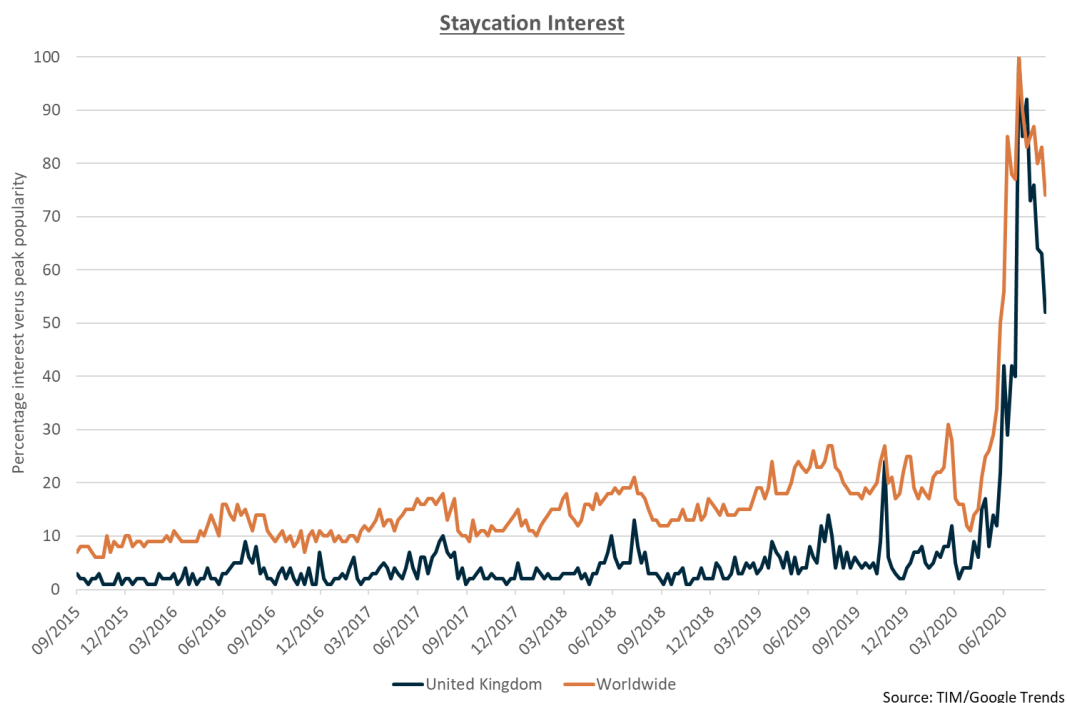


Should I stay or should I go?

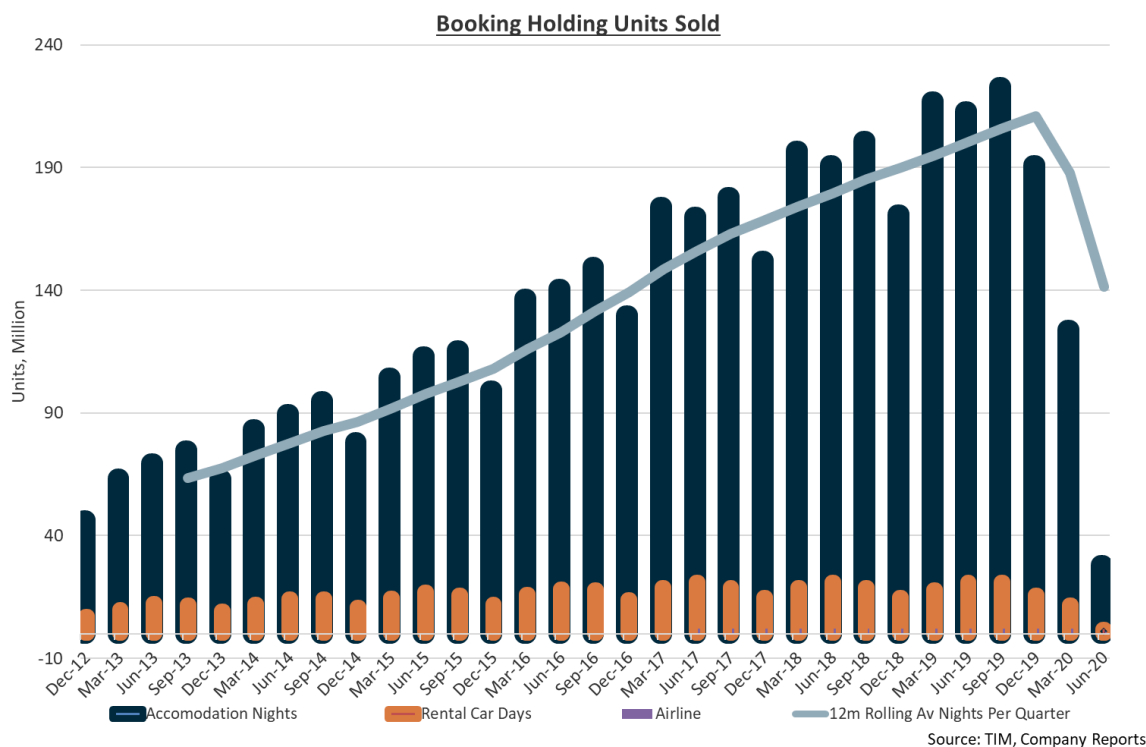
One of the more damaging effects of the pandemic and subsequent lockdown has been the cancellation of most people’s holiday plans. Those who have ventured abroad have had to gamble as whether they would face a period of quarantine at either their destination or even upon return. As many travellers to Spain and Portugal have found out leaving to a country off the quarantine list is no guarantee that you will not have to isolate upon your return. With the implementation of the ‘rule of six’ now being introduced the population is now having to weigh up whether the Prime Minister has effectively also cancelled Christmas for anyone wishing to spend it with family and friends.

Against this backdrop and months of isolation, there has never been a period when the need to take a break from remote working or being furloughed has been more important for the mental health and wellbeing of the nation. However, with the virus threatening to reappear (or already reappearing in much of Europe), the proportion of the population considering a staycation has risen significantly.



The increased interest in not venturing too far from home has significant ramifications across multiple industries, well beyond the obvious candidates of airlines, restaurants, and other transport firms. Travel agents and hotel operators are having to adapt as their clients increase their use of Airbnb, Expedia and Booking.com to source deals and accommodation away from city centres, however, the effect of the pandemic has hit the online travel agents (OTAs) hard too as they generate revenues by a fee on each room night booked. Airbnb reported that, in July, two thirds of bookings were to destinations outside of cities, half of their bookings were within 300 miles of their client’s homes and over two thirds within 500 miles.

The beauty of the OTAs is that they have huge portfolios of properties on their books, with minimal working capital outlay, so can satisfy their clients demands, regardless of whether they wish to plan their holidays closer to home or venture abroad. Booking.com (held in the VT Tyndall Global Select Fund) has over 29 million listings of rooms in hotels, homes, and apartments in over 220 countries; in 2019, a staggering 844 million room nights were booked through their platform.



For Hotel chains operating with the OTAs has been an inconvenient necessity, as the need to adapt to less business led traffic and capture the retail demand requires a more dynamic pricing policy. The OTAs have the relevant data and expertise that can inform these decisions to drive occupancy. However, the OTAs are not totally agnostic as to the location of where rooms are booked, as they benefit from selling ancillary services such as restaurant bookings, taxis, and airline reservations, and volumes are unlikely to return to pre-pandemic levels for some time. Nonetheless, as they have little fixed costs or inventory, they have been able to flex their variable costs during the pandemic; Booking.com expects to be EBITDA positive by the autumn and Airbnb was confident enough to file its IPO paperwork with the SEC last month.

When The Clash penned their chart topping hit in 1982, OTAs did not exist, and today we do not believe that for them it will be a case “if I go, there will be trouble, and if I stay it will be double”. As we work through the pandemic and out the other side, we expect that investors will see this as a prime time to invest in a group of companies that is likely to continue to capture market share from the traditional operators and at the same time generate significant cash flows.

VT Tyndall Global Select Fund



Weekly Commentary 25th September 2020

Richard Scrope, CFA. Fund Manager, VT Tyndall Global Select Fund, 25th September 2020

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