

## Magellan – In The Know: Episode 29

### 'Revenge travel' – the recovery, opportunities and risks for investments



#### **Announcement (00:00):**

The information contained in this podcast is for general information purposes and does not constitute investment advice. You should seek investment advice tailored to your circumstances before making an investment decision.

#### **Host (00:14):**

This is In The Know, a monthly Investment podcast brought to you by Magellan Asset Management, experts in global investing. We bring you timely, unique, and thought provoking insights to help you make sense of today's investment landscape.

#### **Ryan Joyce (00:29):**

Over the past six months or so, I'd say we've really seen travel trends revert to the norm as both leisure and business travellers have started going back to city centres or more urban locations and the cities themselves have come back to life. Now, an interesting thematic we have seen during the cover is this rise of pleasure travel or the blending of business and leisure trips. I think it's going to be super interesting to see how this plays out.

#### **Host (00:54):**

That's Ryan Joyce, Magellan's Sector Head of Technology, discussing just one of the many trends emerging in the post pandemic travel sector. Welcome to Magellan In The Know. In this episode, Ofer Karliner, Infrastructure Portfolio Manager, Hosts a wide ranging discussion with three of his colleagues about the travel sector and investments opportunities. Ofer is joined by Sector Head of Technology, Ryan Joyce, Sector Head of Franchises, Hannah Dickinson, and Industrials Analyst, Yathavan Suthaharan. Together they discuss companies that might benefit from the opening up of the travel sector post COVID and what risks and opportunities might lie ahead. From accommodation to aircraft maintenance, luxury retail to airports, there are some fascinating revelations about the way the pandemic has forced these industries to evolve. But first, a warm welcome from Ofer Carliner.

#### **Ofer Karliner (01:56):**

Hi everyone. Welcome to this Magellan In The Know podcast. I'm Ofer Karliner, a Portfolio Manager in Infrastructure. We're going to do things a bit differently to normal today. I have with me Infrastructure and Industrials Analyst, Yathavan Suthaharan, Sector Head of Technology and Finance, Ryan Joyce, Sector Head of Franchises, Hannah Dickinson. And today we are going to discuss what we're seeing across the various travel related sectors and hopefully give you some insight into the cross-sector discussions we have here at Magellan, which helped us really look at and assess the risks that we see from various different vectors. Now, travel touches a multitude of sectors from physical infrastructure such as airports, digital booking infrastructure, accommodation, aircraft parts, as well as retail, which is associated with people travelling. Now if you've heard me speak before, you would've heard me say that

I like infrastructure to be boring. Well, boring's good for us. Airports and indeed all of transport has been really interesting in the last three or so years.

(02:48):

Now from my point of view that is looking at airports, air traffic has come back much more quickly than people have expected. Indeed, some of the airports we cover already are back at 2019 levels of traffic in October, November, and some are expected to be over the next couple of months. This is despite high ticket costs. We have high oil prices, lagging business travel, shortage of airline, airport staff, plane shortages, cost of living concerns, and also some markets, notably China and Russia are effectively being shut. We've also seen passenger spend rates well in excess of levels we saw prior to COVID and people are changing the way they travel.

(03:23):

This has come back from the increased flexibility of wide scale adoption of video conferencing. Now there's a lot to unpack there. Let's start with the so-called revenge travel element and there's people who have been locked up for two or three years and they're really making up for lost time. Starting with you Ryan, is what I'm seeing in the airport space consistent with what you're seeing in terms of bookings? I'm really trying to understand here how the additional flexibility has also changed the dynamics in your space.

**Ryan Joyce (03:47):**

Sure. Maybe starting with the air IT companies, that's businesses like Amadeus and Sabre that provides software to travel agents and airlines, unsurprisingly, we're seeing pretty similar dynamics to what you said about airports and airlines. That said, the recovery for these companies does lag that of the overall air travel, and the reason for that is they over-index to some of the slower recovering parts that you mentioned, both in terms of their volume but also their unit economics and how they make money. That's areas like international travel and business travel. And interestingly, they're also over-indexed to full service carriers and they've lost share to discount carriers through this period. If we shift to companies more linked to a accommodation like Booking.com or Airbnb or the big hotel franchises, during COVID and the initial reopening wave, we did see a significant skew towards obviously domestic travel but also more rural destinations, self-contained accommodation.

(04:43):

People wanted to get out but they still wanted to be able to limit their contact with other people. Early on this really favoured alternative accommodation providers like Airbnb who not only saw a faster rebound in volumes but also benefited from a big increase in the revenue per stay. Part of that is that mix shift towards those type of whole house properties and leisure locations, but we also saw tight supply of such properties that enabled them to increase prices further and also that revenge travel element. A heightened willingness by people to spend after being locked up for so long. Now over the past six months or so, I'd say we've really seen travel trends revert to the norm as both leisure and business travellers have started going back to city centres or more urban locations and the cities themselves have come back to life in terms of the events and stuff that are planned.

(05:32):

Now, an interesting thematic we have seen during the the recovery is this rise of bleisure travel, or the blending of business and leisure trips. What we are seeing is given a lot of people are now better set up to work from home or work from anywhere and they have that flexibility available to them, they're more likely to go to a trip a little bit early or extend the trip a little bit late so they can be there over the weekend, visit friends, see new sites. That's obviously good for the overall industry room nights, but it's

also having some interesting impacts on the timing of travel. On the other hand, that's being partly offset by fewer one or two day trips where video conferencing is a much more accepted alternative.

**Ofer Karliner (06:10):**

Yeah, we're seeing that from the airports too. They're talking about those short trips. There's one or two day trips sort of missing from their overall mix as people shift to greater video conferencing. But I can see a benefit too. To the extent you can travel sooner or and stay later, it probably helps ease the capacity concerns at peak times like Christmas and Easter when airports are really stretched in terms of physical capacity. There's probably a benefit as well in the medium term that kind of helps to offset some of that lost travel. I'm interested, you talked about the increasing flexibility and I've read articles talking about digital nomads as they call them. The people who don't actually have to work in the office anymore, can work them anywhere and often travelling as they work. Is that just a really good press story actually seeing some real world impacts from that?

**Ryan Joyce (06:50):**

Well, Airbnb interestingly and unsurprisingly talks about this a lot, their CEO and co-founder, a guy called Brian Chesky, claims to have lived on Airbnb for all of 2022 to try and highlight that trend. I think it's going to be super interesting to see how this plays out. I think it's pretty clear that more workforce flexibility is here to stay, but it's still very unclear whether that means three days in the office or it means one to three months a year living wherever you want around the world. And those are obviously two very different things. For a business like Airbnb, it already over-indexes to that. Stays over 28 nights already represent 20% of total room nights. That's up from around 16% pre pandemic and the growth in those room nights in particular is actually accounted for over 60% of its absolute room night growth since 2019.

(07:43):

But at the same time, I also think Airbnb management might be in a bit of a bubble living in San Fran. If you think of who has the financial and personal flexibility to live like that digital nomad, it really is the biggest group I think would be IT professionals. They're well paid, they're young without too many family attachments. On top of that, we've been in this period where competition for tech talent has been very hot and all these companies have been competing to offer more and more perks and offer that flexibility. But we've really seen a big shift over the past six or nine months related to the increase in interest rates and the slowdown in the economy and the fall in a lot of the share prices of those companies. We're seeing a lot of them bring people back to work, roll back some of those flexible policies. It's possible that increased flexibility while here to stay in above pre COVID levels actually moderates from where we've seen it recently.

**Ofer Karliner (08:36):**

Yeah, okay. I'll bring the other guys now. Before we get to you, Hannah, on the impacts on luxury retail, Yath, you've spoke to me previously about some of the nuances about how you're seeing the recovery and travel in particular for aircraft parts manufacturer, Safran. What are you seeing here?

**Yathavan Suthaharan (08:49):**

Yeah, so sure. I definitely happy to answer that, but before I do, I might just give a bit of context as to what Safran does. As you sort of mentioned, Safran is one of the world's largest manufacturers of aircraft equipment. The business can basically be broken up into two parts. One is original equipment and this is basically selling equipment to Airbus and Boeing. The key driver of volumes there is aircraft deliveries, and the second part would be aftermarket. And this is sort of selling spare parts to airlines

and is therefore driven by the level of aircraft usage, which is in turn driven by passenger volumes. We think the aftermarket business is highly attractive and particularly like the aircraft engine and wheels and brakes, spare parts businesses. These two businesses represent about 70% of Safran's profits on our estimates.

(09:45):

Similarly to some of the companies in the technology sector, Safran's aftermarket business has also benefited strongly from the return of travel. However, the recovery in the volume of engine spare parts has lagged the recovery in aircraft engine cycles. Basically the number of times you turn the engine on and off due to a phenomena called green time. Basically in order to save cash during the crisis, airlines replaced spare parts on engines that needed it through utilising engine parts from aircraft that were sitting idle, not being used on the ground. Given that aircraft engine maintenance runs to a very strict schedule, you can defer maintenance, but you can't put it off forever. Therefore we expect that at some point over the next one to two years, we could see the recovery in spare parts volume overshoot the recovery in passenger traffic for a brief period.

**Ofer Karliner** (10:43):

All right. Thanks, Yath. We've talked about some of the upstream components of the travel value chain. There's still a lot of downstream spending activity that's closely linked. Hannah, you are the resident expert in all things trendy. Which consumer sub-sectors are impacted by the travel trends and how is their revenge travel thematically playing out for the companies you look at?

**Hannah Dickinson** (11:02):

Yeah, so within the consumer space that I cover, the luxury sub-sector is one of the most closely linked with travel. I'd say there are two key reasons for that. One is practical, you can save on taxes when you buy luxury goods overseas or at an airport and people are motivated to do that when they're purchasing a big ticket item like a \$3,000 handbag. The other reason for the link between travel and luxury is that luxury is an experiential category. When consumers are travelling they're looking for indulgence and escapism. The luxury category plays into that occasion nicely. If we look at the stats, travel related spending contributed to about one third of total luxury demand pre COVID and of course that spending took a huge hit when global travel went to zero. Ryan mentioned earlier that the initial recovery in travel was quite localised because international borders were still closed.

(12:01):

And I think what was interesting in that context was that luxury demands still started to pick up incredibly quickly. It actually wasn't as dependent on the recovery of international travel as we initially expected, but it's certainly gained momentum as international travel resumed in 2021. We are now at a point where global luxury spending has well and truly exceeded 2019 levels and a lot of that demand is coming from a reinvigorated base of American and European consumers. When it comes to those consumer cohorts, there are a couple of factors at play. The first factor is that there's been this huge accumulation of liquidity over the past few years as so many consumers were forced to save money during COVID. They might have benefited from stimulus payments as well or market share gains, property market. people are feeling pretty financially healthy.

(12:54):

Then the other factor is that people feel like they had this brush with death, they've become more aware of their own mortality, so they have the urge to make up for the lost time and lost experiences. It's a similar sort of exuberance to what you might see at the end of the major war. There's revenge travel and there's revenge luxury spending as well. This euphoria will certainly normalise at some point,

people are going to sober up, but the question investors are asking themselves is how fast that will happen and how steep the normalisation trajectory will be.

**Ofer Karliner (13:31):**

Thanks Hannah. We've talked about all the strength and demand that we're seeing. I think it's probably important to touch on the complications that have come out of that. This wave of demand has run into a wall of constraints in terms of supply chains, most obviously in the airports, airline spaces where there's been plane shortages, staff shortages, baggage handlers shortages. These companies laid off lots of workers during COVID and have had trouble rehiring them in tight labour markets and then have to retrain them as well. There's another lag there. It's a pretty broad based travel sector. I might question all you guys and what you are seeing and starting with you, Yath, obviously aircraft are one of the key components in the mix. Keen to understand what you are seeing in your space.

**Yathavan Suthaharan (14:09):**

I would say the short answer here is this. One, the core issue underpinning aircraft production supply constraints are the lack of skilled labour in the forgings and castings industry. Then two, we expect narrow body aircraft production to recover to 2019 levels or a bit above in 2025, whereas wide body will take a bit longer than that. I might just quickly touch on the impact on Safran, which is it's not very material, given the company or I just say the reason for this is it's not material is that the company makes most of its money from the sale of spare parts and if anything the aircraft production shortage or supply constraint is likely to be a slight benefit to them given it forces airlines to run their existing aircraft and engines harder. Let's map out this supply constraint issue first. Supply constraint in aircraft production is largely a function of a supply constraint in the production of aircraft engines, including those made by Safran and its partner, GE, in the CFM joint venture.

(15:16):

The key hold up in engines is forgings and castings, and I'll just explain what that is. Just to give context, casting involves pouring hot liquid metal into a mould and then letting it cool to create a particular metal shape. Forging involves shaping metals using compressive forces and what that basically means is hammering the metal, pressing it and rolling it to get to the shape that you want. The forgings and castings issue is largely a labour issue, both in terms of the number of people and their experience. Precision Cast Parts is a key supplier of forgings and castings and they've reduced their workforce by close to one third during the pandemic and only about 8-10 percentage points of those people that were laid off have actually come back to work there. Some of these people that will let go had 20 to 30 years of tribal knowledge or knowhow essentially, and that is not easy to rebuild.

(16:21):

In regard to when this will be resolved, I think explicit sort of comments from the CEO of Pratt & Whitney, Greg Hayes, is quite indicative. Just for context, Pratt & Whitney is a major engine supply similar to Safran. What he said was an achievable monthly production rate in 2025 for the A320, one of the two big narrow body aircraft, is 65 aircraft a month, and for the 737, the other or second major narrow body aircraft, it'd be 45 aircraft a month. Airbus was producing about 55 A320s a month in 2019 and Boeing was doing about 50 until the 737 Max grounding came into effect. We expect that this recovery will be fairly backend loaded.

**Ofer Karliner (17:06):**

Yeah, it's consistent with what we're seeing and understanding, I mean, clearly this lack of a capacity combined with higher than expected demand, higher oil prices as well as lack of business travel. And again the front of the plane tends to subsidise as tickets at the back of the plane, has all led to significant

price rises for seats. For example, the Australian Competition Consumer Commission has said that the average airfare for October this year was almost 30% above what it was in 2019 for the same month. Obviously ticket prices of one component of the overall cost of travel. Ryan, what are you seeing in the hotel space?

**Ryan Joyce (17:38):**

Yeah, interestingly, we are seeing pretty similar levels of price inflation in terms of hotel prices. The average room rate on Airbnb, it's up about 40% from pre COVID levels and on Booking, Expedia, which has a broader mix of inventory, it's up around 30%. And just to put those increases in perspective, hotel prices leading up to 2019 we're trending pretty flat or below inflation. It's a really significant step up and I would say there's a confluence of factors that supporting those increases. Labour and staffing issues which we've touched on is definitely one similar to what Yath mentioned. A lot of hotel owners laid off staff during COVID and are really struggling to get them back and at the same time they're having to pay all of their staff more due to tight labour markets. And as a result of that, a lot of hotels just simply can't make all their rooms available.

(18:29):

They don't have enough people to turn the room over to check them in, to staff the onsite facilities like restaurants. That's acting to constrained supply to some extent, which is also feeding into higher prices. Another one is input prices. You talked about oil obviously, but natural gas and therefore electricity prices in Europe have skyrocketed given the issues in Russia and Ukraine, and that's a pretty significant cost for the hotels as well. Another interesting dynamic is we haven't seen travel patterns fully normalised yet, so a lot of people might be willing to go on an overseas holiday to other developed markets like Europe or North America, but a lot of people still aren't that comfortable going to Asia or South America where healthcare might not be as good and they're just a little bit less confident. And that creates both a mix effect from people staying in more higher priced hotels, but also increases demand in those developed markets and supports higher pricing.

**Ofer Karliner (19:24):**

So what does that mean for the companies you look at?

**Ryan Joyce (19:26):**

Yeah, it really does vary by companies. For Amadeus for example, the fee it charges to airlines for its flight booking or IT services is on a per booking basis. It isn't linked to the ticket price, but the fee itself does have some linkages to inflation or broader inflation. And for them it's a bit of a benefit as well because at least in the near term, the incentive fee that they pay to travel agents for booking an airfare is actually fixed so they get a margin benefit in the near term. But as those contracts are renegotiated, we'd expect that to normalise. Airbnb and Booking have been net beneficiaries. They both operate based on a take rate business model where they take around 14% of the state at the hotel as their revenue. As the price of that goes up, they obviously generate more revenue.

(20:14):

Now Airbnb's been more of a beneficiary, it doesn't spend a lot on performance marketing. If you use something like Google Travel and you search for hotels, you won't see Airbnb properties showing up there. It's also a higher touch per booking business given the nature of more fragmented hotel providers or accommodation providers on its platform. It gets a lot more leverage in its margins from those higher prices. Booking on the other hand does spend a lot on performance marketing and as you can imagine how much they're willing to spend to advertise a hotel room does depend on the cost of that hotel room itself. That reduces the amount of operating leverage in its business model. More importantly, the issue

looking forward is do we expect to see an unwind in hotel prices and potentially at the same time that demand is weakening for economic reasons and what does that mean for margins? This is a key debate for Airbnb and for Booking with a fair amount of uncertainty around it.

**Ofer Karliner (21:09):**

Okay. Hannah, I can't imagine this has been much of an issue for luxury given they own their own supply chains by and large.

**Hannah Dickinson (21:16):**

Yeah, that's right. Luxury companies aren't overly labour intensive and they tend to be vertically integrated, so they haven't had as many issues as some of the hotel and accommodation and airline kind of related companies, but controlling their supply chain is a really good way for them to uphold the quality of the product and the consumer experience, which is a key part of their value proposition. But it's also a structural advantage and it's one of the reasons why we like the sector and why the sector has been quite resilient to some of the operational challenges that other sub-sectors have faced. I would say the biggest headwind for luxury companies has been China's COVID zero policy, which has been really disruptive to local operations and demand.

(22:03):

If we go back to pre COVID, Chinese spending accounted for over one third of luxury demand globally and about 60% of that spending happened abroad, mainly because luxury goods taxed at a high rate on the mainland. Then when COVID hit, it forced this major repatriation of luxury spending, so a re-homing or homecoming, which was actually something that the Chinese government had been trying to achieve for some time. They wanted that to happen because it boosts the local economy. They don't want that spending power to escape. We've seen some very deliberate attempts by the Chinese government to retain that luxury spending. For example, they've been developing local tourism destinations with duty-free permits and we've seen Western beauty brands and some luxury brands start to capitalise on that opportunity. But at the moment, really even domestic travel in China is severely curtailed and total luxury spend from Chinese consumers is about 30% below pre COVID levels.

**Ofer Karliner (23:05):**

I think as you discussed, as we've come out of lockdown, we've seen heightened willingness to spend. Is there a reason we won't see this from the Chinese passengers as China reopens? And I'm thinking about this from the point of view of companies like Groupe ADP, which has a significant Chinese passenger base. I think 2.1% of their passengers in 2019 across the group were Chinese, but they accounted for 15.4% of their retail spend. Auckland Airport where the second because international passenger group is Chinese. Are these guys going to get a free kick as China reopens in terms of spending?

**Hannah Dickinson (23:36):**

It's a good question. The speed of the recovery in Chinese spending is a huge debate for investors. I'd say there are some puts and takes. We can see that the Chinese Communist Party is starting to dismantle its COVID zero restrictions and there's talk of potential economic stimulus. Markets have responded positively to this news as we've seen over the past few weeks and months, but it's always difficult to distinguish signal from noise. We know that the party's adept at manufacturing market outcomes and we know that China is coming from a really challenging place in terms of vaccination rollout, health system preparedness, and of course consumer sentiment. People have been impacted by lockdowns for a lot longer than Western consumers ever were, and at least as it stands today, they haven't had as much government support. I think it all kind of means we're probably going to see a

bumpier and slower recovery in consumer spending for Chinese consumers than we did for western consumers.

(24:40):

Eventually there will be a reopening of China's international borders and that will inevitably result in the resumption of tourist demand, which will of course be positive for the infrastructure providers and anyone associated with that spending. But I think when it comes to luxury in particular, I think the geographic mix of luxury spending will be permanently changed. As I was saying before, the Chinese government really wants to retain some of that spending that they've regained and the new domestic travel retail channels that they've created are really targeting middle income consumers who perhaps didn't have enough money for a European escape or they maybe didn't even have a passport. I think domestic spending on luxury could actually be an incremental opportunity in addition to the international recovery that we're probably going to see.

**Ofer Karliner (25:30):**

All right, thanks. Ryan, what are the key exposures or opportunities that you're seeing in your space?

**Ryan Joyce (25:35):**

Yeah, so the companies I look at have more of an indirect exposure to China reopening. They don't really have a direct presence in China and no real exposure to domestic travel within China. If we think about air IT, there's a local player there called Travel Sky. They're the monopoly provider of software to the Chinese airlines and the travel agents. That said, Amadeus would benefit from inbound trips to China if there's friends and families that have been cut off from each other for some time. And it's similar for the OTAs in terms of Booking. Again, there's local players like a Ctrip or a Meituan that are very dominant in China. There are some inventory sharing agreements that Booking and Expedia provide inventory they've signed up outside of China. That is a little bit helpful but not overly significant. Airbnb could also pick up some volume from wealthier Chinese travellers going abroad, but also again, fairly limited in the context of its overall business.

**Yathavan Suthaharan (26:30):**

I might jump in here and give you my thoughts on Safran. We estimate that about 20% of Safran's businesses are exposed to the China lockdown risk. And this is really because in some cases directly, in other cases through Boeing and Airbus, Safran is a supplier of aircraft equipment and parts to virtually all airlines globally.

**Ofer Karliner (26:56):**

Okay, thanks Yath. Look, we've spent a lot of time now looking in the rear view mirror about what's been happening. It's quite important to look forward and think about where we see the balance of risk and opportunities in our space. And I'll kick off here looking at how we are positioned in the infrastructure fund. Our big position, it has been for a while in the airport space, is Aena. It's very focused on leisure, on short haul travel and low cost carrier travel. A long time ago we assessed those are the segments of the market that are going to be strongest coming out of COVID and that has indeed played out as we've expected. We own a stake in ADAP. Again, it owns the three Parisian airports as well as exposure to Turkish Group TAV, and Indian GMR Group. Again, one of the key themes is about retail spend. Even without the Chinese passengers, which were the biggest spenders at their airports prior to COVID, the benefit from a weak Euro, spend rates are well above even inflation adjusted levels prior to COVID.

(27:48):



Paris is a really attractive destination in its own right, so positive trends there. And Auckland is the other position we have. Again, the Chinese passenger were the second biggest international passenger cohort there. They've been a lagger in terms of recovery given the New Zealand policies, but we think there's a growth story coming as it reopens. Also huge non aeronautical, so land banks, development opportunity there within Auckland. We also have some exposure through the diversified players in [inaudible 00:28:15] and Ferrovial, but quite diversified but focused on that leisure, short haul, low cost carrier passengers and also the Chinese exposures as things reopen. Hannah, how about yourself?

**Hannah Dickinson (28:26):**

The luxury stock that we own in the global fund is LVMH, or Louis Vuitton Moët Hennessy. But I guess I'll just give you a little bit of background on sector positioning and kind of how we are thinking about luxury stocks more broadly. Whenever we are thinking about travel as a thematic, we have to be mindful of cyclical risk. Obviously it's a discretionary consumption category, so it can be responsive to economic conditions in the short term. And luxury spending is of course similar. We are kind of cautious around the downside risks to demand in the US and Europe. But I think the other important point to remember is that there could be a lot of pent up demand coming from Chinese consumers that could kind of help cushion the blow over the next year or so. I'd say relative to usual, there's a pretty wide range of potential outcomes in the short term, but we are really positive on travel and luxury demand over the long term.

(29:25):

As consumers and populations get wealthier, they tend to spend a greater proportion of their disposable income on these sorts of purchases. If we are looking through the business cycle, there's a clear trend towards these types of categories, gaining share of wallet and growing at a faster pace than real GDP. I'd also say that luxury companies as a group and particularly LVMH or Louis Vuitton has improved since pre COVID. Ryan talked a little bit about Airbnb seeing an inflexion in profitability and a lot of luxury companies have seen a bit of an inflexion in their profitability as well. They always had attractive margins, but they've got even better. They've been able to reconfigure their cost basis, they've rebalanced their growth levers towards the US and Europe and they've found new ways to connect with consumers on a more personal and localised level.

(30:18):

I think all of this should improve the resilience of the luxury industry. Then within luxury, we're kind of favouring at the moment companies that are more defensive. Companies like LVMH that own the biggest brands, the strongest brands, they have the financial fire power to withstand an economic downturn and keep investing ahead of competitors. We like Louis Vuitton because it's not overly exposed to fashion cycles or idiosyncratic management or execution risk, and it's more exposed to high net wealth consumers. People that are truly wealthy rather than aspirational consumers who might be the first to pull back on their spending.

**Ofer Karliner (30:59):**

Thanks Hannah. Ryan, what are your thoughts?

**Ryan Joyce (31:02):**

Yeah, absolutely and there's some similar thematics to what Hannah talked about, but if I just start with Amadeus, it should continue to benefit from a recovery in air traffic, albeit one that is going to be somewhat lumpy and tempered by those softening economic conditions longer term, like luxury spend. We do expect structural growth in air travel to support growth in the business. And another thing that we like is that over the past couple years, which has been a really challenging period for this business

and its peers, it was able to return to profitability much faster and continue to invest in its product and innovation. And that's leading to market share gains that we expect to continue. I think it's a key advantage of investing in quality businesses is that they can come out of tough periods like COVID in stronger positions than what they went in.

(31:51):

Booking's a great business. It's a really good management team and they're executing really well at the moment. A key focus is building consumer loyalty through their Genius programme and people going direct to their app rather than using Google. And that's a much higher margin transaction for them. They're also taking share from Expedia. As I mentioned earlier, that a key debate for them is what happens to those hotel prices if we do see some weaker demand. Really just trying to understand what's priced in to that stock price at the moment. Airbnb is an interesting one, also very strong business, obviously a very strong brand, a huge amount of direct traffic and also unique inventory. A lot of things to like, but at the same time I'm a bit cautious about inventory supply growth and the overall affordability of its platform as well.

(32:40):

And as I mentioned, it does have the most exposure to any weakness in those room rates. We're also cautious about what the normal growth is for Airbnb once travel normalises. It was growing very strongly in the years leading up to COVID, but we've now had three years of noise. It's unclear how much the business has matured or kind of moved along that penetration S curve during that period. And most forecasts seem to assume they continue to deliver really strong growth going forward. And that might be the case. But we also think it's quite plausible that underlying growth is slowed meaningfully just due to penetration during that period. And if that turns out to be the case, expectations will need to be revised down and it could be quite painful.

**Ofer Karliner (33:24):**

Thanks Ryan. Yath, what about yourself?

**Yathavan Suthaharan (33:27):**

We think Safran is a high quality company with strong and sustainable competitive advantages. And we also believe that the current environment for air travel remains strong. And this is evidenced really by the pace at which volumes have recovered and people's willingness to pay to travel as evidenced by the high fares. We've held Safran in the portfolio for a little bit over a year now and we continue to hold it because we think it remains at attractively priced. From an investment perspective, what we're really looking for here are monitoring areas which might drive a change in our forecasts or our base case. The key watch items for us can really be broken down into two buckets, cyclical risks and structural risks. The key cyclical risks are factors which restrict excess demand from being realised. Think aircraft, supply constraints, China lockdowns, et cetera. The second would be any impact of any potential recession. The key structural factor that we're monitoring or thinking about is corporate travel not recovering back to the level that we expect.

**Ofer Karliner (34:33):**

Thanks Yath. Look, it's clear that recovery in travel is driving a really material recovery earnings for a number of companies under our coverage. There are also a lot of risks out there. There have been hiccups along the way and we expect further risks to play out, whether that be supply chain issues, the way China comes out of the COVID lockdowns, indeed recession is one of the key things we're worried about. But speaking here to Ryan, Hannah and Yath, it's clear, while we expect the earnings trajectory to

experience some turbulence along the way, it's a little pun, overall we expect the trajectory to still to be positive in the longer terms. Thank you very much guys.

**Hannah Dickinson (35:05):**

Thanks, Ofer.

**Ryan Joyce (35:05):**

Thanks, Ofer.

**Yathavan Suthaharan (35:06):**

Thanks, Ofer.

**Host (35:07):**

That was Magellan Infrastructure Portfolio Manager, Ofer Karliner, speaking there with Sector Head of Franchises, Hannah Dickinson, Sector Head of Technology, Ryan Joyce, and Industrials Analyst, Yathavan Suthaharan. We trust you've enjoyed this episode of Magellan In The Know. Join us in a month's time for the next episode. For more information on upcoming episodes, visit [MagellanGroup.com.au/podcast](http://MagellanGroup.com.au/podcast) where you can also sign up to receive our regular investment insights programme. Thanks for listening.

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