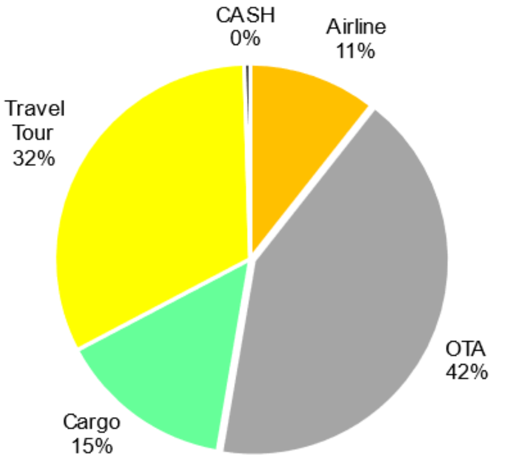
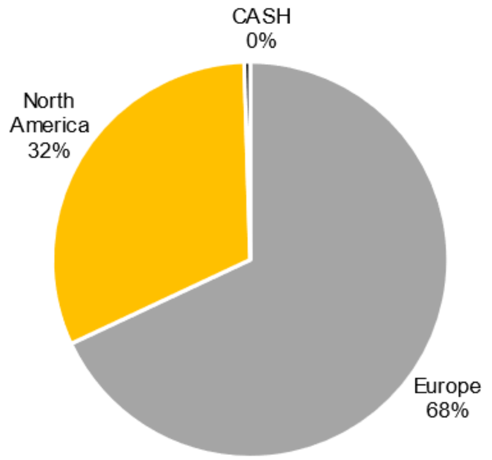
PANGOLIN INVESTMENT MANAGEMENT

Pangolin Aviation Recovery Fund March 2023 NAV

As at 31st March 2023, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was US$94.23 net of all fees and expenses, down by 1.55% compared to US$95.71 in February 2023. Year to date, the fund is up by 14.70%.

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

Figure 1: Portfolio by sector exposure	Figure 2: Portfolio by geographical exposure
	

Overview

It was an active month for the portfolio with three activities. We sold our stake in Dufry AG, in line with our new strategy to avoid highly indebted companies. We invested the proceeds into Expedia and Trivago. Post these transactions, our fund consists of seven holdings and is essentially fully invested.

The significant winners were Deutsche Post-DHL and Booking.com, while the significant underperformers were Trivago and On-the-Beach.

Rethinking debt

Inflation remains persistently high across the world. Central banks try to combat this by raising interest rates. Whether or not this will slay inflation is up in the air, but given the regulators' intransigence, we can expect a high-interest rate environment as the base case in the foreseeable future.

In such a setting, debt is a four-letter word with an exclamation mark. I'd imagine the management of highly indebted companies must be losing sleep over this. Precious time is wasted on shylock matters, straying away from managing the actual business.

We acknowledge that debt is a necessity for the aviation industry given the capital intensity and long asset life. But there are segments of the aviation industry that enjoy a positive cash conversion cycle such as online travel agents (OTA), travel tours, and cargo logistics. They should, in theory, be less reliant on debt.

At Pangolin, we have a general dislike towards debt. Whenever possible, we avoid it. We invest in companies with strong financial standings that are not overly reliant on debt for working capital needs. As of the end of March, our portfolio is in a net cash position of 0.03x.

Expedia

We bought Expedia, the world's second-largest OTA. The business is coming together with record revenue, profit, and profit margin achieved in 2022. The first quarter of 2023 operating statistics are looking very strong, suggesting that the appetite for holidays remains robust. The major rating agencies all took note and recently upgraded Expedia's bonds.

More importantly, the number of active loyalty members has spiked to a new record. This implies that Expedia has regained its brand equity. Recall that its reputation was tarnished during the pandemic as it didn't have the necessary capital to refund its customers in a timely manner. Millions of customers were irate and took their business elsewhere. Time heals all wounds and 2022 was Expedia's year of salvation.

We bought Expedia at 13x 2023 consensus earnings. Its latest net gearing is 1.1x, but it will come down substantially on strong business returns (34% FCF yields and 26% ROIC in 2023 according to consensus), allowing ample capacity to redeem its long-term debt. Management has committed to pay cash dividends and buyback 18 million shares in the 2023-24 period, which in aggregate provides a yield of ~8% at the current share price. Delicious.

Outlook

The recent bank collapse across the US and Europe reminds us of the precipitous nature of the equity market. Not much is known until it is too late.

Whilst the news flow has ebbed, the underlying problem lingers. Long-dated debt values have plunged, and substantial liquidity has been sapped from the market. New debt will be harder to come by despite bankers' avarice. Companies in need of credit or those seeking for rollover of existing debt facilities will be in an uncomfortable spot.

Well-capitalised companies however are in a great spot. They can carry on with their business plans without any interruption and exert pressure on their less financially stable competitors. This is the best time to mobilise excess capital and buy strategic assets and businesses rather than buy back their own shares.

The stars are aligned for value investing to shine.

Pangolin Aviation Recovery Fund Fundamentals (31 March 2023)

	2022A	2023F	2024F
PE ratio (x)	26.4	12.8	10.5
PAT growth (%)	n.a	22.2	20.1
ROE (%)	27.9	51.2	41.1
Free cash flow yield (%)	6.8	11.5	12.5
Net cash/(debt) (x)	(0.02)	0.03	0.17

Mohshin Aziz
6 April 2023

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Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	***NAV***	96.44	95.71	94.23										**14.70%**
	MoM %Δ	*17.40%*	*-0.75%*	*-1.55%*										
2022	***NAV***	110.60	108.72	106.42	103.80	97.14	76.62	79.66	79.91	65.91	75.13	82.18	82.15	**-22.54%**
	MoM %Δ	*4.28%*	*-1.70%*	*-2.11%*	*-2.46%*	*-6.42%*	*-21.12%*	*3.97%*	*0.31%*	*-17.51%*	*13.99%*	*9.38%*	*-0.04%*	
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 3: Pangolin Aviation Recovery Fund NAV (USD/share)

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