I)	U (05/14/2010)	€25.42
PartyGaming Plc (PARTY.L)	O (05/12/2009)	216p
Unibet Group Plc (UNIBSdb.ST)	U (05/14/2010)	SKr143.75
William Hill (WMH.L)	E (10/17/2008)	171p
Jamie Rollo		
Carnival Corp. (CCL.N)	O (07/17/2002)	US\$30.24
Carnival Plc (CCL.L)	O (01/04/2007)	2,183p
Compass Group (CPG.L)	O (04/07/2009)	512p
Enterprise Inns (ETI.L)	U (09/09/2008)	87p
InterContinental Hotels Group (IHG.L)	E (12/01/2008)	1,063p
Mitchells & Butlers (MAB.L)	E (04/22/2008)	274p
Punch Taverns (PUB.L)	U (12/01/2008)	58p
Royal Caribbean Cruises (RCL.N)	E (05/23/2008)	US\$22.77
Sodexo SA (EXHO.PA)	E (04/07/2009)	€45.75
TUI AG (TUIGn.DE)	O (08/24/2009)	€7.25
TUI Travel (TT.L)	E (11/20/2009)	209p
Thomas Cook Group (TCG.L)	E (06/21/2010)	179p
Whitbread (WTB.L)	O (08/21/2007)	1,409p

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.