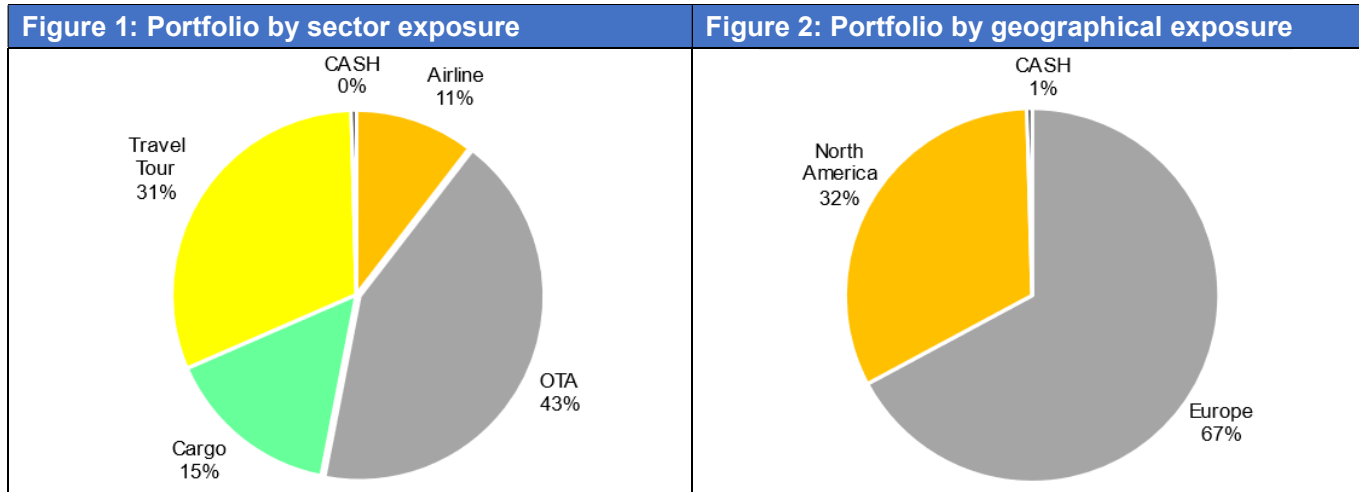




Pangolin Aviation Recovery Fund April 2023 NAV

As at 30th April 2023, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was US\$91.47 net of all fees and expenses, down by 2.93% compared to US\$94.23 in March 2023. Year to date, the fund is up by 11.35%.

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 Deutsche Post-DHL and Booking.com, while the underperformers were JET2 Airways and On-the-Beach.

Racing towards normal

I travelled quite a bit in April, taking a total of six flights across Europe and Southeast Asia. I noticed soothing peculiarities that invoked memories of normal times. Airports were efficient, sufficiently staffed and ready for action. The self check-in kiosks, passport readers, and baggage carousels worked wonderfully.

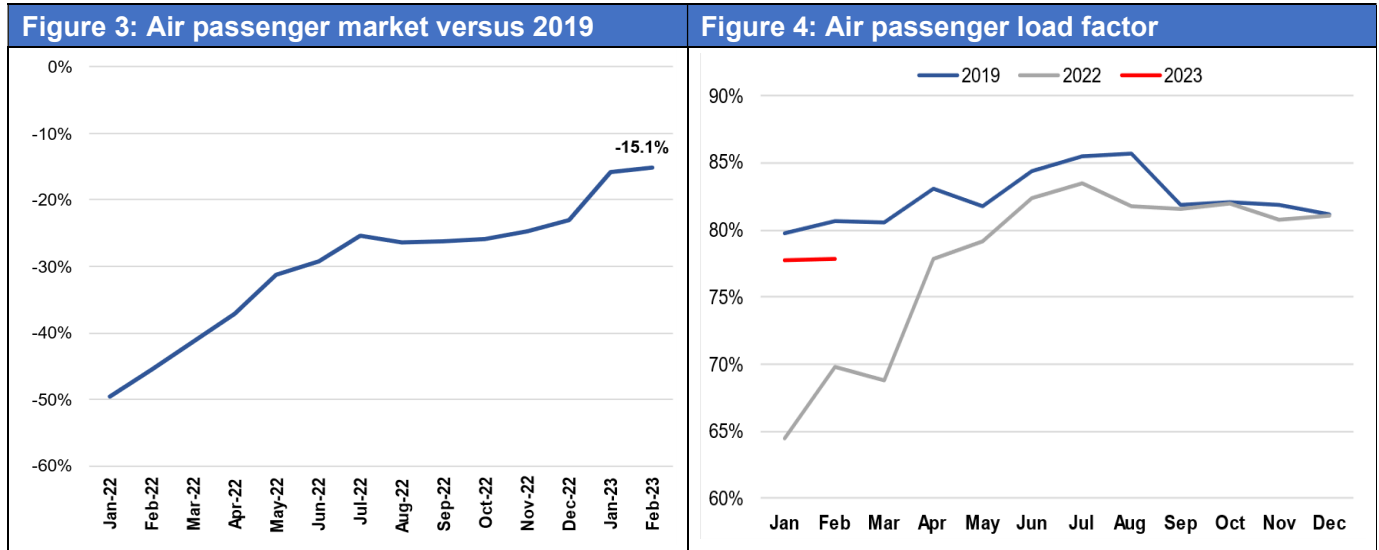
Second, none of my flights were full. The middle seat was vacant on all my flights. My eyeball guesstimate is a load factor of 70%-75%. April is seasonally a strong month due to the Easter holiday, and you'd expect load factors to be in the mid-80s.

Most enjoyable was that ticket prices were reasonable. My definition of reasonable is what you'd expect to pay in the days before the pandemic. Seeing that all my flights were not full, I can understand why. I even saw some young backpackers onboard my Turkish Airline flight heading to Asia, suggesting that affordable fares are available if you know where to look.

I have a habit of tracking my flight ticket prices daily up till the day of departure. My objective is to see the delta between the time of my purchase, and what I would have to pay had I purchased the ticket at the last minute. Ignoring the fact that I need help, I noticed that the gap is very narrow this time. My London to Singapore return leg on Turkish Airline was the same price as my purchase a month earlier!



This is surprising because ticket prices should be much higher closer to the date of travel. That is the essence of revenue management, the dark art of manipulating price-demand relationship to optimise revenues. Airlines typically spend vast sums of resources to perfect this. My trips suggest something is off, because ticket prices stayed stagnant and there were many empty seats.



Source: IATA

Source: IATA

Figure 3 shows that the global air passenger market has increased steadily since 2022. Feb 2023 traffic is 15% lower than pre-pandemic levels. The load factors in Jan-Feb 2023 (Figure 4) were 2-3 percentage points lower compared to 2019 levels. I suspect the same is true for Mar-Apr based on my personal experience.

What gives? I think it is the price. The rich and corporate travellers will continue to fly no matter how expensive they are. But this class of passengers can never fill up the entire aircraft. Airlines need the entire spectrum of travellers which includes leisure travellers, tourists, and bargain hunters to fill up the remaining space. Therefore, airlines need to sharpen their price-demand algorithms to optimise their revenue, or risk seeing further deterioration in load factors.

When I see more backpackers vagabonding the world, that is when I know airline pricing model is on point.

Outlook

Many aviation companies have reported stellar first quarter 2023 results and provided equally optimistic guidance for the upcoming quarters. Our investments are releasing theirs this month and thus far they have been good as well.

We look forward to continuing industry recovery as our portfolio is positioned with efficient companies that tend to do better against their peers when things become competitive. The portfolio is trading at 12x 2023 earnings with expected 20% earnings growth and is modestly geared.

Mohshin Aziz
5 May 2023



Pangolin Aviation Recovery Fund Fundamentals (30 April 2023)

	2022A	2023F	2024F
PE ratio (x)	26.4	12.1	9.9
PAT growth (%)	n.a	21.7	19.8
ROE (%)	27.9	52.7	42.1
Free cash flow yield (%)	6.8	12.5	13.6
Net cash/(debt) (x)	(0.02)	0.02	0.16

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									11.35%
	MoM %Δ	17.40%	-0.75%	-1.55%	-2.93%									
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)

