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# The Note - Monday business

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NEWS AND COMMENT

## Chrysalis announces radio tune-out

Chrysalis has finally confirmed it is conducting a formal review of its radio operation, which could be sold off for up to £200 million, leaving the company's remaining music publishing group open to a takeover. After months of speculation, Chrysalis confirmed it would consider demerging Heart FM and Galaxy.

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**Comment**: So, Chrysalis has finally initiated a review of its Heart and Galaxy operations, and what a damp squib it is. The shares barely lifted, up 2p at 159.25p, and unless there is a crazy buyer out there, few believe that the music and radio group has a break-up value of more than 180p, which is hardly a compelling reason for selling radio. The last big sale Chrysalis did was when it was forced to get out of TV production, and afterwards valuations in the sector shot up. Right now the prevailing view around commercial radio is bleak, although valuations remain stubbornly high. Chrysalis Radio is well run, and Heart is the number one commercial station in London, which with careful management can grow from here - unless of, course, Chrysalis has secretly stopped believing in the future of commercial radio.

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**Dan Sabbagh**

## MyTravel and Thomas Cook to merge

MyTravel and Thomas Cook, two of Britain's biggest package holiday firms, are to merge. The group will be listed in London as Thomas Cook plc and 52 per cent owned by KarstadtQuelle, the German parent of Thomas Cook.

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**Comment**: Little over two years ago, MyTravel was saddled with debts of more than £1 billion, a market value of £30 million and a reputation worth even less. Today's deal with Thomas Cook completes an impressive turnaround under American chief executive Peter McHugh. Shareholders who criticised McHugh for landing a £3.5 million pay packet last year will feel he is worth every penny as they read the terms of what is essentially a takeover by the Germans. While MyTravel is only contributing 32 per cent of the combined group's revenues and 26 per cent of Ebitda, investors are getting 48 per cent of the shares. Challenges remain, not least breathing new life into the package holiday market when low-cost airlines are changing the shape of the summer. But Mr McHugh can be satisfied with a job well done.

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**Steve Hawkes**

## Vodafone swallows India's Hutchison

Vodafone, the mobile telecoms giant, last night seized control of Hutchison Essar, India's fourth-largest operator, in a deal that values the business at just under $19 billion (£9.7 billion). Vodafone will pay $11.1 billion for a 67 per cent stake in Hutchison Essar.

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**Comment:** Vodafone chief executive, Arun Sarin, assured shareholders he would not overpay for India's Hutchison Essar. He seems to have forgotten that promise. Vodafone has paid top dollar for its Indian infiltration, paying a Ebitda multiple of 45 times its 2005 figures, falling to a still huge 29 times multiple on 2006 financials. On the upside, Vodafone now has access to Hutchison Essar's 23.3 million customers, and that number will grow. Investors, however, should remember when Vodafone paid a massive £2.6 billion to buy Japan's J-Phone. Like India, Japan was perceived as a growing market, specifically for 3G. Yet, Vodafone's strategy was out-of-sync, and last year it pulled out. Vodafone will be the fourth largest telecoms group in India. But to avoid a repeat of Japan, it will need to increase market share quickly.

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**Dearbail Jordan**

## Manufacturers ease inflation fears

The prospect of a near-term rise in interest rates dimmed today as official figures showed that British manufacturers' costs fell more than expected in January and at their fastest annual pace for more than four years.

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**Comment**: Plunging natural gas prices and continuing falls in oil help explain the Monetary Policy Committee's confidence that inflation will fall back later in the year. Input prices have fallen for the first time since February 2004 and the monthly decline was sufficient to tweak sterling down. Factory gate prices are, however, still rising at above 2 per cent and manufacturers will not rely on costs to restore margins. The service sector, now the key to inflation, will enjoy the same cuts in fuel prices so the MPC must hope competition will keep prices in check. The annual rise in the consumer price index is still liable to remain perilously near to 3 per cent for a while, testing the MPC's nerves.

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**Graham Searjeant**

LONDON MARKETS
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## Rolls-Royce passes stalled FTSE

Stocks follow Asia downwards
InterContinental hopes revived
Nerves around British Energy

**Rolls-Royce** jumped nearly 3 per cent after Merrill Lynch added the jet engine maker to its "Europe one" list of recommended stocks. Rolls offers predictable growth backed up by free cashflow, with a reliance on service revenue that protects it from fluctuations in demand for new equipment, Merrill said.

In the wider market, the FTSE 100 faded from its six-year high, with declines on Asian markets encouraging profit taking. That was despite **Vodafone** climbing on relief it had won the auction for Hutchison Essar at a lower price than feared.

**InterContinental Hotels** also beat the trend on a report that un-named predators were working on a bid ahead of the group's earnings next Tuesday. The story was far from novel, but it did focus attention on how the hotelier will defend itself. Morgan Stanley forecasts management to reveal an £800m share buyback and provide more clarity on its dividend policy.

Among the mid-caps, **First Choice** tumbled on news of the merger between **MyTravel** and Thomas Cook: the companies had been considered the most likely buyers for First Choice's mainstream holidays business.

**British Energy** inched higher on short covering ahead of results tomorrow, which will focus on whether it will be able to complete repairs on its generator fleet by the end of March. There have also been persistent rumours that the Government could look to reduce its 65 per cent stake in the nuclear energy group after the figures.

**FTSE 100 latest**
6,362.2 - 20.6

**£/$ 1.9458 - 1.9462**

**OIL** Brent 21-day
$58.06 - $0.95