view from the thames by Deon Gouws

In search of happiness

If you're starting to feel a bit claustrophobic due to the lockdown, spare a thought for Jeff Reitz. This US Air Force veteran has been confined to (home) barracks after a nine-year streak spent visiting Disneyland Resort.

Such is Reitz's enthusiasm, he spent a total of 2,995 days in a row at the fabled Florida playground. His marathon run was cut short on March 12, when Disney finally closed its last theme park in response to the Covid-19 pandemic.

Disneyland may be "the happiest place on earth" in terms of its official tagline, but this has certainly not been the case for the past few months.

Shareholders of the company have not been having much joy either.

With a historic business model largely based on groups of people cramming into enclosed spaces (not only theme parks, but also cinemas), Disney's stock has suffered more than most since Reitz stopped getting his daily fix.

Even after equity prices rallied in the wake of the crash in March, the company's share price is still down about one-third from its record high of $151 (reached in November).

But does it really make sense that a company with such an iconic brand, global reach and nearly a hundred years of history should shed as much as 33% of its market capitalisation due to a virus?

Disney shareholders may once again be among the happiest investors on earth

Has the correction been overdone?

"With its irreplaceable film library and its Florida and California real estate, Disney is an asset play, a turnaround, and a growth company all at once."

That may be a perfect summary of Disney's current situation, but astute readers will have picked up that there are inverted commas around that line — this is because it is in fact a direct quote from One Up on Wall Street, written by legendary fund manager Peter Lynch in 1989.

The words were prophetic indeed: since then, the Disney share price has gone up tenfold, comfortably outpacing the S&P 500, which has increased approximately eight times over the same period.

I would argue that these very same words from Lynch's book are as true today as they were all those years ago.

Yes, visits to cinemas may suffer for much longer as people continue to adapt their behaviour, but one can hardly argue with the fact that this company has the perfect antidote in the form of its newly launched streaming service, Disney+.

Two years ago (when the share price was roughly the same as it is currently), this was but a dream; today, Disney+ is signing up subscribers at a rate that is rapidly outpacing market leader Netflix.

In fact, if one applied a Netflix rating to Disney's new streaming business, it is possible to illustrate that as much as 60% of the company's overall enterprise value is represented by Disney+ at present – not bad for a fledgling venture.

And yet, the Disney share price remains relatively depressed.

Clearly, the market is highly sceptical that the theme parks business (which has always contributed to the bulk of the com-pany's profits) will return to normality anytime soon.

When booking a trip to Disneyland, the consumer needs to feel comfortable about mingling with crowds.

Crucially, too, air travel would also have to normalise first, as many people visit from afar. And consumers will need to feel confident about their own financial situation before shelling out a substantial amount of money on a family holiday.

While it is impossible to predict when many of the theme parks will reopen (or at exactly what level of capacity), the current share price appears to ascribe hardly any value to this part of the business.

In fact, Disney's present valuation suggests that the entire division could be wiped out.

Is this not simply too bearish a view?

I remain convinced that there will ultimately be a return to some version of normal life.

This will occur either through the development of a vaccine or as the world develops immunity (or antipathy).

Though it may take some time for parks to return to previous levels of business, I further believe that there will be substantial pent-up demand from the likes of Reitz – as illustrated in Shanghai a couple of weeks ago, when tickets for Disney Resort sold out within minutes on the first day after reopening.

In the meantime, Disney has indicated an ability to scale its cost base in order to mitigate cash burn.

With a range of durable assets, the loss of even a full year's revenue should not materially affect the company's ability to generate and grow earnings over the longer term.

Hopefully, Reitz will be able to visit his beloved Disneyland for the 2,996th time soon.

When that eventually happens, Lynch's words might just prove to be as prescient as they were three decades ago.

And Disney shareholders may once again be among the happiest investors on earth. x

Gouws is chief investment officer at Credo Wealth, London

Shuttered: Once a popular tourist destination, Tokyo Disneyland has been closed since February 29

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