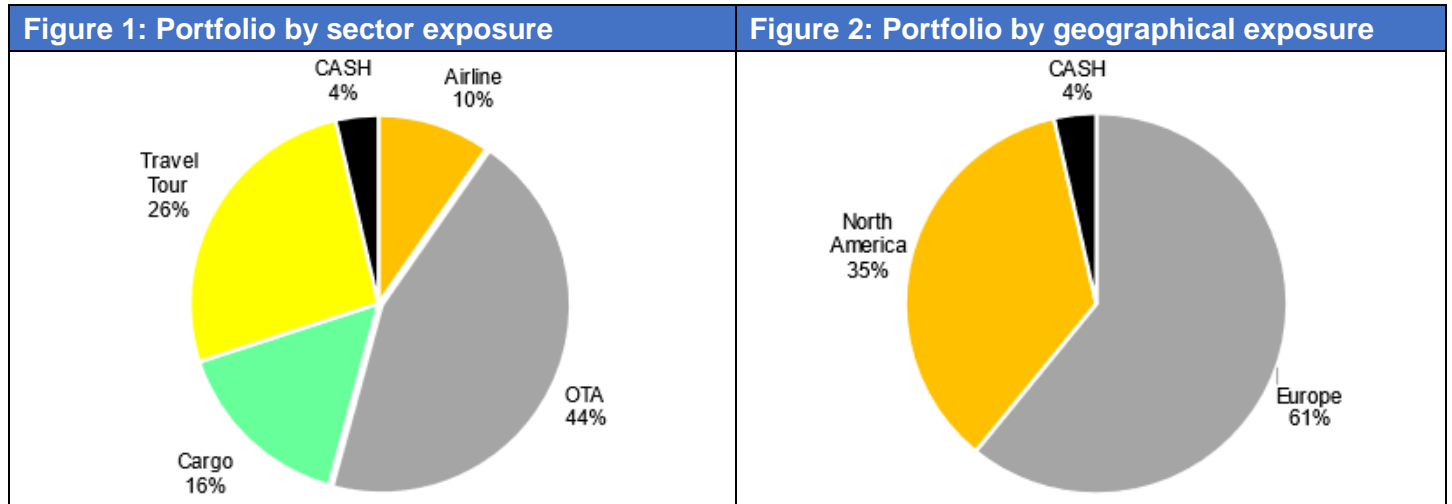




Pangolin Aviation Recovery Fund August 2023 NAV

As at 31st August 2023, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was US\$86.00 net of all fees and expenses, down by 6.46% compared to US\$91.94 in July 2023. Year to date, the fund is up by 4.69%.

The fund is 96% invested with the split approximately as follows:



Overview

There was no change in the portfolio. The winners for the month were Expedia and Booking.com, while the underperformers were Norwegian Air Shuttle and JET2 Airways.

August turned out disappointing with a general market selloff across the world. The European equities were hardest hit due to weak macroeconomic numbers and the UK air traffic meltdown over the Bank Holiday that has caused significant flight cancellations and major disruptions for the entire week.

The industry will be talking about the summer of '23 for a long time

Summer of 2023 is officially over, and the industry players will look back with a big fat smile. Demand was exceptionally strong, operationally things were smooth with only a few hiccups, employee unions were happy to be working and there were hardly any strikes, and jet fuel price was benign. Recall back in 2022, things were far from ideal; there were acute manpower shortages causing delays and massive flight cancellations, rampant employee union strikes that disrupted operations, air navigation system breakdowns, and wanton flight cancellations.

Weatherwise, it was very hot with heatwaves and wildfires in the Northern Hemisphere, but apart from that it was very conducive for travel. Up to this point last year, the weather was significantly worse with severe storms, floods, heatwaves, and other devastating natural disasters.

If you were on a holiday recently, you know that prices were on the high side for just about everything. With demand so strong and the ever-convenient high inflation to blame, it was too easy to do so.



Portfolio struggling to reach its real value

For the first half of 2023, our portfolio of seven listed equities delivered an average earnings growth of 71% year-on-year. All but one, have delivered record second-quarter earnings and net profit margins. Their cash balances are growing despite accelerating dividend payments and/or share buybacks.

These numbers under normal circumstances, would have appeased most investors. We know we are. It is the affirmation of our investment thesis; the industry leaders with good management will come out of the pandemic much stronger. They have made use the crisis to good effect, cutting cost and simplify business, investing in the business when others did not, always take care and protect needs of customers, and innovate with new technology and systems.

Whilst the tangible financial results are at hand, share prices has gone further out the distant. Other factors countermanded, such as company founders retiring, dislike over a business acquisition, and fear of a new competitor entering the fray. They say time is the ultimate partner in value investing, but I have to say it is taking far longer than initially anticipated.

Outlook

The indication for the third quarter and the rest of the financial year is equally optimistic as the first half of 2023, barring of course any unforeseen circumstances. The recent UK air traffic meltdown on 28 August is such example of how things can go wrong fast. Airlines will likely have to pay compensation to affected passengers despite it not being their fault. The quantum however will be manageable given that the disruption was resolved within a few days, unlike the season long disruptions experienced last year.

Overall, summer of 2023 is much better than an already great 2022.

Mohshin Aziz

6 September 2023



Pangolin Aviation Recovery Fund Fundamentals (31 Aug 2023)

	2022A	2023F	2024F
PE ratio (x)	21.8	13.7	11.1
PAT growth (%)	n.a	64.8	21.4
ROE (%)	28.8	59.0*	61.5*
Free cash flow yield (%)	14.4	13.1	13.1
Net cash/(debt) (x)	0.04	0.16	0.21

* We assume share buybacks will be cancelled and reduce the equity base

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	NAV	96.44	95.71	94.23	91.47	85.88	89.39	91.94	86.00					4.69%
	MoM %Δ	17.40%	-0.75%	-1.55%	-2.93%	-6.11%	4.09%	2.85%	-6.46%					
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)

