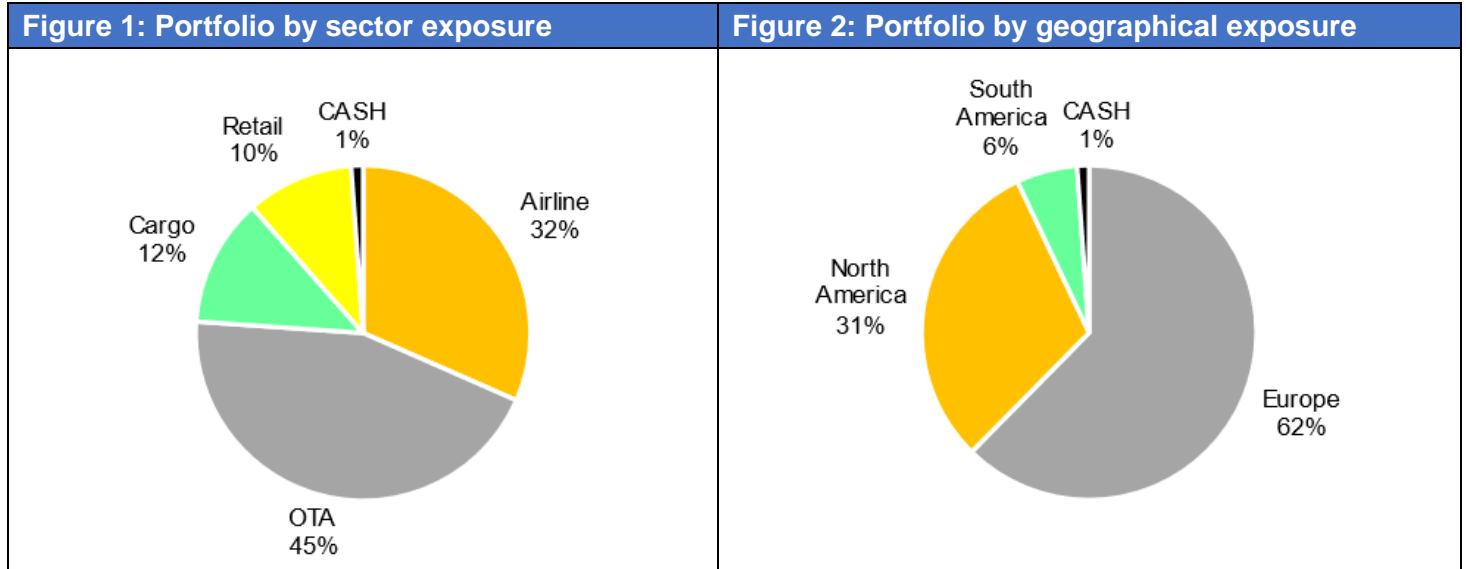




Pangolin Aviation Recovery Fund November 2022 NAV

As at 30th November 2022, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was US\$82.18 net of all fees and expenses, up by 9.38% from US\$75.13 in October 2022.

The fund is 99% invested, with the split being approximately as follows:



Overview

The fund enjoyed a second month of solid gains buoyed by a strong stream of third-quarter results. It clearly showcases the resiliency of aviation companies to circumvent the current macroeconomic headwinds.

It was an active month for the portfolio. We sold our stake in Embraer due to escalating problems with its supply chain. The management stated that these problems will persist into 2023 and possibly 2024 as well. This was a negative surprise and contrary to our expectations. Therefore, we invested the proceeds into JET2 Airways and On-the-Beach which have better prospects. Post these transactions, our fund consists of eight holdings and is essentially fully invested.

The significant winners were JET2 Airways and Dufry AG, while the significant underperformers were GOL Linhas Aereas, and Sabre.

Travel tour operators, thriving and gaining popularity

Tour operators assemble the different parts of a holiday, by dealing with airlines, hotels and other accommodation providers, land transfer companies, and local culinary attractions. They then put together packages which they sell through brochures via travel agents or directly to the consumer on the internet. Their main appeal is to help people travel stress-free for a relatively cheap price.

The sector is enjoying a strong growth trend with many first-timers. Ironically, the pandemic was the fillip. Many people were dismayed by the regulators behaving in a harum-scarum manner imposing abrupt decrees during the pandemic. The mad scramble to reschedule flights, accommodation, communication with travel agents (assuming you can reach them) and Covid-19 testing requirements was a nightmare that nobody wanted to face again! This is where many people decided to give travel tours a try and they were smitten by the ease, dependability, relatively stress-free, and overall value.



The table below shows six prominent travel tour companies in our watchlist. There is a slight variation between travel tour companies; the vertically integrated companies have assets such as aircraft and hotels/resorts, and the virtual travel tours are asset-light and consolidate all the components together.

JET2 Airways is superior to its peers in terms of profitability, balance sheet strength and is cheaper on a Price to Earnings and Price to Book ratio basis. The virtual travel tours are more closely matched in terms of profitability and balance sheet strength. On-the-Beach has the cheapest valuation in terms of Price to Earnings and Price to Book ratios.

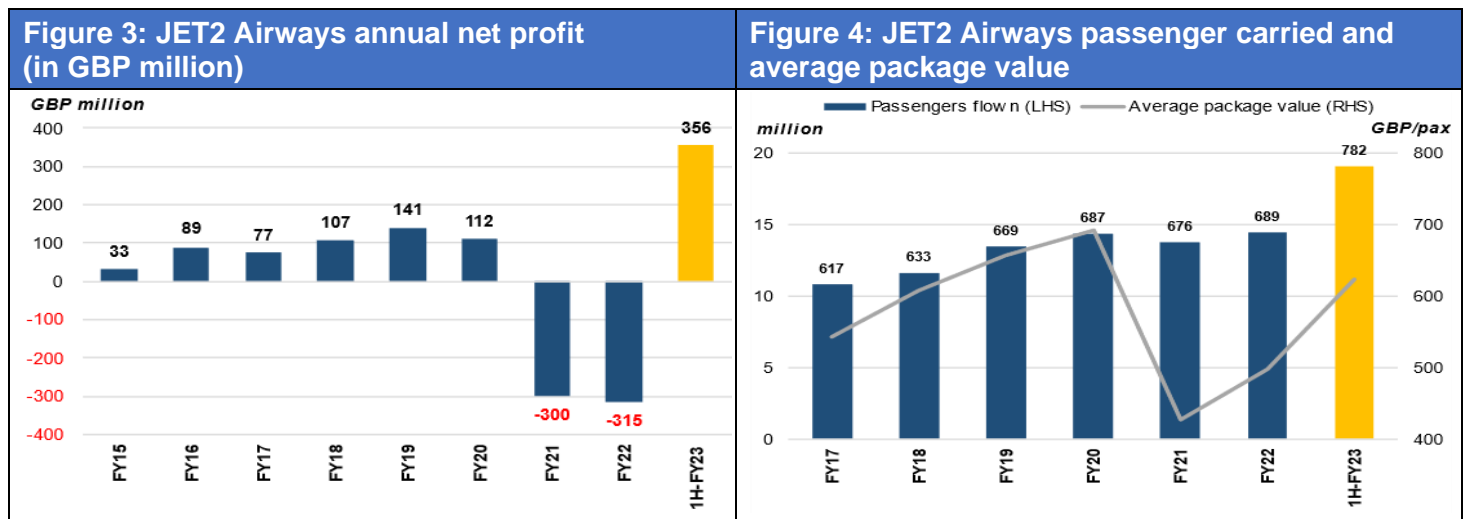
Company name	Business domicile	MCAP (USD m)	Gearing (x)	VALUATION (x)			FY2023 Profitability (%)		
				2022F PE	2023F PE	PBV	R.O.E	EBIT Margin	FCF Yield
<u>Vertically integrated travel tour</u>									
JET2 Airways	England	2,587	Net cash	6.0	6.0	1.7	19.3	6.0	9.1
TUI	Germany	3,136	8.60	n.a	5.9	n.a	n.a	5.5	n.a
Allegiant	USA	1,475	0.93	n.a	15.5	1.2	7.4	8.9	n.a
<u>Virtual travel tours</u>									
On-the-Beach	England	233	Net cash	14.2	7.5	1.3	11.9	17.5	10.9
Voyageurs duMonde	France	321	Net cash	18.4	14.9	2.1	18.1	6.0	10.5
Tripadvisor/Viator*	USA/Global	2,753	Net cash	30.9	13.4	2.7	20.3	17.5	9.0

* Viator.com is the world's largest traveller booking site for tours and attractions

Sources: Respective companies, Bloomberg

JET2 Airways, the leader of the pack: I have mentioned about JET2 Airways many times in previous newsletters. A unique company that we have owned for over one and half year, it is the poster child that perfectly personifies the fund's investment thesis.

JET2's business suffered during the pandemic as shown in Figure 3, but the management did a lot of great things. It reorganised the business to be leaner, introduced new training modules to ensure no let down in customer service quality. JET2 also supported some of its business partners (hotels, resorts) that were on their last legs. Staff retrenchments were minimal compared to rivals and it was quick to rehire at the first hint of recovery. The net results speak for themselves in its latest interim financial results: record passenger carried, record average package value, and record net profit. Best of all, the outlook remains solid.



Source: Company

We are big believers in the travel tour industry. Our investments in JET2 Airways and On-the-Beach collectively make up 31% of our portfolio.



Outlook

The recently concluded third quarter result season provided much vindication and optimism. Five of our investments have delivered their best-ever financial performance. Our other three investments showed respectable improvement and are headed the right way, albeit at a slower pace. This is despite global air traffic reaching only 67% of pre-pandemic¹ levels in face of challenging macroeconomics.

This reaffirms our investment thesis when we first started this fund. We look for companies that have the foresight to invest in their own business and expand during the pandemic. When the market eventually recovers, these will be the winners that edge out competitors, capture quality market share, and come out of the crisis stronger than ever.

Had it been any normal year, I am confident that their share prices would have rocketed to new highs. But this year is anything but normal, and the share prices are close to where they were during the height of the pandemic, and some are even lower.

So, here's wishing for a better year ahead and hope you all enjoy your much deserved year-end break.

Mohshin Aziz

1st December 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	79.91	65.91	75.13	82.18		-22.52%
	MoM %Δ	4.28%	-1.70%	-2.11%	-2.46%	-6.42%	-21.12%	3.97%	0.31%	-17.51%	13.99%	9.38%		
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 5: Pangolin Aviation Recovery Fund NAV (USD/share)



¹ IATA Economics, September publication