

Firm foundations in Redfern report

Nils Pratley



Sky's the limit for easyJet

The explosion from Stelios Haji-ioannou hasn't been heard yet, but it may only be a matter of time. EasyJet, in the face of a 28% fall in annual profits and a 40% decline in the share price in the past 18 months, is stepping up its expansion. Capacity will be increased by 9% this year. The airline's founder -merely a 34% shareholder with his family these days - tends to hate any plan that carries a risk of flying with lots of empty seats. He may not be impressed.

The case for the defence, however, is strong. Post-Brexit Brits will still want to take holidays in the Med, even if they know that the eurozone is pricier. Overall, the European short-haul market is expected to grow by 3.5% next year. Expanding at 9% may appear a little rash, but many of easyJet's competitors will do well just to stand still.

So best to take advantage of the weaknesses of the likes of Monarch, Air Berlin and Air France-KLM. Adding capacity in Luton, where the airport is expanding anyway, and Venice, flight capital of a prosperous corner of northern Italy, doesn't look wildly aggressive.

But, note: the benefits will only be felt in time. It may be several years before easyJet enjoys a vintage year like 2015, with its pre-tax profits of £686m. The latest year, at £495m, looks a better short-term yardstick; revenues per seat, down 6.4%, will not bounce back quickly, and nor, one suspects, will the pound.

The consolation for shareholders ought to be the dividend. Sir Stelios fought a long and successful campaign to force easyJet to be more generous. Now, in a harsher trading climate for all airlines, he can enjoy the fruits of a policy that mechanically sets payouts at 50% of post-tax earnings. For a long-term holder like him, that's not so bad.

