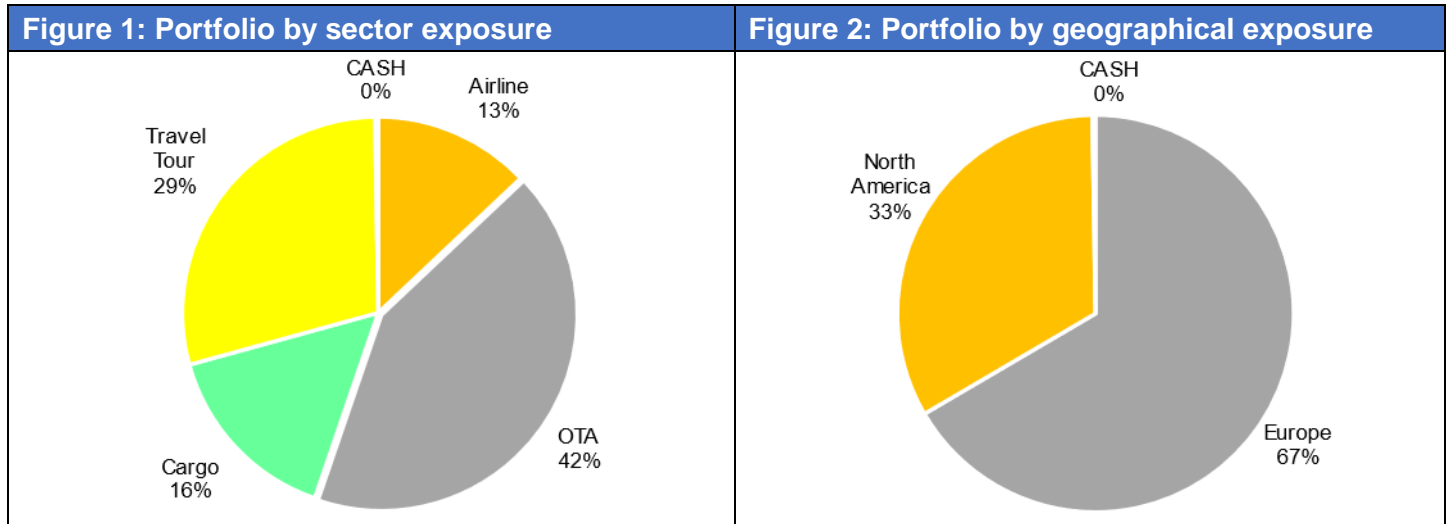




Pangolin Aviation Recovery Fund May 2023 NAV

As at 31st May 2023, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was US\$85.88 net of all fees and expenses, down by 6.11% compared to US\$91.47 in April 2023. Year to date, the fund is up by 4.54%.

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



Overview

There was no change in the portfolio. The winners for the month were Norwegian Air Shuttle and Expedia, while the underperformers were Trivago and On-the-Beach.

First quarter 2023 summary

Our investments have delivered good results with an average 62% year-on-year profit growth. A result of this magnitude would have sent the share price higher, but it turned out to be the worst month of the year for the portfolio.

The underperformance was primarily driven by On-the-Beach and Trivago's perceived communication gap with the investment community.

Management told me that forward demand is strong, yields remain stable, and if no surprises pop up, it will be a "special year". This is a feeling I share noting that there is a holiday mania going on. Everyone I know in England went away for a holiday in the recent Easter break and they will be going away for another holiday or holidays in the upcoming summer break.

Sell-side analysts, on the other hand, scorned management's reluctance to provide earnings guidance and opaque explanation on cost spikes with the single liner, "these are upfront costs". Hefty earnings downgrade ensued and the share price derated. Furthermore, analysts are less optimistic about the outlook given their house view of persistently high inflation that will usurp demand and cause a mild recession in 2H-2023. Discretionary consumer spending – leisure travel and holidays included, will be severely affected.

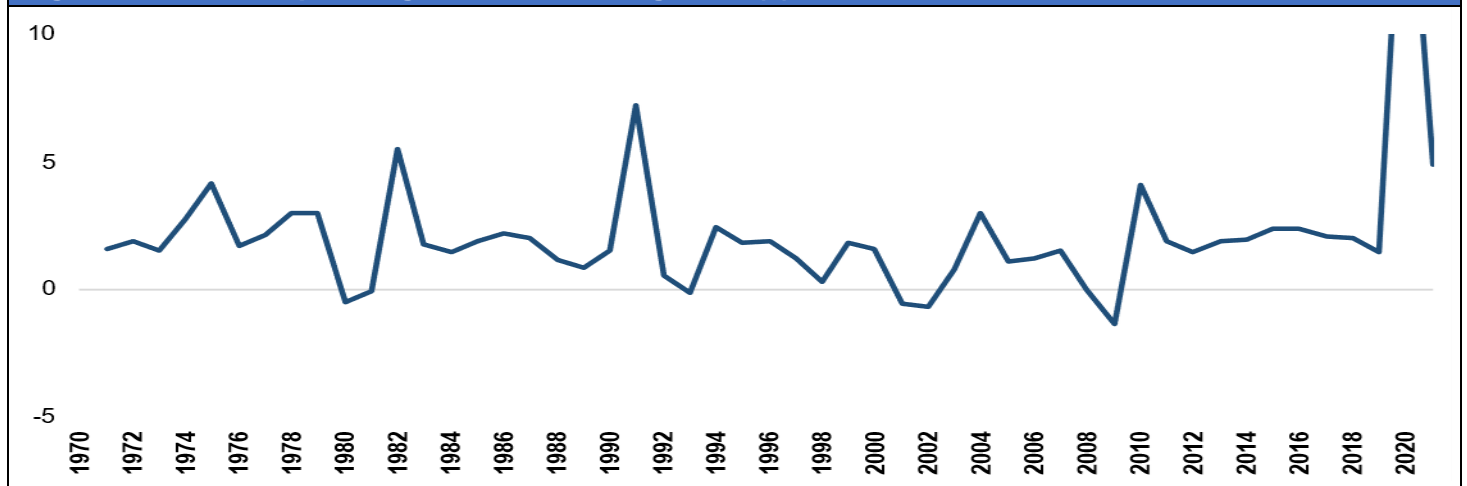


Industry growth aligning with historical norms

The average global annual air passenger growth rate since 1970 is 5.6% p.a. Mapped against global GDP growth for the same period, which translates to a 1.4x multiplier. Developed countries tend to have lower growth at 0.7-1.1x GDP, whereas emerging countries tend to be higher $\geq 2x$.

Covid-19 has bugged up this trend for 2020-2022. But in 2023, we can see the correlation re-emerging in countries where the economy has normalised. For example, India is recording an air traffic growth of $>20\%$ in 2023 year-to-date, suggesting a GDP multiplier of 2.7x. According to International Air Transport Association's (IATA) forecast, India will achieve air traffic growth of at least 2x its GDP growth in a decade. It is currently the world's fourth-largest air passenger traffic and it will no longer trail Ireland within the year.

Figure 3: Global air passenger traffic to GDP growth (x)



Source: IATA

Outlook

According to *Jefferies*, global traffic to travel websites was 9%¹ above 2019's levels in the final week of May. And global air traffic was just 7%² lower than 2019's levels, an incredible recovery from 14% recorded at the beginning of the year. These statistics underpin online travel agents' record gross bookings and airlines' record forward bookings in the recently concluded first quarter.

Things have been rather good for the industry in the second quarter. Weather has been conducive for holiday goers, staff availability has improved across all segments, it appears employee unions have sorted out their grievances with the management, airports are operating efficiently, and jet fuel prices are trending lower. Some North American Airlines have raised their 2Q-2023 profit guidance on these positive indicators.

Most of our companies are the market leaders within their operating segments and are backed by solid balance sheet. We believe they are in a stronger position to grow and gain market share than their peers regardless of the state of the economies. Our portfolio is cheap, trading at a forward PE of 13x, backed by an ROE of 59% and a free cash flow yield of 14%.

Mohshin Aziz

6 June 2023

¹ Jefferies track web traffic date for 49 global airline websites and 14 online travel agents

² Jefferies track passenger air traffic using data from Cirium® Diio



Pangolin Aviation Recovery Fund Fundamentals (31 May 2023)

	2022A	2023F	2024F
PE ratio (x)	26.4	13.1	10.3
PAT growth (%)	n.a	62.0	23.7
ROE (%)	27.9	59.3*	62.0*
Free cash flow yield (%)	6.8	14.2	11.8
Net cash/(debt) (x)	0.02	0.15	0.23

* 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								4.54%
	MoM %Δ	17.40%	-0.75%	-1.55%	-2.93%	-6.11%								
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 4: Pangolin Aviation Recovery Fund NAV (USD/share)

