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**easyJet**

## EasyJet: the blame Dame

The low-cost carrier is expanding capacity like everyone else

**Lex**



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YESTERDAY

Airlines are fond of blaming delays and cancellations on external and “one-off” factors. They take the same approach to profit warnings; [easyJet \(http://markets.ft.com/data/equities/tearsheet/summary?s=uk:EZJ\)](http://markets.ft.com/data/equities/tearsheet/summary?s=uk:EZJ) chief executive Dame Carolyn McCall said on Thursday that full-year profits would be some £25m [below consensus forecasts \(http://next.ft.com/content/06740e62-8b92-11e6-8cb7-e7ada1d123b1\)](http://next.ft.com/content/06740e62-8b92-11e6-8cb7-e7ada1d123b1) because of service disruption and currency movements.

Her excuses are justified. [EasyJet \(https://www.ft.com/topics/organisations/easyjet\\_PLC\)](https://www.ft.com/topics/organisations/easyjet_PLC) is the biggest short-haul carrier in the UK (half of revenues) and the second-biggest in France, so it is more exposed than peers to the effects of Brexit and terror attacks in Paris and Nice. Unlike [Ryanair \(http://markets.ft.com/data/equities/tearsheet/summary?s=ie:RY4B\)](http://markets.ft.com/data/equities/tearsheet/summary?s=ie:RY4B) and Wizz, it reports in sterling, so it is no surprise that a weak pound has added £90m to full-year costs.

Dame Carolyn has also railed against the “irrational” [expansion of other airlines \(http://next.ft.com/content/c2b9f89e-75c5-11e6-bf48-b372cdb1043a\)](http://next.ft.com/content/c2b9f89e-75c5-11e6-bf48-b372cdb1043a). Here, she is on shakier ground. easyJet’s own capacity grew 6.1 per cent in its final fiscal quarter and is set to grow by more next year. So far, it has filled those extra seats, but only by cutting prices. Revenue per seat was almost 9 per cent lower in the quarter.

True, easyJet has judiciously controlled the costs it can. But non-fuel costs are set to rise slightly next year, even before any additional burden arising from negotiations with the [pilots’ union \(http://next.ft.com/content/9a63e702-800f-11e6-8e50-8ec15fb462f4\)](http://next.ft.com/content/9a63e702-800f-11e6-8e50-8ec15fb462f4). And while fuel costs will drop sharply — four-fifths of this year’s requirements are hedged at almost \$200 per tonne less than the previous year’s — they will do so at other carriers, too. [Ryanair has already pledged \(http://next.ft.com/content/f4c8155a-522f-11e6-9664-e0bdc13c3bef\)](http://next.ft.com/content/f4c8155a-522f-11e6-9664-e0bdc13c3bef) to pass on its sharply lower fuel costs in the form of lower fares.

The 6 per cent fall on Thursday means easyJet shares have almost halved over the past year, worse than low-cost peers. Pre-tax profit forecasts have come down a third. There is a silver lining: lower tax rates on deferred liabilities mean post-tax income will fall less than pre-tax profit. That implies a dividend (based on a payout ratio of half of post tax income) of 53p a share for a yield of 5.6 per cent, higher than more challenged rivals like [Lufthansa \(http://markets.ft.com/data/equities/tearsheet/summary?s=de:LHA\)](http://markets.ft.com/data/equities/tearsheet/summary?s=de:LHA) and [IAG \(http://markets.ft.com/data/equities/tearsheet/summary?s=uk:IAG\)](http://markets.ft.com/data/equities/tearsheet/summary?s=uk:IAG). But like many of its setbacks, the tax windfall too is an external, one-off affair.

*Email the Lex team at [lex@ft.com](mailto:lex@ft.com) (<mailto:lex@ft.com>)*

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