

EasyJet

Focus on careful capacity and liquidity management

Airlines | Company Update

EZJ.L

Target price (12M, p)

729.00

Outperform^[M]

■ **FY20 PBT loss in line with market expectations; net debt finishes the year c.£300m lower than expected:** In its FY20 pre-close update, EZJ has guided a headline PBT loss of £815m-£845m, which compares to our prior forecast of £806m and we see this level as broadly in line with market expectations (we move to £831m). Net debt stood at £1.1bn at September 30, versus our forecast of £1.4bn (suggesting some relief versus market expectations), net of gross cash of c.£2.3bn, and EZJ limited cash burn to £700m in 4Q versus £774m in 3Q (suggesting c.£50m per week). We lower our target price by 3% to 729p.

■ **Managing capacity to limit winter risk while continuing to manage liquidity:** EZJ now plans to operate only 25% of previously planned capacity for 1Q21, which we see as a welcome move to manage cash burn, consistent with the more conservative end of the European spectrum. We now model a 1H21 PBT loss of £547m (lower than 2H20's £638m), which drives net debt up to £1.6bn by March. EZJ expects to have 337 aircraft in the fleet at the end of October, and guides c.50% of these are unencumbered; we expect the current market value of these 165-170 aircraft to be in the region of £3bn+, which can be considered alongside EZJ's £2.3bn in cash and c.£50m weekly cash burn. Management comments on continuing to manage liquidity and assessing of funding opportunities including aircraft sale and leasebacks seem illustrative of plans to manage liquidity while awaiting market recovery. Available resources suggest time to consider the de-leveraging strategy in our view (e.g. organic cash flow generation vs new equity), whereas we note Sky News has reported EZJ has asked the UK gov't for further funding.

■ **Catalysts and Risks:** (i) FY20 full results on 17 November, (ii) each 1% movement in revenue per seat is worth c.£30m to 2021E PBT.

■ **OP, TP 729p:** EZJ trades on 7x 2019 underlying earnings, and 9x 2022E, versus a FY15A-FY19A average of 13x. Per CS HOLT, the market is currently pricing in a long-term CFROI@ of 4.4% vs 2019's 6%/10Y median of 8.5%.

Previous target price (12M, p)	752.00
Price (7 Oct 20, p)	523.40
Market Cap (£ m)	2,390.6
Enterprise value (£ m)	3,531.7
[V] = Stock Considered Volatile (see Disclosure Appendix)	

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Financial and valuation metrics

Year	9/19A	9/20E	9/21E	9/22E
Revenue (£ m)	6,385.0	3,011.2	2,959.1	4,577.1
EBITDA (£ m)	965.0	-278.7	143.8	885.3
Pre-tax profit adjusted (£ m)	430.00	-1,280.66	-365.92	306.32
CS EPS (adi.) (p)	87.91	-226.01	-67.38	56.40
Prev. EPS (p)	-	-184.66	-1.24	68.98
ROIC (%)	11.4	-22.9	-8.1	9.6
P/E (adi.) (x)	6.0	-2.3	-7.8	9.3
P/E rel. (%)	52.8	-12.1	-57.1	81.3
EV/EBITDA (x)	2.8	-12.7	27.9	4.3
Dividend (09/20E, p)	0.00	Net debt/equity (09/20E, %)		66.4
Dividend yield (09/20E, %)	0.0	Net debt (09/20E, £ m)		1,141.1
BV/share (09/20E, £)	3.9	IC (09/20E, £ m)		2,860.0
Current WACC (%)	9.5	EV/IC (09/20E, (x))		1.2
Free float (%)	62.7	Number of shares (m)		456.7

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the FTSE ALL SHARE INDEX which closed at 3336.8 on 07/10/20. On 07/10/20 the spot exchange rate was £.91/Eu 1.- Eu.85/US\$1

Performance	1M	3M	12M
Absolute (%)	-16.7	-19.8	-51.7
Relative (%)	-17.0	-19.3	-36.9

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EasyJet (EZJ.L)

Price (07 Oct 2020): **523.40p**Target Price: (from 752.00p) **729.00**Analyst: **Neil Glynn**Rating: **Outperform [V]**

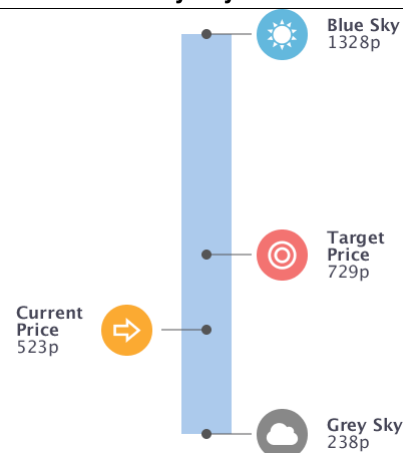
Income statement (£ m)	9/19A	9/20E	9/21E	9/22E
Revenue	6,385	3,011	2,959	4,577
EBITDA	965	(279)	144	885
Depr. & amort.	(499)	(502)	(448)	(517)
EBIT	466	(781)	(304)	368
Net interest exp.	(36)	(50)	(62)	(62)
Associates	-	-	-	-
PBT	430	(1,281)	(366)	306
Income taxes	(81)	206	70	(58)
Profit after tax	349	(1,075)	(296)	248
Minorities	-	-	-	-
Preferred dividends	-	-	-	-
Associates & other	0	130	0	0
Net profit	349	(945)	(296)	248
Other NPAT adjustments	0	(129)	0	0
Reported net income	349	(1,074)	(296)	248
Cash flow (£ m)	9/19A	9/20E	9/21E	9/22E
EBIT	466	(781)	(304)	368
Net interest	(46)	(30)	(70)	(70)
Cash taxes paid	(58)	(20)	0	0
Change in working capital	118	165	150	(138)
Other cash and non-cash items	514	271	248	517
Cash flow from operations	994	(395)	24	678
CAPEX	(1,158)	(800)	(500)	(500)
Free cashflow to the firm	(164)	(1,081)	(476)	178
Acquisitions	0	0	0	0
Divestments	0	114	0	0
Other investment/(outflows)	0	0	0	0
Cash flow from investments	(1,158)	(686)	(500)	(500)
Net share issue/(repurchase)	(16)	413	0	0
Dividends paid	(233)	(174)	0	0
Issuance (retirement) of debt	-	-	-	-
Other financing	0	0	0	0
Cashflow from financing	(249)	239	0	0
Changes in net cash/debt	(722)	(815)	(476)	178
Net debt at start	(396)	326	1,141	1,617
Change in net debt	722	815	476	(178)
Net debt at end	326	1,141	1,617	1,440
Balance sheet (£ m)	9/19A	9/20E	9/21E	9/22E
Assets				
Total current assets	2,119	3,085	2,817	3,003
Total assets	8,163	9,255	9,040	9,208
Liabilities				
Total current liabilities	2,668	4,146	4,346	4,267
Total liabilities	5,178	7,537	7,617	7,538
Total equity and liabilities	8,163	9,255	9,039	9,208
Per share	9/19A	9/20E	9/21E	9/22E
No. of shares (wtd avg.) (mn)	397	418	440	440
CS EPS (adj.) (p)	87.91	(226.01)	(67.38)	56.40
Prev. EPS (p)	-	(184.66)	(1.24)	68.98
Dividend (p)	43.90	0.00	0.00	0.00
Free cash flow per share (p)	(41.31)	(258.57)	(108.25)	40.39
Key ratios and valuation	9/19A	9/20E	9/21E	9/22E
Growth/Margin (%)				
Sales growth (%)	8.3	(52.8)	(1.7)	54.7
EBIT growth (%)	(21.3)	(267.5)	61.1	221.2
Net income growth (%)	(25.1)	(370.7)	68.6	183.7
EPS growth (%)	(25.1)	(357.1)	70.2	183.7
EBITDA margin (%)	15.1	(9.3)	4.9	19.3
EBIT margin (%)	7.3	(25.9)	(10.3)	8.0
Pretax profit margin (%)	6.7	(42.5)	(12.4)	6.7
Net income margin (%)	5.5	(31.4)	(10.0)	5.4
Valuation	9/19A	9/20E	9/21E	9/22E
EV/Sales (x)	0.4	1.2	1.4	0.8
EV/EBITDA (x)	2.8	(12.7)	27.9	4.3
EV/EBIT (x)	5.8	(4.5)	(13.2)	10.4
Dividend yield (%)	8.39	0.00	0.00	0.00
P/E (x)	6.0	(2.3)	(7.8)	9.3
Credit ratios (%)	9/19A	9/20E	9/21E	9/22E
Net debt/equity (%)	10.9	66.4	113.7	86.2
Net debt to EBITDA (x)	0.3	(4.1)	11.2	1.6
Interest coverage ratio (x)	12.9	(15.6)	(4.9)	5.9

Source: FTI, Company data, Refinitiv, Credit Suisse Securities (EUROPE) LTD. Estimates

Company Background

easyJet is the second largest low cost carrier in Europe, operating a network focused on #1/2 positions in primary airports across Western Europe.

Blue/Grey Sky Scenario



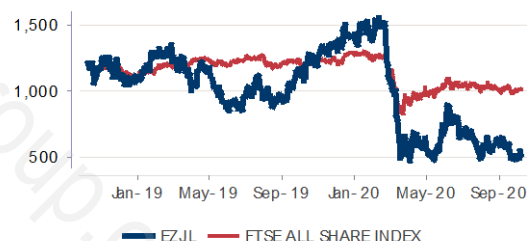
Our Blue Sky Scenario (p) (from 1189.00) **1328.00**

Our Blue Sky fair value of 1,328p is based on a DCF model with a long term 15% EBIT margin, and £700m capex..

Our Grey Sky Scenario (p) (from 362.00) **238.00**

Our Grey Sky fair value of 238p is based on a DCF model with a long term 6% EBIT margin, and £800m annual capex.

Share price performance



The price relative chart measures performance against the FTSE ALL SHARE INDEX which closed at 3336.8 on 07/10/20

On 07/10/20 the spot exchange rate was £.91/Eu 1. - Eu.85/US\$1

Forecast update

We now model a headline/underlying PBT loss of £831m for FY20E, around the midpoint of £815m-£845m guidance.

For FY21E, we model a 1H PBT loss of £547m, which compares to £638m in 2H20E. It will be crucial for EZJ to manage winter capacity and costs tightly to limit the damage to earnings and its balance sheet. We model a £182m positive PBT for 2H21E, and will continue to assess the potential for EZJ to generate profit in summer 2021 given demand developments, and its ability to control unit costs with lower capacity (our summer 2021 seats are 25% below summer 2019).

Figure 1: easyJet profit & loss account 2015A-2022E – estimate changes

Year to September	2015A	2019A	2020E - Old	2020E - New	Change %	2021E - Old	2021E - New	Change %	2022E - Old	2022E - New	Change %
Seat revenues	4,616	5,009	2,156	2,291	6%	2,382	2,269	-5%	3,070	3,532	15%
Non-seat revenues	70	1,376	729	720	-1%	929	690	-26%	1,272	1,046	-18%
Total operating revenues	4,686	6,385	2,886	3,011	4%	3,310	2,959	-11%	4,342	4,577	5%
Operating expenses	(3,998)	(5,919)	(3,642)	(3,792)	4%	(3,255)	(3,263)	0%	(3,905)	(4,209)	8%
Operating profit before exceptional items	688	466	(756)	(781)	-3%	55	(304)	-650%	437	368	-16%
Profit before taxation	686	430	(1,066)	(1,280)	-20%	(7)	(366)	5336%	375	306	-18%
Tax	(138)	(81)	166	206		1	70		(71)	(58)	
Profit for the period	548	349	(901)	(1,074)	-19%	(5)	(296)	5336%	303	248	-18%
Underlying PBT	686	427	(806)	(831)	-3%	(7)	(366)	5336%	375	306	-18%
EBIT margin	14.7%	7.3%	-26.2%	-25.9%	0.3%	1.7%	-10.3%	-11.9%	10.1%	8.0%	-2.0%
PBT margin (underlying)	14.6%	6.7%	-27.9%	-27.6%	0.4%	-0.2%	-12.4%	-12.2%	8.6%	6.7%	-1.9%
Seats (m)	75.0	105.0	53.5	55.2	3%	59.1	55.7	-6%	79.2	79.2	0%
Revenue per seat (£)	62.48	60.81	53.97	54.50	1.0%	56.02	53.09	-5.2%	54.83	57.80	5.4%
- growth at constant currency	1.5%	-2.7%	1.2%	0.4%		12.8%	7.6%		2.0%	22.6%	
Cost per seat (£)	53.31	56.37	68.11	68.63	0.8%	55.08	58.55	6.3%	49.31	53.15	7.8%
Ex-fuel cost per seat (£)	37.32	42.89	55.30	55.60	0.5%	43.86	46.49	6.0%	40.78	44.28	8.6%
PBT per seat (£)	9.15	4.07	(15.08)	(15.03)	0%	(0.11)	(6.57)	5663%	4.73	3.87	-18%

Source: Company data, Credit Suisse estimates

Valuation, Methodology and Risks

Target Price and Rating

Valuation Methodology and Risks: (12 months) for EasyJet (EZJ.L)

Method: We value easyJet using a blend of multiples and discounted cash flow (DCF) methodology designed to capture the potential for, and the sustainability of, earnings recovery, in combination with the outlook for the strength of long-term cash generation. We blend our EV/IC multiple-derived fair value of 521p and our DCF-derived fair value of 937p to produce a target price of 729p, driving our Outperform rating. Our DCF model uses a midcycle EBIT margin of 11%, a weighted average cost of capital (WACC) of 9.5% and a terminal growth rate of 3%.

Risk: Risks to our Outperform rating and 729p TP include: 1) Macro-economic cycles will heavily impact easyJet, despite the defensive nature of its business model. 2) Fuel price volatility: the airline hedges against fuel price risk however we estimate that every \$50/mt jet fuel price movement impacts PBT by £15m in 2021E (3p per share) while every 1% in revenue per seat represents £33m (6p). 3) Other risks include: Brexit, USD strength, EUR weakness, capacity ill-discipline in the market, the loss of commercial momentum, and cost-cutting challenges. The earnings and cash flow implications of these risks may impact our 729p TP and Outperform rating, which is driven by our existing earnings and cash flow expectations and the upside implied to our target price.

Companies Mentioned (Price as of 07-Oct-2020)

EasyJet (EZJ.L, 523.4p, OUTPERFORM[V], TP 729.0p)

Ryanair (RYA.I, €12.585)

Wizz Air Hldgs (WIZZ.L, 3268.0p)

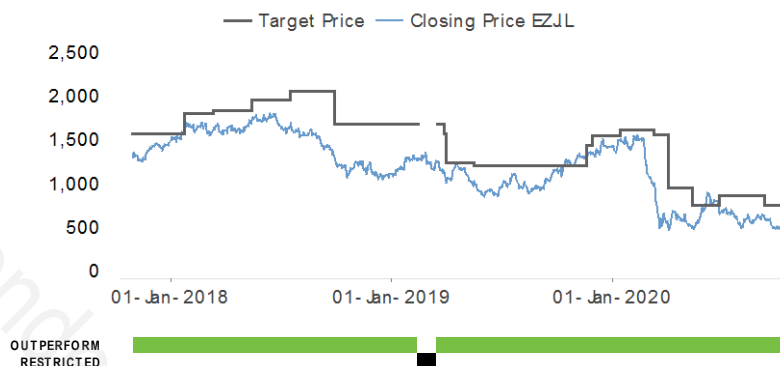
Disclosure Appendix

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3-Year Price and Rating History for EasyJet (EZJ.L)

EZJ.L	Closing Price	Target Price	Rating
Date	(p)	(p)	
30-Oct-17	1298.00	1565.00	O
23-Jan-18	1643.50	1803.00	
12-Mar-18	1607.50	1836.00	
15-May-18	1741.00	1953.00	
18-Jul-18	1688.50	2059.00	
28-Sep-18	1314.00	1683.00	
14-Feb-19	1267.00		R
18-Mar-19	1259.00	1683.00	O
28-Mar-19	1118.00	1571.00	
01-Apr-19	1009.00	1241.00	
17-May-19	1025.00	1206.00	
19-Nov-19	1344.50	1431.00	
29-Nov-19	1338.00	1546.00	
13-Jan-20	1492.00	1616.00	
09-Mar-20	977.80	1555.00	
02-Apr-20	497.20	945.00	
11-May-20	500.00	746.00	
25-Jun-20	670.00	855.00	
08-Sep-20	597.40	752.00	



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Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

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Underperform/Sell*	12%	(19% banking clients)
Restricted	1%	

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This research report is authored by:

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