

Holland Views: Ryanair/EasyJet, €15.5/775p, MCap: €17.4bn/£3.5bn;

A Matter of Trust

“The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function” – F Scott Fitzgerald

That the low-cost airlines of Europe are ultimate beneficiaries of a post-Covid world is something we have believed all through 2020. The recent share price performance of Ryanair and Wizz suggest that Mr Market now agrees with this view. Both are in a strong position to reduce their unit cost bases further while bloated competitors accept state aid and the handcuff conditions that accompany them. Hopefully we expressed these views clearly during the year.

Now we would like to add a new idea; this being that ‘trust’ as much as low costs will play an important role in the recovery of the airline and holiday sector.

Unprecedented pent up demand

We will not write at length on this issue only to state again that we think the scale of pent up demand for leisure travel post a Covid recovery we believe will be simply enormous. In a recent piece on Ryanair we noted that this could lead to a ‘feast’ following the recent ‘famine’, i.e. Travel and airline companies could potentially make supernormal profits were a portion of this massive demand to accompany maybe a slight shortage of supply. The latter possibly occurring due to company bankruptcies or lack of available pilot flying hours or ATOL licenses etc. In the summer when writing about the Spanish airport operator AENA we talked about ‘the time to buy a road toll was when no one was on it’. Today we ask:

“when travel demand does recover which companies will it benefit most?”

A Matter of Trust....

The reason we have used the F Scott Fitzgerald quote above is that we think there are two types of attractive travel companies right now and they are not mutually exclusive. The first being the lowest cost producers that we always seek out in our work across sectors. This leads us to Ryan (and we accept also Wizz). All of our recent work shows their cost leadership position only being strengthened further. However, those that have followed our work on this sector will know that our work on EasyJet was subsequent and adjacent to our Ryan work. We noted there was room for both companies to operate in this low-cost market. The second type of company that we see as attractive right now are those that are trusted by their stakeholders (customers, suppliers and regulators).

A story of travel past...

In 2018 your author took a number of flights. He is a frugal individual, so keen to save money where he can. A family holiday to Majorca was booked with friends *“the cheapest flights are coming up with a company called Air Europa, Andrew, what do you think?”* I checked them out for a whole five minutes and we booked them. Later that year I had to go to New York for business. Something I dread, due to its expense. I flew with Norwegian from Gatwick. Were in 2021, I to be making either of those trips again am I likely to pick either of those airlines? No, I will pick a more reputable alternative.

[... and future](#)

And what about all our travel plans for 2021-2023. We will all be looking forward to our holidays. The first thing we will do is book with a company that we know has not gone bust (so that rules out STA and Thomas Cook). We are likely to want to avoid those that have been in the news as rumoured to be ‘in trouble’ or ‘needing help’ (Virgin and Norwegian). Next, we are likely to use brands that we know and trust where maybe we have already had a good relationship before. As much as our friend Michael O’Leary might squeal at the next point that does not put him at the front of the queue! We will also want to use a company that if something goes wrong, will look after our family. This all points to incremental demand for trusted brands like BA/EasyJet and Jet2 in the UK.

Fig.1: References to Customer trust in Annual Reports

	EasyJet	Ryanair	Jet2
References to “Customer Trust”	5	0	13
Mentioned in Risk Factor Section?	Yes	No	Yes
	<i>“We believe that in times of uncertainty customers look to brands they can trust and which offer them the best value”.</i>		<i>“we relish the trust our customers place in us to give them a fantastic holiday experience”</i>

Source: Company Annual Reports

[Trust and Travel](#)

Much of travel is sold on romance. The wonderful time you and your family will have on that beach in Spain, or the luxurious relaxation you and your wife will enjoy on that city break.

After that comes the cost. But underlying it all is trust. Will it all work out OK? Web photos of apartments and reliable low-cost flights have meant we have taken that trust component for granted in recent years. This was what we used to pay package holiday companies for and indeed what some people still do pay them for: to ensure a lack of hassle or fixing of the cost. Covid we think has thrown the trust cards up in the air as far as travellers are concerned. At least for a while. The desire to travel/get out of the house and live will be an enormous driver of demand post-Covid. However, the best low risk way to do it will be unclear. With that in mind we ask a few rhetorical questions about your leisure travel plans in the next few years:

- Will you trust a new company, say one you have not used much before?
- Will you trust a company that has had bad press about insolvency of treatment of customers over the Covid period?

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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