



## Holland Views: What to buy – Ryanair, EasyJet, Ashtead, JDW, Booking<sup>1</sup>

# The ‘Perfect’ Storm + Peak Fear

*“you make most of your money in a bear market, you just don’t realise it at the time” – anon*

This research piece is in part to help our clients think about what stocks to buy and when, it is also intended to reflect on our bullish stance on the EU low cost carriers (Ryanair and EasyJet). It does however contain many other ideas on other stocks and sectors, so please don’t stop reading yet!

Imagine sitting down with Michael O’Leary for a drink at Christmas 2019. As the conversation rolled on you found yourself discussing the pivotal moment in Ryanair’s history when Ryanair put in the mega order for deeply discounted Boeing planes post 9/11. It seemed obvious segue to ask *“Michael, if you could imagine another scenario where things got really tough for the sector but ultimately – again – worked massively in your advantage what might that look like?”* O’Leary we surmise might have said something along the following lines<sup>2</sup>:

- *“Well we would need a black swan, a really monumental shock to demand that would expose and wash out all those poorly capitalised competitors of ours*
- *The shock would be global so that the demand hit is global and thus impede the usual geographic capacity arbitrage*
- *And it would be preferable if something happened that was severe enough to not only cause some short term disruption, but also to linger in the memory so that anyone following in competitor footsteps would think twice before setting up a new airline*
- *It needs to be something that is not about airline safety, so that when the event passes all will want to travel fully again*
- *And in a perfect world it would be great if all those guys we buy these new more efficient aircraft from get squeezed so we can get some really great capacity deals*
- *Oh, and while you are at it. Let’s have a collapse in our largest single cost item – fuel”*

### O’Leary’s Perfect Storm

So, this is where we find ourselves today – in what we imagine might be Michael O’Leary’s perfect storm. Indulge us here a little more – maybe we could extend the analogy from the film of the same name. Imagine that you are part of a fishing group of 20 trawlers based in an isolated fishing area. You have the best, biggest, safest boat and one day a truly enormous, once in 50 year storm comes through. One that is big enough to wreck all of your competitor boats and leave just you and one or two others with sea-strong vessels intact. For months and years after this period the fishing will be easy and plentiful due to less competition. However, as you tossed and turned in a force 9 gale for a week how did it feel at that time? The honest answer would have to be “truly awful”.

We surmise that today’s confluence of events (Covid-19 + oil price collapse + poor policy response) are the airline industries (and indeed more than a few others’) perfect storm.

<sup>1</sup> Share Prices (respectively) €10.70, 872p, 1751p, 1062p, US\$1442

<sup>2</sup> This is obviously a fictional account from our imaginations and do not want to diminish, belittle or ignore the awful human suffering and tragedy ongoing with this virus globally. That said, our job is economic forecasters and business valuers and such exercises help frame events for us and readers.

When we are assessing the opportunities in front of us today, we can say that it is ‘most likely’ that surviving industry players who were positioned appropriately to survive such an event will make some super normal profits once it is over. However, that does not mean things do not feel truly awful now and that day by day the news coming out of such companies and industries is not going to get worse.

## Are we at peak fear? – Sentiment reflections

There is an old saying that if your neighbour loses his job that is a ‘recession’, if you lose yours it is a ‘depression’. This mentality we think has been prevalent as this crisis has spread. Simply put, too few have taken it seriously enough until it is outside their door. As we have been studying this virus for >6 weeks (see Twitter link at end of note) now we have noticed a few common traits that we think it fair to observe:

- Western stock markets were slow (really slow) to pay enough attention to this virus even when it had clearly made its way to countries like Italy. (NB: That Monday evening of 24<sup>th</sup> February, Carnival shares closed in New York at \$36. Today they are \$22). Now, we accept, markets are trying hard to catch up.
- There has been the recession vs. depression mentality visible in Western populations. Too many young Italians were still socialising a week ago and too many Brits believe that a ‘stiff upper lip’ might solve the problem. Additionally, far too many Americans (one in particular) were totally under estimating the real threat of the whole situation and thus have not prepared suitably for it.
- Those countries that have stopped the virus spreading best are those that were the most draconian in the measures they enacted (huge testing/use of red/green apps/city lockdowns). Western countries had a chance to learn from these experiences but rather than do so some have instead presented these as the acts of totalitarian regimes with an alternative agenda!

Maybe SARS and MERS viruses and the fact they did not spread so widely play a part here. In the West’s eyes they were the boy that cried wolf twice? Now we open our door and Mr Wolf is standing right there.

### The tide is turning

We would suggest some Western politicians were very much like Mr Market, slow to take the issue seriously enough and now trying to catch up fast.

As country by country in Europe the penny drops a new mentality kicks in. i.e. those that were telling all a few weeks ago this will not be a big deal will soon shout from the roof tops about how it is affecting them, without any irony. (See CNBC anchors for this full 180-degree view change in only 3 weeks).

Sadly, it is exactly this too relaxed Western mentality that has perhaps helped this virus spread. Time and time again the WHO team who visited China and South Korea have praised the response they saw. Seemingly too many in the West are too busy criticising to take the important lessons they could from such early responder experiences. Even as we type the US President is making unplanned actions designed to point blame at other countries rather than focusing on the real threat and preparing, as the US should have done weeks ago.

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

**Disclaimer**

This document does not consist of investment research as it has not been prepared in accordance with UK legal requirements designed to promote the independence of investment research. Therefore even if it contains a research recommendation it should be treated as a marketing communication and as such will be fair, clear and not misleading in line with Financial Conduct Authority rules. Holland Advisors is authorised and regulated by the Financial Conduct Authority. This presentation is intended for institutional investors and high net worth experienced investors who understand the risks involved with the investment being promoted within this document. This communication should not be distributed to anyone other than the intended recipients and should not be relied upon by retail clients (as defined by Financial Conduct Authority). This communication is being supplied to you solely for your information and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose. This communication is provided for information purposes only and should not be regarded as an offer or solicitation to buy or sell any security or other financial instrument. Any opinions cited in this communication are subject to change without notice. This communication is not a personal recommendation to you. Holland Advisors takes all reasonable care to ensure that the information is accurate and complete; however no warranty, representation, or undertaking is given that it is free from inaccuracies or omissions. This communication is based on and contains current public information, data, opinions, estimates and projections obtained from sources we believe to be reliable. Past performance is not necessarily a guide to future performance. The content of this communication may have been disclosed to the issuer(s) prior to dissemination in order to verify its factual accuracy. Investments in general involve some degree of risk therefore Prospective Investors should be aware that the value of any investment may rise and fall and you may get back less than you invested. Value and income may be adversely affected by exchange rates, interest rates and other factors. The investment discussed in this communication may not be eligible for sale in some states or countries and may not be suitable for all investors. If you are unsure about the suitability of this investment given your financial objectives, resources and risk appetite, please contact your financial advisor before taking any further action. This document is for informational purposes only and should not be regarded as an offer or solicitation to buy the securities or other instruments mentioned in it. Holland Advisors and/or its officers, directors and employees may have or take positions in securities or derivatives mentioned in this document (or in any related investment) and may from time to time dispose of any such securities (or instrument). Holland Advisors manage conflicts of interest in regard to this communication internally via their compliance procedures.