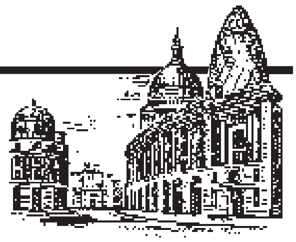
FINANCIAL TIMES

Date: Wednesday January 25, 2017
Page: 20
Region: UK
Edition: 01

Lombard



Airline's journey delayed by abnormal levels of currency disruption

"I know the flight only cost £25, but why was it delayed for three hours?"

"I am sorry, sir. The pilot thought he could hear a strange noise coming from one of the engines . . . and it took us a while to find another pilot."

So goes one of the many jokes about low-cost airlines — and, like most of them, it is not one that could be told of easyJet, which has an excellent safety record (although, last year, one of its flights was briefly grounded due to a tiff between cabin crew members).

Still, Britain's biggest airline by passenger numbers has been suffering plenty of disruption for other reasons.

In its trading statement yesterday, easyJet said it had incurred an "additional disruption cost" in the last quarter mainly due to higher numbers of EU compensation claims for delayed flights. In fact, last year, claims adviser AirHelp ranked easyJet as the second worst of 34 airlines for on-time arrivals, compensation hold-ups and service (behind Azores airline SATA).

But that was nothing compared with the disruption cost from another product of disputed EU claims: Brexit.

EasyJet said the continued weakness of the pound since the UK voted to leave the EU, plus rising fuel costs would have an adverse impact of £105m in the full year to September 30 — some £35m worse than previously expected. Analysts cut their full-year pre-tax profit targets from a consensus £418m to a range of £376m to £406m.

A further sizeable disruption — founder and 33 per cent shareholder Sir Stelios Haji-Ioannou's opposition to fleet expansion — acted as a further drag on the shares, which fell 9 per cent.

What really worried analysts, though, was the strange noise coming from easyJet's corporate treasury department. It insisted it had hedged between 74 and 86 per cent of fuel and currency costs for the next 12 months. With the sterling/euro exchange rate at the same level it was when easyJet last reported, how could these costs be £35m worse? Are easyJet's hedging strategies way off course?

Seemingly not — they are just being disrupted by wider currency movements. EasyJet's revenues are 50 per cent in sterling, 1 per cent in

dollars. But its costs are 27 per cent in sterling, 32 per cent in dollars. As a result of this imbalance, a 1 cent adverse movement in the sterling/dollar rate costs it £2.4m. Even with 80 per cent of this risk hedged, there is scope for the remainder to go the wrong way.

No wonder chief executive Carolyn McCall gave her forecasts for 2017 with the caveat “subject to normal levels of disruption”. Every budget airline passenger knows precisely what that phrase means.