PANGOLIN INVESTMENT MANAGEMENT

# Pangolin Aviation Recovery Fund February 2022 NAV

As at 28th February 2022, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was US$108.72 net of all fees and expenses, down 1.70% from US$110.60 in January 2022.

As of today, the fund is 95% invested, with the split being approximately as follows:

**Figure 1: Portfolio by sector exposure**

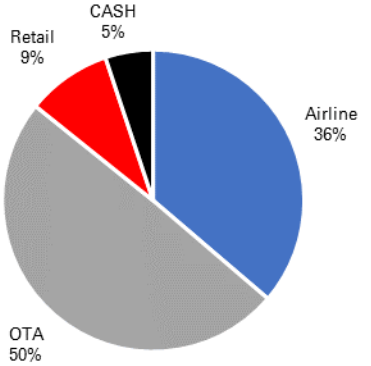
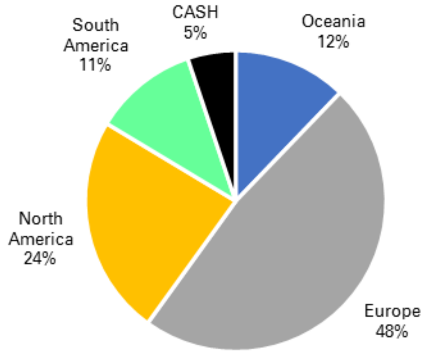



**Figure 2: Portfolio by geographical exposure**




## Overview

To put things into some perspective, please see the table below.

| Return (in USD term) | | | |
|---|---|---|---|
| **Period** | **PARF** | **Bloomberg World Airline Index** | **US JETS Index** |
| **Feb-22** | -1.70% | 0.15% | 1.23% |
| **2022 year-to-date** | 2.51% | 2.18% | 1.85% |
| **Since inception** | 8.99% | 0.78% | -4.02% |

For the first time in a long time, nobody is talking about Covid-19. Our minds are focused on more important matters, like the Russian and Ukraine war.

Before the onset of the war, our fund was enjoying the strongest surge in share prices buoyed by superb 4Q 2021 financial results and equally optimistic statements by the companies' management. However, the conflict put the entire capital market under immense pressure, and our portfolio ended up lower by the end of February.

Our portfolio has zero exposure to Ukraine or Russia. Based on our assessment, the current conflict has negligible direct and indirect implications to our portfolio.

## Management sounds noticeably upbeat

Most companies have released their 4Q 2021 results. In summary, there are many bright sparks in terms of demand recovery, cost control, and forward demand by customers. Many companies' management echoed the same thing; that forward bookings are strong, perhaps the strongest they have witnessed in their entire career.

This asserts our conviction that the strong recovery we've been waiting for so long is finally here. We noticed earlier this year that airlines and online travel agents have increased their capacity and product offerings. We also noticed that prices, while still cheap compared to pre-pandemic levels, are slowly creeping higher. This trend change was palpable, at least to us, and we are delighted with the narratives from the 4Q 2021 results which vindicate our presumption.

My colleagues and professionals in my social circles can't be more excited to know that the will of people to travel is becoming more resolute. Come hell or high water, they will travel this coming holiday season. The rapid spread of Omicron has revealed many of the governments' flawed and ineffective strategies. People are increasingly vocal and remonstrating against them. As a result, governments are easing travel curbs that people continue to demand.

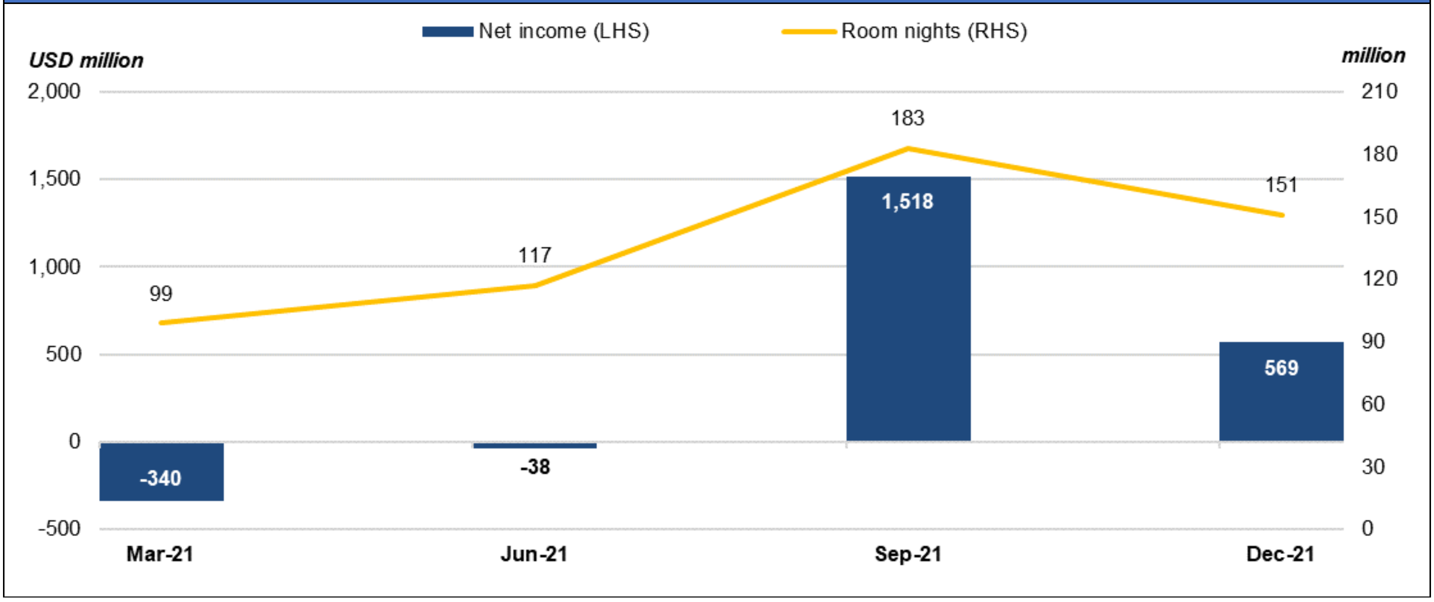
### Booking.com, hitting the right corner

The chart below shows Booking.com's exponential relationship between net profits and the number of room nights sold in 2021. It illustrates the beauty of operational leverage, whereby once a business surpasses its breakeven point, each incremental revenue significantly translates to profits. We estimate the figure is close to 120 million rooms nights for Booking.com.

In 4Q 2021, the number of room nights sold was only 20% lower than that of 4Q 2019 (before the pandemic). Glenn Fogel (Booking.com's CEO) did not provide traffic guidance for 2022, citing the complex business landscape, but he said that the current booking patterns are the strongest he has ever seen in his entire career. That says a lot given that he has been with the company for over 23 years. We think there is a good chance that they hit pre-pandemic traffic numbers soon.

This goes to show that when things hit a right corner, good things prevail. Aviation recovery is the very thesis that remains relevant. We believe that Booking.com has turned around under the superb stewardship of its management team. We have recently increased our stake in Booking.com to 23% of portfolio from 12%. It is too cheap to ignore.

**Figure 3: Booking.com net profits and room nights sold**




Source: Company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## Russia-Ukraine conflict will dominate headlines, but little impact on aviation recovery

We don't think this conflict will dent people's desire to travel. Historically speaking, isolated conflicts had no lasting impact on global air travel. The industry will continue its recovery trajectory if the current war between Russia and Ukraine does not expand beyond its borders.

The immediate effect of this war has been the spike of risk premiums attached to oil and gas products. Jet fuel prices have spiked to stratospheric levels last seen in 2014, adding further operating cost pressure for airlines. Long haul airlines are especially vulnerable, as they consume lots of fuel. Short-haul airlines are less affected, given their nature of operations and fuel is proportionally a smaller cost component compared to long-haul airlines. It is worth noting that all our airline investments are short-haul, low-cost carriers, which are comparatively least sensitive to any oil price surge.

**Figure 4: Singapore Jet Kerosene (USD/bbl)**


Source: Bloomberg

I don't think we will see many Russian tourists in Europe this coming summer. Russians are big globetrotters. In 2019 over 45 million Russian tourists galivant the world, spending USD36b, making them the sixth-highest international tourism spender. They are especially drawn to Turkey, Thailand, Greece, and Croatia.

I end this newsletter with sincere prayers and hope for a swift end to this war, and for peace to return.

**Mohshin Aziz**
2nd March 2022

| Year | Details | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2022** | ***NAV*** | 110.60 | 108.72 | | | | | | | | | | | 2.51% |
| | *MoM %Δ* | *4.28%* | *-1.70%* | | | | | | | | | | | |
| **2021** | ***NAV*** | 93.38 | 112.20 | 116.33 | 116.30 | 119.97 | 113.86 | 109.74 | 108.43 | 115.97 | 109.28 | 93.87 | 106.06 | 6.06% |
| | *MoM %Δ* | -6.62% | 20.15% | 3.68% | -0.49% | 3.16% | -5.09% | -3.62% | -1.19% | 6.95% | -5.77% | -14.1% | 12.98% | |

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