STOCKS DOWN UNDER

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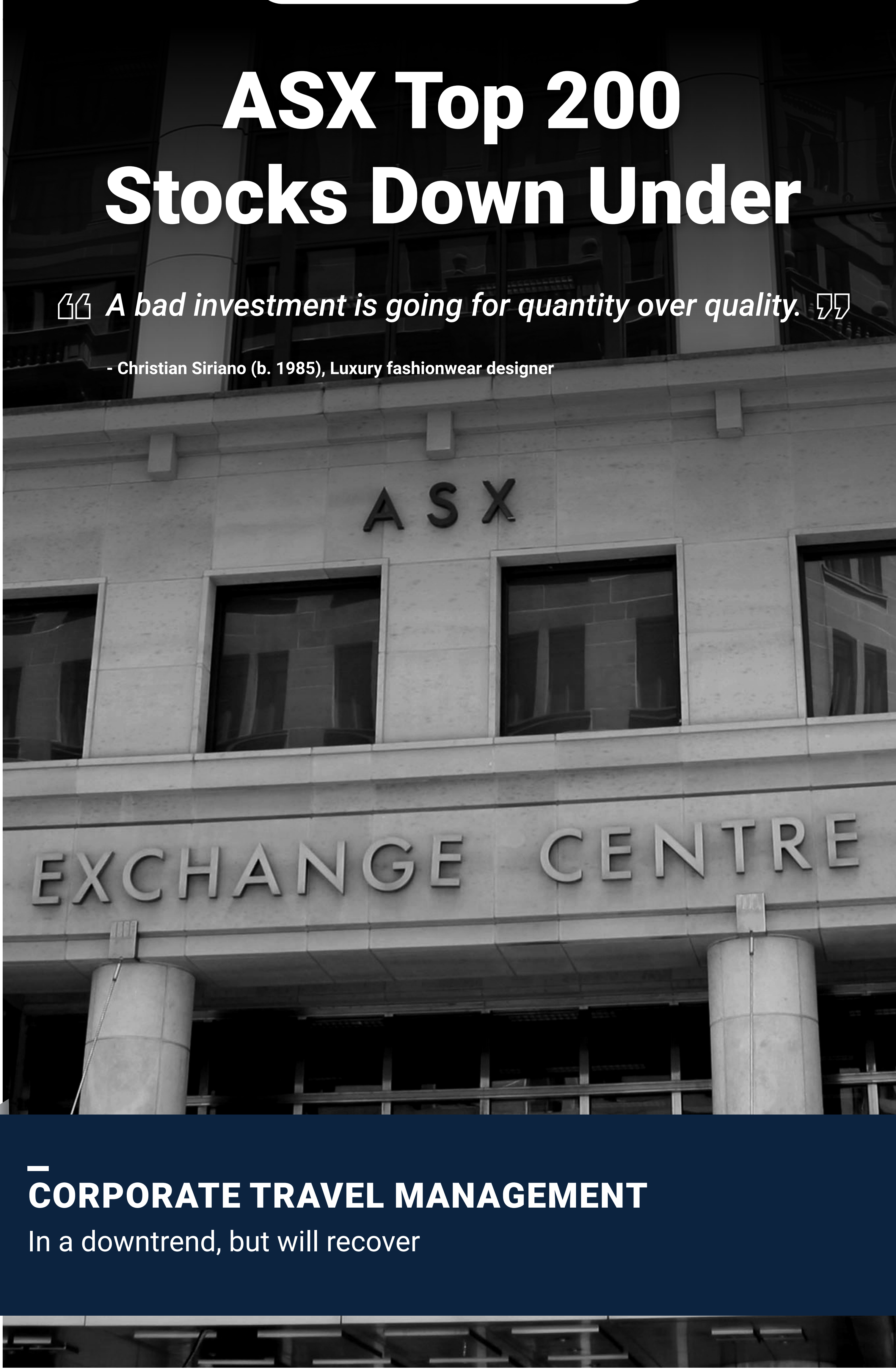
ASX Top 200 Stocks Down Under

A bad investment is going for quantity over quality.

- Christian Siriano (b. 1985), Luxury fashionwear designer



CORPORATE TRAVEL MANAGEMENT

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Stocks Down Under rating: ★★★

ASX: CTD
Market cap: A$2.2BN

52-week range: A$13.72 / A$26.34
Share price: A$14.89

Investors are likely to be pleased with the performance of travel stocks this year, with many returning to profitability, or on the cusp of doing so. The share prices of these companies have followed suit, but not all have returned to pre-Corona Crash levels. So, you might think there's further upside left, particularly in respect of Corporate Travel Management (ASX: CTD). We are not so convinced. Yes, business travel is high-margin compared to so-called VFR (visiting friends and relatives) travel. However, business travel hasn't rebounded to pre-pandemic levels.

Share price chart

Source: Tradingview

Still recovering

Corporate Travel Management was founded in 1994 and completed its listing on the ASX in 2010 at just $1 per share. At over $14 a share today, investors who have held for the long-term have done well (to put it mildly).

The pandemic put a significant dent in the company as demand was literally eliminated in a handful of weeks. Demand has returned, but it has been very gradual. Not all markets have re-opened at the same time, and people have returned to travel at different times. But, after the company copped a blow, things have gradually returned to near-normal.

But significant progress has been made

In FY21, it recorded $1.6bn in Total Transaction Value (TTV), down 65% from FY20. The company's EBITDA plunged from a $74.4m profit to a $7.2m loss, while underlying NPAT swung from $28.4m to a -$33.4m loss. Fast forward to FY22, and it made $5.1bn in TTV, $59.8m in EBITDA and a $17.5m NPAT. The company has started FY23 very well. A late-October trading update showed an annualised EBITDA of $143m and a $102m PBT. Bear in mind there could be further upside when China re-opens and business travellers rush to visit there. It retained 97% of pre-COVID clients. And you could argue that there is still some demand to be unleashed as air fares (hopefully) decline from 15-year highs as supply returns.

Sell-side consensus estimates are optimistic too. For FY23, analysts expect $636.5m in revenue (up 68%), $167.1m in EBITDA (up 179%) and 65c in EPS (up nearly ten fold). At multiples of 12.1x EV/EBITDA, 22.0x P/E, it looks incredibly cheap. The PEG & EV/EBITDA to EBITDA growth multiples of 0.7x and 0.07x confirm this. So why have CTD shares not just failed to recover to pre-Corona Crash highs, but actually dropped over 30% in the last four months, even with positive results?

Significant headwinds are emerging

Before we note the headwinds facing the company, we note it is not sell-side analysts that will decide the company's share price – it is the investors, including those who have sold it off. You might argue that if it just achieves consensus estimates it will recover. But the trading update in late-October has failed to help its share price.

We think there are a few reasons why. First, we think there has been a significant degree of FOMO in the share price hikes of many travel stocks as travel recovers. Second, the broader travel industry is ultra-competitive meaning it is more difficult than in an oligopoly situation to generate returns. In managed travel, CTD has just a 3% market share and the top 5 players only have 32%. Third, airlines have used the pandemic to cut back on the share of bookings they give to travel agents. Qantas for instance has slashed the commission from 5% to just 1%.

Fourth, and most importantly, we think there is concern about how the company (and its peers) will adapt to the 'new normal' that will emerge once pent-up demand has been completely unleashed. One way we've liked to look at how Australian companies will perform in the current environment is to look to the US which is ahead of Australia in re-opening and experiencing inflation at 4-decade highs.

The US had its own 'release the travellers' period back in mid to late 2021. Fast forward to now and business travel has plateaued. United Airlines CEO Scott Kirby, after being in denial for some months, admitted it last month. Total travel revenues are going up, but it is more leisure travel. Business travellers will still take a trip to 'seal the deal', meet several potential clients at once, go to a big industry conference, or maybe even combine a business trip with leisure travel. But gone are the days when you would travel to meet with one person you've never met before. And after pent-up demand has been unleashed, demand is returning to a 'new normal'.

Three stars..at this point in time

CTD gets three stars from us for the time being. It isn't two because of the forecasted growth and reasonable valuation, but it isn't four because of the current share price down trend. We concede that investors have legitimate concerns over the 'new norm' in business travel and that some would like it to have a higher market share. We wouldn't be surprised to see some M&A activity – it has over $210m in cash that could be deployed for this purpose. And we note again that unlike competitors, CTD exclusively focuses on business travel, which is significantly higher-margin than other types of travel. It also doesn't have a legacy brick & mortar retail network.

We cannot ascertain the point in time when the share price will break the down trend, but we think you should wait until CTD gets above $15 to confirm that the break-out has been achieved – as we suggested in one of last week's Insight's articles. So, at this point in time, it's three stars but it will be four once it breaks the downtrend.

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