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EasyJet has been sending mixed signals and would be unwise to bet on a government bailout

Business view

Nils Pratley

How bad are things at easyJet? Well, the backward-looking numbers are dreadful, obviously. An airline that has previously always made annual profits now expects a "headline" loss of £815m-£845m in the financial year to September, even before counting the whack from bad fuel hedges, as well as redundancy and restructuring costs.

Yet it's the forward-looking indicators that matter now, and easyJet is sending confused signals. The only simple part to understand was the familiar call from its chief executive, Johan Lundgren, for the government to "step up with a bespoke package of measures" for the aviation industry. He has a point: it's shocking that it was only this week that ministers announced a "travel taskforce" to construct a decent Covid-testing system at airports.

But what about easyJet's direct financial strain? The airline said it would fly at only 25% capacity in the current quarter, but when does that become a crisis? Does easyJet mean it could soon want more financial aid from the state, on top of the £600m already secured from the big-company coronavirus borrowing facility? It's hard to tell.

If Rishi Sunak, the chancellor, scanned easyJet's trading update, he could be forgiven for concluding there's little to worry about. Removing costs has put easyJet in a position "to emerge from the pandemic in an even more competitive position", the statement declared. While £700m of cash was burned through in the last quarter and net debt reached £1.1bn, there was £2.3bn of liquidity at the end of last month.

Behind the scenes, one suspects the message is starker about financial risks if quarantine rules remain at their current settings for months on end. City analysts see a potential need for fresh capital next Easter. That, presumably, is why easyJet would like to know now if the government would step up.

There's no harm in asking, of course. Lundgren could point to the billions of euros that Germany and France have shoved towards Lufthansa and Air France-KLM. And, if Sunak can squander £1bn-plus on business-rate freebies for rock-solid supermarket chains (see yesterday's column), he may play nicely on air passenger duty.

Yet easyJet would be unwise to bet on a bailout, as opposed to tax tweaks. The stock market still values the company's equity at £2.4bn, which is a reasonably stable base from which to assemble a self-help financial package.

True, there's been a £419m share placing already but, if the fundraising was too small, that's the company's problem. And if a potential crunch is six months away the board has time to address it.

TalkTalk offer looks lame

TalkTalk is in takeover talks. The crucial chat, though, will be between only two people. One is Martin Hughes of the hedge fund Toscafund, the would-be bidder. The other is Sir Charles Dunstone, the telecoms company's executive chairman. As both parties have shareholdings of almost 30%, nothing will happen unless they see eye to eye.

Indeed, Toscafund's possible offer at 97p a share, or £1.2bn, requires Dunstone to roll over his holding into a new TalkTalk ownership structure. So this is really a take-private proposal.

It looks underwhelming. TalkTalk rejected 135p from Toscafund last year, so accepting 97p would require an explanation. One excuse could be the pandemic but, since TalkTalk has been banging on about the fibre broadband opportunities created by homeworking, that doesn't work.

Toscafund could argue that the stock market is bored with dull and capital-hungry telecoms companies, so a minnow such as TalkTalk may as well be private. Minority investors would get the chance to escape with cash at a 17% premium to Wednesday's share price.

Well, maybe. If the independent directors on TalkTalk's board believe a lot more value than 97p can emerge over time, they should speak up. TalkTalk stood at 168p when Dunstone gave up the non-executive lark three years ago and returned in a hands-on role. Departing at this level would be meek.

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Soft support for TRG plan

As predicted, shareholders in the Restaurant Group, the owner of Wagamama, approved the absurdly premature proposal to load up the executives with share awards to keep them keen after a collapse in the price. The chief executive, Andy Hornby, forever famous for being on the bridge when HBOS sank, will now get an award worth £787,500.

But some fund managers, at least, threw a few noodles at Debbie Hewitt, the company's chair. She pitched the scheme as vitally important but gained only 63% backing. That is soggy support.

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