Webjet Limited

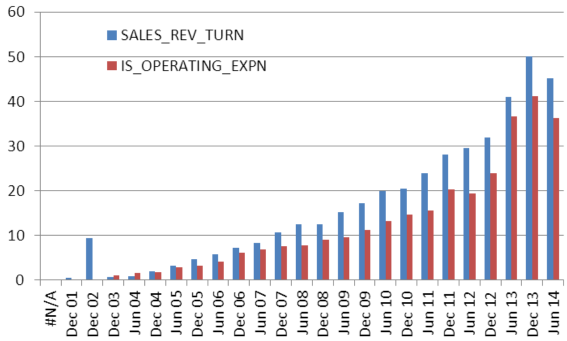
Share Price: $2.82
Market Cap: $224m

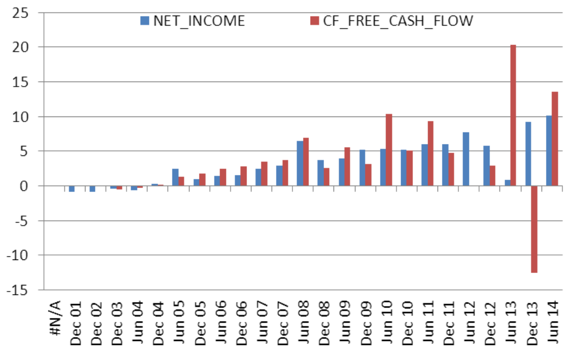
Webjet is an online travel agency. Customers can compare and book domestic and international flights. Importantly they can book multiple airlines in one spot. Once having booked flights they can then browse hotels for accommodation, look at car hire options and then purchase travel insurance. For customers who don't want the hassle of managing all the individual options themselves Webjet also offers Package holidays.

The space they operate in is highly competitive. Along with multiple online operators there are multitudes of different ways to book flights / holidays. These include:

- Direct with the service provider (Airline or hotel)
- Through a bricks and mortar travel agency such as Flight Centre

Webjet came to the ASX in 2000 through a back door listing at 20c. However it was very much a concept stock until 2005 when it started to turn a profit. Since then revenues have grown strongly and profits / cashflows have followed suit (ignoring some acquisition related. The history shows a remarkably consistent business given the cyclical and competitive industry they operate in.

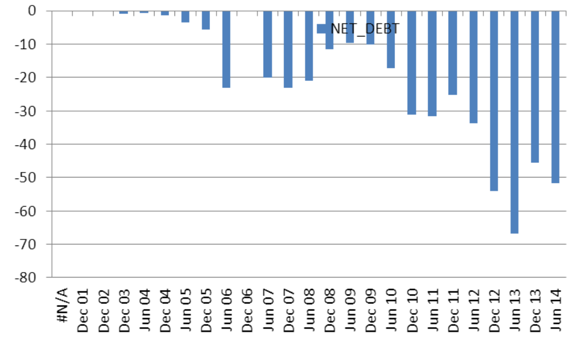


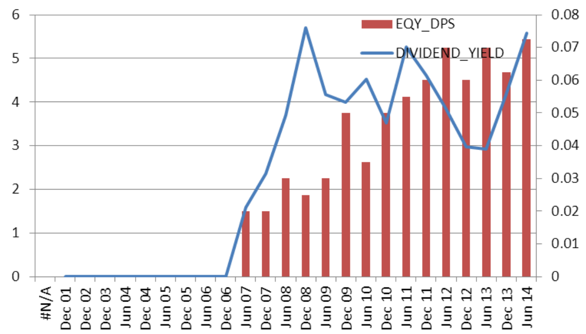


The cash in the balance sheet has grown in line with this and in the last few years the company has turned to acquisitions. To date the company has acquired:

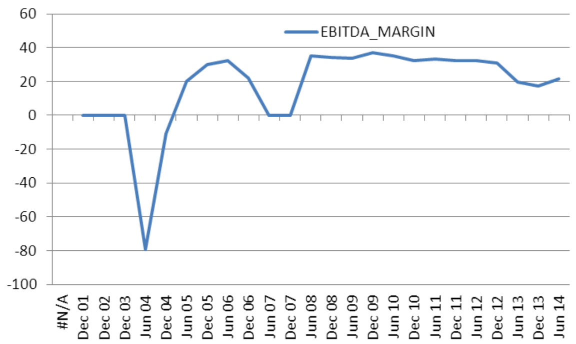
- Zuji (March 13): An online travel agency in Hong Kong and Singapore - #1 in air ticket sales in each market
- Sun Hotels (September 2014): A online hotel operator in Europe

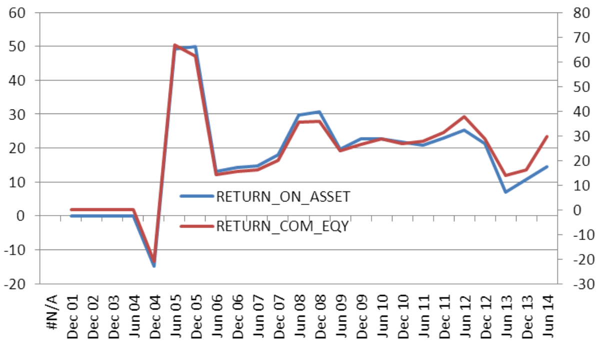
In addition to the acquisitions the company has launched a start up in the Middle East (Lots of Hotels). The cashflows from the core Webjet business will be used to fund the growth options. The company also has a strong balance sheet to lean on. As a result of both the cashflows and the balance sheet dividends are unlikely to be cut (barring a big earnings shock).





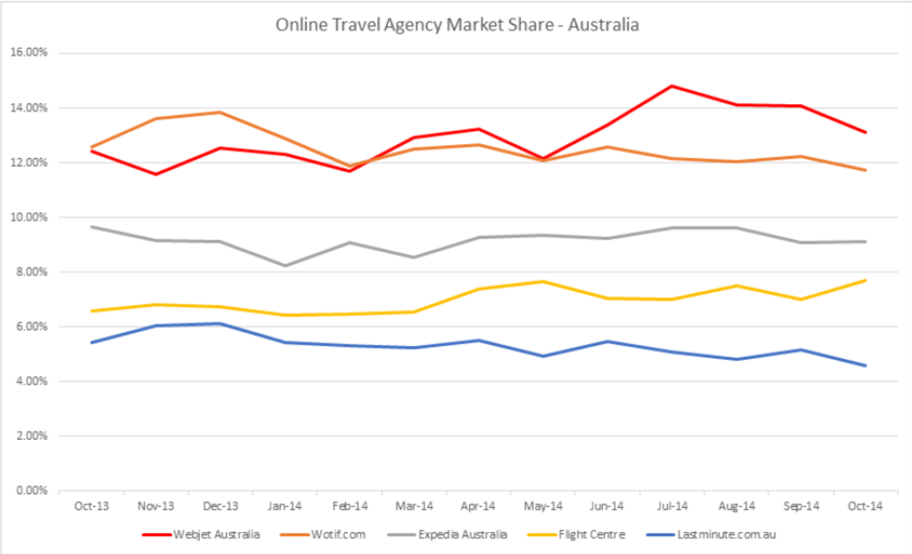
If we look at the divisional breakdown it really is all about the Webjet brand at this stage. Zuji contributed $2m of EBITDA in FY14 and is expected to breakeven in FY15. The combination of Sun Hotels and Lots of Hotels is expected to contribute $5m EBITDA in FY15. As a result of the acquisitions and the start-up of Lots of Hotels, margins have fallen. As a result so have the returns on capital. RoE start remains a very solid 29.6% and we could see significant upside if the other brands can become profitable.





There are a number of concerns about Webjet in the market.:

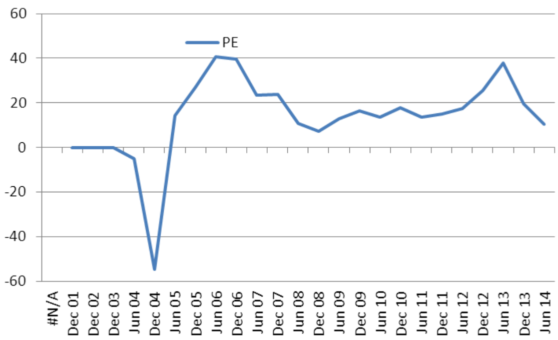
- The risk is the new growth initiatives above don't become profitable and burn cash. To date the company has done a good job of managing this – they turned around Zuji from a $6m loss at acquisition and have limited losses on the start-up of Lots of Hotels.
- The online travel market is highly competitive. Webjet has gained market share in recent times.
- At the recent AGM management stated that the domestic leisure market was flat year to date and that they expect it to be flat for the remainder of FY15. Despite this Webjet's bookings have grown 10%.

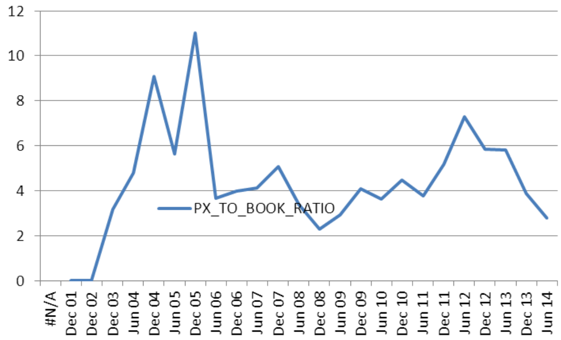


Source: Hitwise internet visitation reports, Online Travel Agency Category 2014

With all these concerns the share price after a strong rally in 2012 has retraced.

As a result you are able to buy this business on multiples not seen for a while:





With an ROE of close to 30%, the current P/B of 3.6x appears attractive. The PE of 12x suggests the market is not looking for much growth in the short term and in fact consensus estimates have next year's earnings going backwards. History however would suggest the business should be able to weather the storm it is currently in. There is upside to medium term earnings if any of the three less mature businesses take off and currently an investor is getting paid to be there with a 4.8% fully franked yield.