

Rating  
**Hold**

Europe  
Spain

Technology  
IT Software & Services

Company  
**eDreams ODIGEO**

Reuters EDRE.MC      Bloomberg EDR SM      Exchange MCE      Ticker EDRE

Date  
15 May 2014

Initiation of Coverage

Price at 14 May 2014 (EUR)	11.00
Price Target (EUR)	10.50
52-week range (EUR)	11.40 - 9.81

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Holding pattern (Revised)

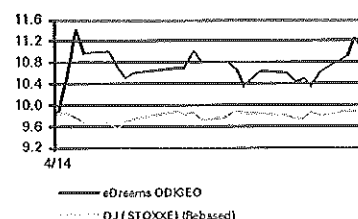
Solid growth story, but limited catalysts - initiating with Hold  
eDreams ODIGEO is Europe's leading flight OTA, enabling it to extract material scale benefits in a complex and fragmented European travel market. We believe the company will see robust revenue growth (10% FY2014-16 CAGR), but limited margin leverage, the lack of short-term catalysts and the current 20% valuation premium to Expedia suggest to us the stock is fairly valued at current levels. We initiate coverage with Hold and a E10.5 price target.

Leading European flight OTA  
eDreams ODIGEO is the largest European online travel agency (OTA) in flights, with leading market shares in several European countries (>90% revenues from Europe). The company's scale in flights (82% of rev from flights in CY13) and its best in class IT platform allow competitive pricing in flights vs. airline websites and OTA peers - our proprietary checks show that for European flights eDreams ODIGEO's website was 7% cheaper than airlines' and other OTAs' websites. The company is also expanding into new product categories such as dynamic holiday packages and hotels, as well as launching into new geographies outside Europe, which should support growth in the long term.

Robust revenue growth but limited margin expansion and re-rating potential  
We expect the company to deliver robust bookings and revenue CAGR of 9% and 10% in FY14-16E, driven by 1) The ongoing secular shift in travel bookings online as well as share gains from smaller OTA peers 2) Improving macro conditions, especially in its Core markets France, Spain and Italy (63% of rev in CY13) 3) Sustainable OTA economics due to the highly fragmented European airline industry. However, ongoing investments to fund the company's expansion outside of Europe in our view limit margin leverage - we model margins stable at c.27% in FY14-16E. Meanwhile, a lack of short-term catalysts leads us to believe that the stock's current valuation of ~10x CY15 EV/adj.EBITDA, a 20% premium to Expedia and 16x CY16 P/E pro forma for assumed refinancing benefits are fair - HOLD.

Price target of E10.5 = broadly in-line with global OTA peers; risks  
Our price target is based on an equal blend of 1) E9.5/share based on a CY15 EV/adj.EBITDA multiple of 9x, in-line with global OTA peers adjusting for expected CY2013-15 EBITDA growth. 2) E11.4/share based on a DCF. Key risks: OTA competition, disintermediation, traction in Expansion markets, mobile transition, macro, and new initiatives from meta-search and Google.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.0	12.1	-
DJ (.STOXXE)	2.5	2.2	16.1

Source: Deutsche Bank

Forecasts And Ratios

Year End Mar 31	2012A	2013A	2014E	2015E	2016E
Revenue (EURm)	320	373	432	481	523
DB EPS (EUR)	0.12	-0.08	0.21	0.48	0.55
DB EPS growth (%)	-	-	-	126.0	15.6
P/E (DB EPS) (x)	-	-	52.2	23.1	20.0
EV/EBITDA (x)	-	-	15.1	11.7	10.4

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/London

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## eDreams ODIGEO

High flyer: Initiation of coverage with a Neutral rating and €11.30 price target

Initiation  
**Neutral**

EDRE.MC, EDR SM

Price: €11.25

Price Target: €11.30

We initiate coverage of eDreams ODIGEO with a Neutral rating and a multiples-based €11.30 price target (June 2015). We regard eDreams ODIGEO as a well-managed business with a strong market position, but at the current multiples, regard the stock as fairly priced. eDreams ODIGEO is the largest online retailer of flights in the world by revenue and a specialist in leisure travel. eDreams ODIGEO is the combination of five major brands: eDreams, GO Voyages, Liligo, Opodo and Travellink. The group operates in 42 countries around the world, but derives most of its revenue from Europe.

- **A growth story.** Through a combination of rapid organic growth and selective strategic acquisition, eDreams ODIGEO has gone from a standing start to the largest online retailer of flights in the world by revenue in a little over ten years. The combination of eDreams, GO Voyages, Opodo and Travellink saw a 2.6x step-up in the number of bookings in FY2012 and further 13% growth in FY2013. We forecast bookings will rise by a further 14% in FY2014E and 9% in FY2015E.
- **Substantial market opportunity.** Online leisure travel is the largest category of ecommerce, more than twice the size of the second largest, apparel. According to PhoCusWright, the online share of the travel bookings market is approximately 40% in Europe and growing steadily at the expense of traditional travel agents. The European airline industry is fragmented and route and fare structures are complex – increasingly so since the emergence of low cost carriers. This complexity increases the opportunity for OTAs to bring greater value to the consumer while increasing their own returns.
- **Best-in-class profitability but current high cost of financing.** We forecast recurring EBITDA margins to remain steady at c27.5% during the period FY2014E-FY2016E as eDreams ODIGEO reinvests in marketing to foster ongoing growth, offsetting the operational leverage effect of increased bookings numbers. Margins have been stable in recent years despite the high level of growth. Financing costs based on the current balance sheet are considerable (€62m in FY2014E), but cash generation is strong and we expect rapid deleveraging together with the possibility of refinancing.

eCommerce

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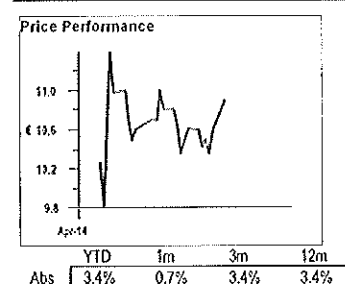
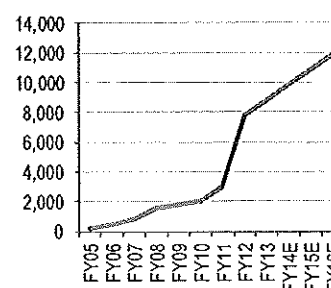


Figure 1: The growth in bookings  
000s



Source: J.P. Morgan estimates, Company data.

### eDreams ODIGEO SL (EDRE.MC;EDR SM)

FYE Mar	2012A	2013A	2014E	2015E	2016E
Analyst Adjusted Basic EPS FY (€)	-	-	-	0.4	0.6
Revenue FY (€ mn)	351	373	428	472	520
EBITDA FY (€ mn)	107	108	118	130	144
EBITDA Margin FY	30.6%	29.1%	27.5%	27.5%	27.6%
EBIT FY (€ mn)	63	75	79	104	117
DPS FY (€)	-	-	-	0.0	0.0
Adjusted P/E FY	-	-	-	31.7	18.6
EV/EBITDA (x) FY	-	14.3	13.3	11.0	9.3

Source: Company data, Bloomberg, J.P. Morgan estimates.

### Company Data

Price (€)	11.25
Date Of Price	13 May 14
Price Target (€)	11.30
Price Target End Date	30-Jun-15
52-week Range (€)	11.90-9.47
Market Cap (€ mn)	1,180.13
Shares O/S (mn)	105

See page 57 for analyst certification and important disclosures, including non-US analyst disclosures.

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