EXANE BNP PARIBAS

EUROTUNNEL (+) >> UK Competition Commission opposes purchase of Seafrance assets... A blessing in disguise?

The UK Competition Commission issued its provisional findings on the Eurotunnel/Seanfrance merger this morning. Decision is clear-cut: **EUROTUNNEL MUST DIVEST THE SEAFRANCE ASSETS**.

The CC argues that:

1) GET+Seafrance would likely result in ***higher prices*** for passenger & freight customers;

2) GET+Seafrance would ***prevent entry/expansion of ferry operators other than P&O and MFL*** ⇔ over the ST/MT, the CC concludes that DFDS/LDA would close its Dover-Calais route (but keep the Dover-Dunkirk).

3) No behavioural remedies would be effective in addressing the adverse effects of GET+Seafrance, i.e. a price cap on GET's tunner services or a separate management of Eurotunnel & Seafrance/MyFerryLink would not do the trick.

GET, the SCOP (employee entity running MyFerryLink) and third parties have until 5-12 March to challenge the provisional findings… Which GET has just announced it would do. The reply of GET to the CC's findings can be wrapped up as follows:

- Since the favourable decision given by the French CC in 7-Nov-12, GET claims ferry competitors have used the UK's CC review to protect their own interests;
- GET argues that MyFerryLink brings a new competitor to the market and increases competition & choice for customers, as highlighted by Cross-Channel users of ferry & GET services;

In terms of timing of events:

- **5-12 March**: deadline for GET, the SCOP and third-parties to respond to the remedies findings.
- **Early April**: expected date for the final report from the CC
- **14 April**: Statutory deadline. Final report can be delayed by another 8 weeks if need be.

<Conclusion>

Once passed the shock of the CC's provisional findings (STRAIGHT SALE OF SEAFRANCE RECOMMENDED - we expected at least some behavioural remedies to be put fwd), the disposal of Seafrance/MFL has the potential to be a blessing in disguise for investors in the ST.

MFL is generating substantial losses for Eurotunnel currently (c.EUR15-20m in 2012e / c.EUR10-15m for 2013e), with a question-mark on its MT viability due to its thin capital base

EQUITY | RESEARCH

Groupe Eurotunnel SA (NXT PA:GET; 6.41)
Ferry Business issue covers just ~1% of EV

FIRST GLANCE | COMMENT
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Rating: Outperform
Risk Qualifier: Average Risk
Link to Full Research Report, including Required Disclosures and Disclaimer.
Impact

The UK Competition Commission suggests divestment of Ferry Business.
First Impression

The UK Competition Commission (CC) has questioned the GET ferry deal, where GET acquired three ships off the defunct SeaFrance. The CC think prices would rise in the cross channel market and finds that GET bought the ferry assets 'to prevent ferry operator DFDS/LD from buying them.' The CC also looks at 'how we can protect competition... [with a] ... focus primarily on customers' interests' and the CC 'will also consider carefully the interest of ferry employees'. The latter focus on employment/social policy seems to be new for the CC.

Divestment seems to be the UK CC's preferred option: The final report from the CC is due on 14/04/2013, but the favoured remedy seems to be divestiture (by Eurotunnel) of the MyFerryLink ferry operations. The CC does not consider P&O as a suitable buyer. The CC also does not seem to consider (alternative) behavioural undertakings as likely to be effective.

Different national rulings: With French CC equivalent clearing the deal there is a conflict here. We see likely greater sensitivity from the latter's government about Calais employment prospects, and remain unclear whether DFDS/LD lines (which have since added vessels to their own service) would still be as interested a buyer of the assets today. If GET/MyFerryLink was not to find suitable divestment prices in the Dover/Calais market, but instead (for higher resale value) chose to sell ships in other markets (maybe outside Europe), we remain unclear how this may assist competition in the short-sea market. We see a risk that, like in recent UK Bus market cases, the CC ruling may simply end up removing an operator from the market, and end up inadvertently reducing competition and consumer choice.

Overall – a small asset impact and may force refocus back onto core activities: To us, the core of value in GET shares sits with the Channel Tunnel fixed link, not in its other businesses. We also think this is the prime attraction to investors. Higher regulatory risks in non-tunnel business expansion may increase the probability that future capital deployment focuses more on the tunnel operations (or back to shareholders, via dividends). In a competitive context, we continue to believe that relatively high fixed costs, port dues, and rising fuel costs are likely to structurally disadvantage ferry operators vs. Eurotunnel's truck and shuttle