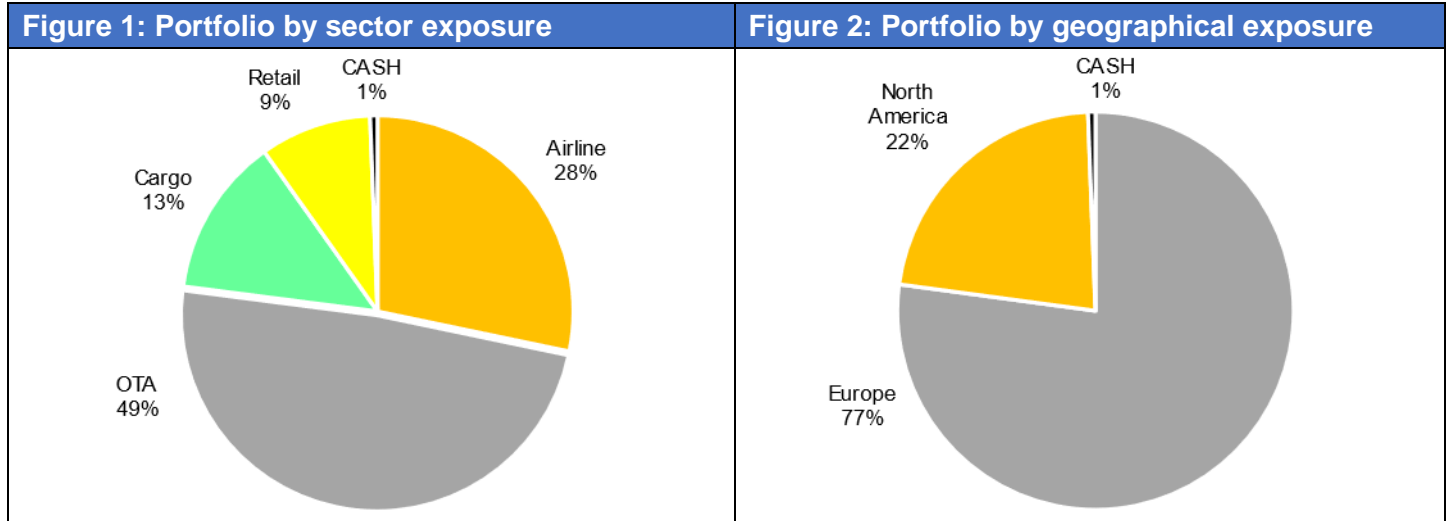




## Pangolin Aviation Recovery Fund February 2023 NAV

As at 28<sup>th</sup> February 2023, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was US\$95.71 net of all fees and expenses, down by 0.75% compared to US\$96.44 in January 2023.

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



### Overview

The portfolio held well in February as we cut loss on Sabre and replaced it with a cheaper and more fundamentally solid company, trivago. We will talk more on this later.

The significant winners were Norwegian Air Shuttle and JET2 Airways, while the significant underperformers were On-the-Beach and Deutsche Post-DHL.

### trivago N.V

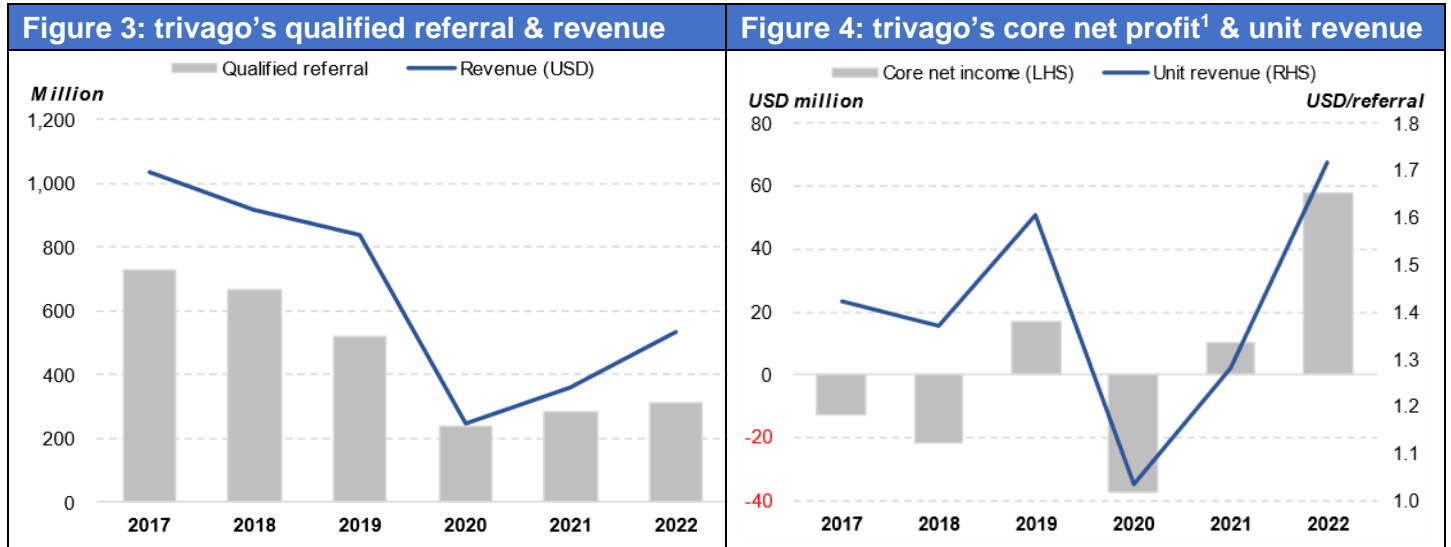
trivago is a direct beneficiary of global travel recovery. All forms of commercial transport are adding capacity, racing to capture passenger demand at every price point of the market. As capacity reaches to pre-Covid levels, ticket prices will inevitably trend down from current high levels. Eventually, they will reach a level that spurs budget and price vulture travellers (people who have no plan or reason to travel but do so because of low ticket prices). These shoestring travellers are trivago's most ardent users, which suggests its best traffic growth momentum lies ahead.

As an investment, there are a number of traits that would wary the alpha fund manager to shy away from trivago. It is a small cap, has low free float, doesn't pay any dividends, and is part of the Expedia Group. There are concerns that Google Travel and Google Hotel which were launched in 2017 and 2019 respectively, which provide similar services for free, could render trivago's business obsolete given Google's tendency to dominate every form of Web search.

I discussed the "Google threat" at great length with the management. They said it was an existential threat that forced trivago to make fundamental changes in its business strategy and cost management. The old trivago was ubiquitous, brash, free spending for market share but had no profit to show for it. The restructured trivago is precise, targeted, frugal, and has heaps of cash. Figures 3 and 4 perfectly illustrate trivago's turnaround. It



has become a smaller company, but has higher unit revenues, and delivers consistent profit. 2022 performance was the company's record, and the outlook is solid. Suffice to say, Googlephobia is unjustified.



Source: trivago

Source: trivago

I compared trivago's website with Google Hotel's website to determine a better value-for-money platform. We measured the performance for the cheapest verified accommodation in seven major tourist cities: Melbourne, Bangkok, Dubai, London, Cape Town, New York, and Rio de Janeiro. The conclusion is that trivago consistently delivered on its customer charter. I asked my colleagues and my travel virgin nephew to fiddle with both websites as I have an inherent conformity bias towards trivago. They all confirmed that trivago consistently provided the cheapest rates but praised Google Hotels for its prettier and easier to use website.

The sell-side analyst community has not been kind to trivago with the majority of Hold calls. Mind you these are tech analysts who view declining revenues and market share decline as a death knell. They also worship Google and bestow it as infallible. I view things differently in line with Greg Savage's quote, "**revenue is vanity, profit is sanity and cash is reality.**"

Googlephobia enabled us to buy trivago at 8x 2023 consensus earnings. It trades below book and its cash balance equates to 55% of its market capitalisation. The cash balance will only swell going forward as trivago is a cash machine (16% FCF yields and 23% ROIC in 2023 according to consensus). Furthermore, the share options for employees are modest and fair, in our view. This is a Pangolin stock in every sense of the word.

## Outlook

We have taken the painful step to remove the underperformers in the portfolio. It now consists of seven high quality companies that are leaders of their pack, soundly profitable, generate free cash flow, and are modestly geared. The portfolio trades at 13.7x 2023 consensus earnings, with 22% YoY earnings growth, 53% ROE, and net gearing of 0.05x.

Nothing much to add to this but to say it is freaking cheap!

**Mohshin Aziz**

2 March 2023

<sup>1</sup> Reported net income after removing non-cash and one-off item/s



Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	NAV	96.44	95.71											16.51%
	MoM %Δ	17.40%	-0.75%											
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 5: Pangolin Aviation Recovery Fund NAV (USD/share)**

