COMMENTARY

June 3, 2021

Dear Clients and Colleagues:

Travel and tourism has been one of the hardest hit sectors during the COVID-19 pandemic. Prior to the pandemic, this sector accounted for a quarter of all new jobs created globally, and contributed 10.4% to global GDP in 2019. In 2020, 62 million people working across the travel and tourism sector lost their jobs, and many are still supported by government wage subsidies. Domestic visitor spending decreased by 45% and international visitor spending declined by 69%. As a result, the sector lost US$4.5 trillion, or 49% compared to 2019, and only accounted for 5.5% of global GDP last year.[1]

With the help of rapid vaccine rollouts in several economies, we are beginning to see some light at the end of the tunnel. In the United States (US), more than half of all adults have now been fully vaccinated. States are easing restrictions; some are aiming to fully reopen in July. Although business trips are unlikely to match pre-pandemic levels until 2023 or 2024, demand for leisure travels rebounded strongly. About 1.9 million travellers passed through airport security checkpoints on May 27, 2021 – that is six times the volume on the same day a year earlier, and about three quarters of the 2019 level. US domestic air travel has also returned to 75% of pre-pandemic levels.[2]

A similar trend has been observed in the restaurant industry. According to OpenTable, restaurant bookings in the US were almost back to normal in the last week of May.[3] Data released by the Bureau of Economic Analysis shows consumer spending on services in April 2021 had reached US$10.1 trillion, surpassing the US$9.95 trillion in April 2019, and approaching the previous peak of US$10.3 trillion in Feb 2020.

The European Union is also gradually reopening, and is working on the plans to welcome fully vaccinated travellers from abroad, including Americans, as soon as this summer. Most people have been staying within their local areas for over a year, and cannot wait to take that long awaited trip. A recent survey shows nearly 9 in 10 American travellers have plans to travel in the next six months.[4]

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[1] https://wttc.org/Research/Economic-Impact
[2] https://www.tsa.gov/coronavirus/passenger-throughput
[3] https://www.opentable.com/state-of-industry?lang=ja
[4] https://www.ustravel.org/research/monthly-travel-recovery-data-report

Many names in our portfolios are set to capture the pent-up demand in the leisure and tourism industry, and we would like to highlight a few in this commentary.

Autogrill (AGL IM)

While we do not invest directly in airline operators, we own Autogrill, the largest food and beverage provider at airports and motorways. Autogrill operates in 142 airports around the world, and manages 548 service stations along motorways and in railway stations. North America accounts for over 50% of the company's total revenue, and the faster vaccination progress in this region will help the business to recover as passengers resume domestic travels.

Melia Hotels International (MEL SQ)

Headquartered in Spain, Melia operates more than 367 hotels in 41 countries. It is the third largest hotel group in Europe. First quarter results were still weak, but the company has seen a ramp-up in bookings for several key markets. Bookings of its resort destinations from domestic tourists in Spain have shown favourable recovery. US customers' bookings for the Caribbean, particularly Mexico, have reached 2019 levels. With many quality assets, Melia should be able to benefit from the return of leisure travellers this summer.

Samsonite International (1910 HK)

Founded in 1910, Samsonite is the world's largest lifestyle bag and travel luggage company. It owns many brands including Samsonite, Tumi, and American Tourister, and the products are sold in over 100 countries. The US and China accounted for 46% of total sales in 2019, and domestic travels have begun to pick up in both countries. The worst should be behind and the company targets to break even in the second quarter and return to profit from the third quarter onwards.

Ariake Japan (2815 JP)

Based in Japan, Ariake is a leading producer of natural seasoning concentrates based on animal bones. It has over 3,000 products used in soup, bouillon, broth and sauce bases. Customers are all commercial users that include hotels, restaurants, and makers of instant noodles, frozen foods, and prepared meals. Convenience store and food manufacturer channels remained resilient last year. Ariake continues to launch new products and gain market share. Yet the restaurant and hotel channel, which takes about 30% to 40% of total revenue, was hit due to dining restrictions and ordered closures of operators by the government. The restaurant related business is expected to catch up, with easing restrictions.

Limoneira (LMNR US)

Based in Santa Paula, California, the 127-year-old company is a leading producer of lemons, avocados, and oranges, with lemon being the largest revenue contributor. In the US, more than half of lemon production goes to food services, so the company was inevitably hurt by COVID-19. However, starting from the first quarter of fiscal year 2021, demand for lemon has recovered and pricing is performing well in comparison to 2020. The company also expects strong results for avocado and oranges sales in fiscal year 2021.

It is encouraging to see countries and cities coming back to life following a year of restrictions and confinement. However, caution is warranted as it takes time for the economies to fully recover due to uncertainties with vaccine rollouts, new COVID-19 variants, labour shortages, and supply chain challenges. Our portfolio remains balanced across regions and sectors. Companies in our portfolios are in great financial positions, and continue to deliver strong results.

Have a great day.

The Global Alpha team