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# Sterling is dark cloud on horizon at easyJet

**Alex Ralph**

The twin pressures of a weaker pound and a price war will exert a tighter than expected squeeze on full-year profits, easyJet warned yesterday.

The low-cost airline said that the slump in the value of sterling against the dollar since last June's Brexit vote would help to weaken pre-tax profits for the year to September 30 by about £105 million. The carrier is being affected because fuel is priced in dollars.

It is also being buffeted by a price war as airlines increase capacity to take advantage of a period of low oil prices to cut ticket prices. In no mood to vacate air space to rivals, the company yesterday reiterated plans to expand by 9 per cent this year.

The turbulence left investors feeling distinctly queasy and the shares tumbled by as much as 10 per cent before closing 95p, or nearly 9 per cent, off at 981p.

Dame Carolyn McCall, chief executive, described easyJet's first-quarter performance as solid "with revenue, cost and passenger numbers in line with expectations". However, she added: "The weakness of sterling and the impact of fuel combined are £35 million worse than previously expected." She said that the carrier had "made good progress in reducing costs in those areas where we had more control".

Capacity increased by 8.6 per cent to 19.3 million seats in its first quarter and passenger numbers rose by 8.2 per cent to 17.4 million, lifting revenue 7.2 per cent to £997 million.

However, investors, including Sir Stelios Haji-Ioannou, easyJet's founder and biggest shareholder, also focused on a fall in the company's load factor, a closely watched measure of the how full an airline's planes are flying, and a decline in revenue per seat of 8.2 per cent. EasyJet said the latter was set to fall by "high single digits" in the first half of its financial year, which it blamed on Easter falling in the second half and the impact of the terrorist attack in Berlin before Christmas.

Amid the squeeze on profits, easyJet has sought to cut costs, particularly in engineering, maintenance and overheads. Excluding fuel, costs are forecast to increase by about 1 per cent this year.

Its update comes after a difficult 2016, during which its shares slid 42 per cent after annual profits fell by more than a quarter to £495 million.

EasyJet did not issue annual profit guidance yesterday, but analysts nevertheless cut their forecasts below the City's consensus of about £415 million.

Mark Simpson, at Goodbody, said he was concerned that "rising fuel costs, pressure on yields and a rising capital expenditure" would push profits down to £376 million.

Mark Irvine-Fortescue, at Panmure Gordon, said: "EasyJet is maintaining its capacity plans, with little scope for cost efficiencies while operational issues are addressed and fuel ticks up."

The company reiterated yesterday that it would obtain an air operator certificate in another European Union country to secure the flying rights of the 30 per cent of its network that remains wholly within and between EU states, excluding the UK.





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