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Hostelworld

Travel & leisure

6 April 2021

Some sunny day

Hostelworld is at pains to show its ‘Roadmap for Growth’ is well on track, despite the hiatus of COVID-19 (2020 net revenue down 81%). It has followed its return to net bookings growth in normal conditions of Q419 with multiple enhancements to its booking platform. Also, for the longer term, there is reiteration of the company’s aim to offer complementary experiential travel products, such as tours and experiences, with cross-selling opportunities (‘an extensive pipeline of potential targets’ had been identified by the eve of the pandemic). For now, the outlook is clouded by uncertainty about the lifting of COVID-19 travel restrictions in key markets, with varying infection rates and vaccination programmes. In the UK, the very success of a rollout may only reinforce border controls.

Annus horribilis

As a result of COVID-19 global travel restrictions, 2020 saw Hostelworld’s trading metrics drastically down across the board. The impact of a 79% decline in net bookings (1.5m vs 6.8m) in 2019 was compounded by a 22% reduction in price (net average booking value), which largely reflected cancellations of higher-ticket bookings and inevitable discounting by hostels in the downturn. The overall cancellation rate trebled to a third of gross revenue. In mitigation the largest cost, marketing, was pared almost in line (down 72%) with sales volumes, while efficiencies and government subsidy schemes drove other opex down by a third. As a result, EBITDA moved from €20.5m to a loss of €17.3m.

Taking the positives

Alongside the progress with the strategic plan (management is ‘very pleased’), Hostelworld looks to have handled the COVID-19 pandemic effectively. It can point to a 2020 outcome in line with its October guidance, a much lower cost base and an encouraging, if understandably modest, rebound in Q3 when allowed to trade. Almost maintained y-o-y cash (€18m) at year end, facilitated by a €14m placing in H1, has since been supplemented with a €30m five-year debt facility.

Valuation: We’ll ‘meet the world’ again

With governments’ travel guidance so fluid in view of COVID-19 persistence, Hostelworld’s 2021 expectation of ‘significantly lower net bookings than 2019’ seems reasonable and reflected in consensus estimates. However, key platform modernisation continues undimmed, as does its ‘Meeting the World’ vision to create a global experiential travel network from its large and engaged customer base.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/19	80.7	20.5	15.2	6.3	5.8	7.1
12/20	15.4	(17.3)	(20.8)	1.0*	N/A	1.1
12/21e	22.9	(14.1)	(16.0)	0.0	N/A	N/A
12/22e	59.7	8.2	1.0	0.0	88.4	N/A

Source: Refinitiv. Note: *Cash dividends suspended owing to COVID-19 uncertainty, so paid by way of bonus shares equating to one cent.

Price	76p
Market cap	£88m
	£0.86/€

Share price graph

Share details

Code	HSW
Listing	LSE
Shares in issue	116.3m

Business description

Hostelworld operates the leading global online booking platform focused on the hostel market, capitalising on demand from its target millennial demographic for a social travel experience. Established in 1999, the company offers access to over 17,000 hostels with over 13 million guest reviews.

Bull

- High brand awareness among customers and owners of hostels in the growing global market of experiential travel. Pre-COVID-19 20m website visits and over three million social media followers in 2019.
- Material platform enhancement during the pandemic with unchanged long-term goal to extend the experiential travel offer beyond hostels.
- Asset light, cash generative model with newly strengthened balance sheet.

Bear

- Uncertainty about timing of lifting of COVID-19 travel restrictions, accentuated by differing conditions in individual markets.
- Intense competition or change in search engine algorithms mitigated by strong market position.
- Risk of loss of consumer trust in brand, although company actively invests in brand management.

Analysts

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