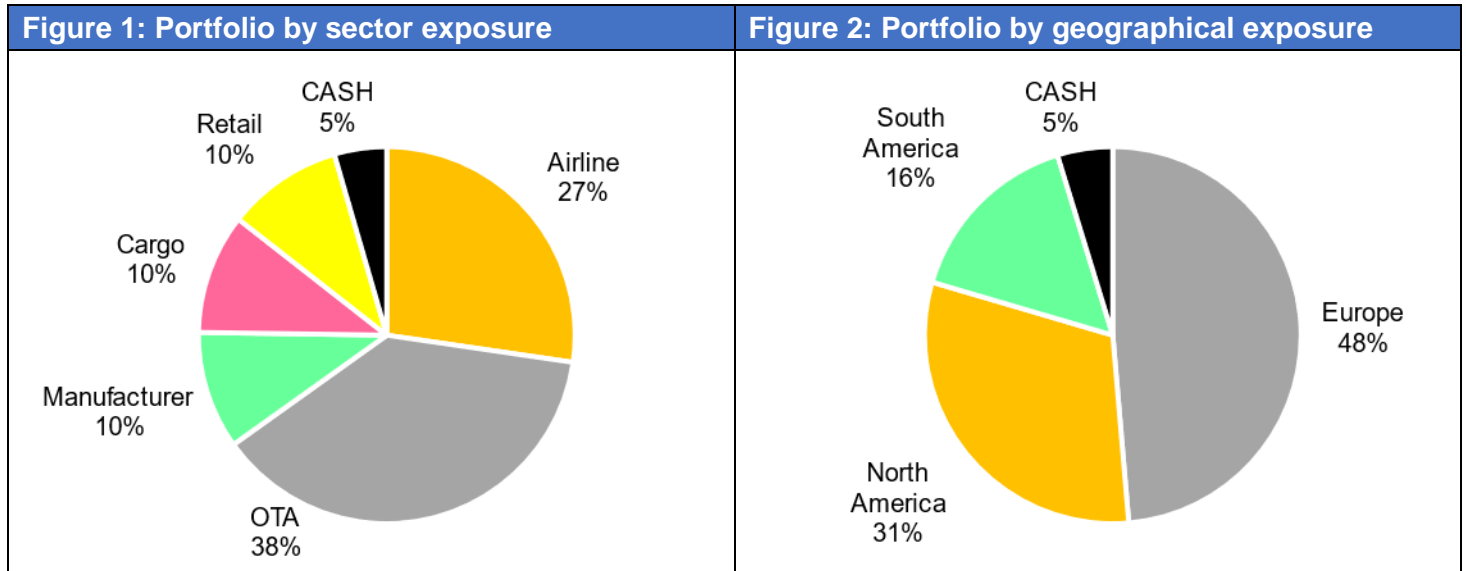




## Pangolin Aviation Recovery Fund July 2022 NAV

As at 31<sup>st</sup> July 2022, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was US\$79.66 net of all fees and expenses, up by 3.97% from US\$76.62 in June 2022.

The fund is 95% invested, with the split being approximately as follows:



### Overview

After five months of successive decline, the fund recorded a modest increase in July as the market nervousness has somewhat eased.

We are at the tail end of the second quarter results season. And thus far the results have been positive. Aviation companies have recorded better than expected revenues in 2Q22, which is a trend we like. However, the ability to manage the operating cost spikes varies tremendously between companies. Companies with disciplined management are proving to be the beacon of hope in this recessionary storm, and they are moving forward with confidence.

The language in post-results analyst commentaries is emboldened, surmising that the share price pullback is overdone and there are a plethora of buying opportunities.

### July was quiet

In July, we did absolutely nothing. It is much harder than it sounds, believe me.

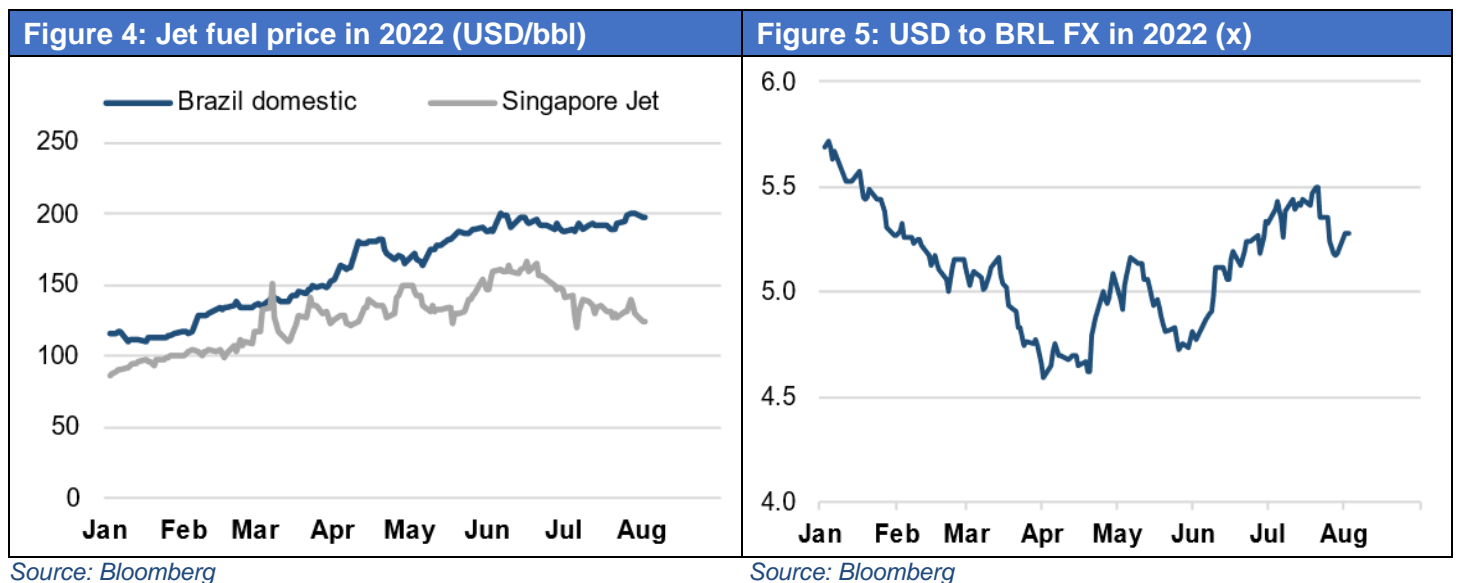
The market was going bonkers since June 2022. Tuning in to Bloomberg TV and CNBC does more mental harm than good. There is no reason for us to join the madhouse.

We believe that the best thing to do when the markets buckle is to buy good quality companies. We have already done so back in June and our fund is effectively fully invested. The next thing to do is to double and triple-check our homework. Thus far, our investments have delivered results that are easy on the heart and soul too. Overleaf are a summary of the June quarter results for our investments.



**Sabre (revenue management system provider):** Global traffic recovery has boosted the demand for Sabre's services. Gross air bookings are currently 57% of pre-pandemic levels, and it should reach to pre-pandemic levels within the next 1-2 years. Sabre is highly levered to international long-haul flight recovery, as it has the lion's share of transatlantic and transpacific flights and a sizeable market share for Asia Pacific long-haul flights. These are the geographical areas that are opening fast, and Sabre's fortunes will be proportionally linked. The management has raised its 2022-23 financial guidance, one of the very few to do so.

**GOL (low-cost carrier in Brazil):** Revenues improved significantly with high load factor and high yields. Corporate passengers are back in vogue, driving GOL's average ticket prices to a decade high. Despite the impressive top-line indicators, GOL struggles to manage its operating costs, namely fuel and USD-related costs. Brazil imports a lot of jet fuel, and it has a quirky fuel tax which results in airlines paying significantly more than global peers. There were some weeks when jet fuel cost more than USD200 per barrel. Plus, the volatile FX "puts us in a very tough position" according to CEO Mr. Celso Ferrer. The management is doing a good job on things it can control but is taking it on the chin on variables that it has no control of. We're in for the long haul and believe market forces will reach an equilibrium that is more favourable to operate in.



**Booking (global online travel agency):** It was a quarter of many milestones for the company. Gross bookings and room nights sold are at new record. It is also the highest second quarter revenue achieved in the company's history. This is despite many of Booking's core markets having some level of travel restrictions, suggesting there is still further growth potential waiting to be unleashed. The management is upbeat with the outlook and is making solid progress to gain market share and expand its product offerings. This strategy will eat into profit margins in the initial period, but ultimately pay back at later stages when the business matures. Booking's profits, balance sheets, and cashflow are back to the pre-pandemic levels. It has purchased USD3.1 billion of its own shares year-to-date and has the appetite for more. If this is not a show of confidence, I don't know what is.

## Outlook

The immediate challenges faced by aviation companies now are weak consumer sentiment, faltering domestic currency against the USD, uninspiring domestic politics, labour shortages, and higher than normal labour union strikes that directly affect their operations.

It is important to highlight that these problems are with solutions. We spoke to so many management teams, they are stressed, but at the same time optimistic they will overcome current obstacles. The fighting spirit is



strong. It is a far cry compared to the pandemic when many were despondent, openly talking about retiring or closing shop.

Opportunities favour the strong they say. Their persistence is paying off as bright spots have emerged.

The prices of commodities have receded from their peak, which should tame down inflation, giving some respite to consumer sentiment. Crude oil prices have pulled back in the past two weeks and this will translate to lower jet fuel prices. Labour shortages are slowly subsiding, as more people are taking employment, and management doing their best to reduce bureaucratic red tapes and reach amicable resolution with employee unions. As for domestic political leadership, I would rather not comment as I like to keep this newsletter with a General Audience classification.

Overall, our analysis suggests that the operating environment in the UK and Europe will improve by Oct-Nov 2022. Asia Pacific is recovering fast and has managed to skirt teething issues that have plagued North America and Europe. If fuel prices stay at current levels, it will remove the cloud of uncertainty for airlines to add capacity, hire more people, and raise remuneration for staff.

The first half of 2022 is not what we hoped for, but all indicators point to a better half ahead.

**Mohshin Aziz**  
5 August 2022

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	NAV	110.60	108.72	106.42	103.80	97.14	76.62	79.66						-24.89%
	MoM %Δ	4.28%	-1.70%	-2.11%	-2.46%	-6.42%	-21.12%	3.97%						
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%	

Figure 6: Pangolin Aviation Recovery Fund NAV (USD/share)

