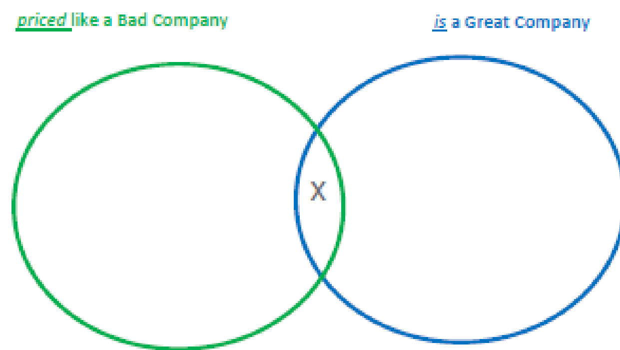
HollAnd
Advisors

Holland Views – *redacted* – Price: €10, Mkt Cap: €12bn – Buy

Tiger Roll[1]

Our proposition is straightforward. We seek to identify Great Businesses that are priced as bad ones. These bargains often crop up in unlikely end markets and it is our experience that investors' pre-conceived ideas of certain industries can inadvertently bias them away from these great companies and thus great investments. We present one such company without initially naming it. To tempt the reader we offer 3-5y investor IRR's of 20-25%.



- It has a 35 year **track record** of exceptional organic growth (20y sales cagr to 2019 +15%) and high returns (20-40% RoNTA). It is a true disruptor in its field.
- It is the **lowest cost operator** by a very wide margin and is the price setter.
- It has 25-35% market share but its low-cost position affords it a clear runway for further growth as the industry consolidates. **We think it can grow volumes >5% cagr**.
- It has the best operating margins in the business. Whilst highly operationally geared, the company has never lost money and thrived in the 2008 and 2009 period.
- It **enjoys negative working capital**, thus has better RoNTA than most investors realise. It has a very strong balance sheet with low debt & consistently pays-out excess capital.
- Its **CEO/owner-manager is one of the best we've seen;** another 'Outsider'. He owns 4% of the equity and has options worth $100m if he can double earnings.
- **Its industry has become (relatively) more rational** and is following the playbook of the US market. In time, this company will realise its currently untapped pricing power.
- It trades on a 4-year low share price, equivalent to c11x P/E. We think its earnings power is possibly twice today's level (as, we suspect, does the CEO!).

A great business, agreed? …yet, it is priced like a poor one. Why?

- Its industry is volatile again. There is some over-capacity by irrational competitors.
- There is a perception that secular cost inflation will kill its low-cost model.
- Above all, investors remain myopically focussed on the near-term flux rather the long-term opportunity of growth and pricing power.

[1] Tiger Roll won back-back Aintree Grand Nationals in 2018/19, and is another racing legend from the CEO's Gigginstown House Stud. Readers of our early work on this company will get the connection.

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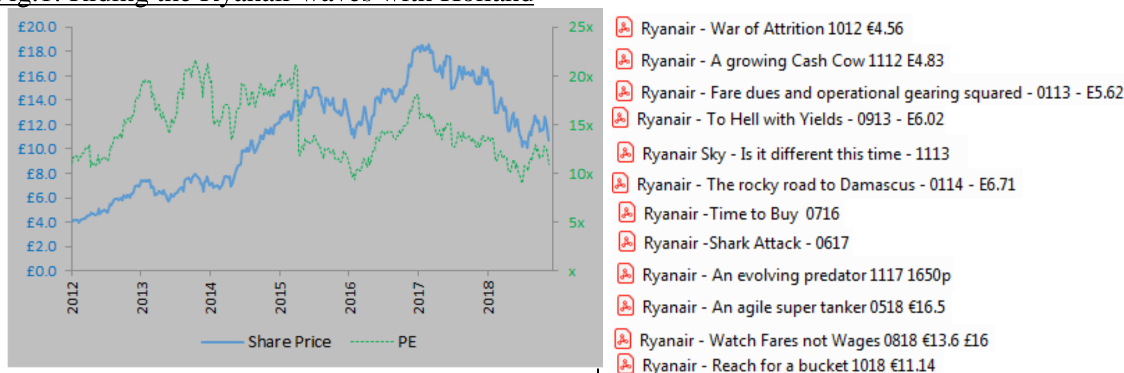
Enough teasing: the sector is airlines and the company is: **Ryanair**.

Ryanair has long been one of our favourite global businesses and we have advocated owning the shares since 2012 backing up our conviction with much research over the years (Fig.1). It is a business we believe we have gotten to know very well. Its EDLP[2] business model is, we have argued, one of the most defendable and conducive models to growth. It has thrived even in the worst industry and through economic downturns.

In Ryanair, we have a great horse, jockey, a long runway and a low starting multiple.

Fig.1: Riding the Ryanair waves with Holland



Source: Holland Advisors

Can we kill one of our best-loved ideas?

We try to be careful not to fall in love with our longstanding ideas. Charlie Munger suggests we should try to "destroy our best loved ideas"[3]. So, in this spirit, we recently asked our most cynical analyst at Holland (aka 'the professional worrier') to take another look at Ryanair to see if our conviction could be shaken. He failed to break it. This note reflects that fresh look at the business, in effect an update on our 2012 original work (at a price of €4.56), seven years on. We think most bearish arguments on Ryanair are tactical and centre on the continued irrationality of certain airlines. The future we believe could be very different!

In any case, 'events' have been trying to kill the Ryanair model for years:

> *"pick a year, any year and you'll find that there has almost always been a sound macro, political, or industry-specific reason not to invest in Ryanair stock: ATC strikes, terrorism, austerity measures, economic contraction, fuel shocks, low-cost competition from incumbents, low-cost competition from upstarts, foot and mouth disease, the Iraq War, Avian flu, Volcanic ash clouds"* – **US-based investor, David Kim (written before Brexit, the Boeing MAX controversy etc etc!!)**

Context is really important, 'Wood for the Trees' and all that. That's why we wrote the front page without naming the company. What has been really interesting in undertaking this latest work, is the sense of déjà vu we had whilst writing it. Ryanair (and easyJet) watchers in 2019 are fearful of much uncertainty as regards the outlook for fares, competitor capacity, the weakness of the Ryanair competitiveness, its brand, etc. etc. All of those issues were front and centre in 2013 too – another year of much uncertainty (and profit warnings).

To view the remainder of this in-depth report, please contact Andrew Hollingworth, Andrew@hollandadvisors.co.uk for a complete PDF copy.

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[2] Every Day Lower Prices, coined by Wal Mart, a pioneer of the lowest-cost, high volume business model

[3] For those who missed it, Munger's unabridged WSJ interview with Jason Zweig from early May is superb: https://www.wsj.com/articles/charlie-munger-unplugged-11556935195

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