Source: The Guardian {Main}
Edition:
Country: UK
Date: Wednesday 18, November 2020
Page: 37
Area: 284 sq. cm
Circulation: ABC 111155 Daily
Ad data: page rate £11,400.00, scc rate £42.00
Phone: 020 3353 2000
Keyword: Stelios Haji-ioannou

Business view
Nils Pratley

Vaccine hopes may have given fillip to easyJet, but timing still critical for recovery to take off

If vaccines and vaccination programmes save next summer's European holiday season, budget airlines are back in the game. And shareholders will enjoy a bonus if a pick-up arrives in time for Easter. So one can see why easyJet's share price has improved 50% since the start of last week's Pfizer frenzy.

But timing of the action is critical. The most revealing figure in the full-year numbers wasn't the thumping £1.3bn pre-tax loss but the £651m of cash burned in the July-September quarter, which was only a modest reduction on the £774m that was torched in the previous three months.

Those figures make the £2.3bn of cash on easyJet's balance sheet at the end of September (since supplemented by £700m via the sale and leaseback of aircraft) feel less impressive. The cash pile is large, but the rate of depletion is severe when easyJet is flying at 20% capacity.

Rolls-Royce, when faced with similar financial dynamics (in its case, related to engine flying hours, which dictate the firm's revenues from servicing engines), offered its shareholders a sensitivity analysis that translated "base case" and "reasonable worst case" into cashflow projections.

EasyJet, like most airlines, can't conduct a similar exercise – there are more variables at play. For example, the date of booking, rather than date of flying, dictates when cash is received. Nor does the company know when customers will use the £250m-worth of vouchers that were issued for cancelled flights. Nor can it have a confident view of 2021's ticket prices: European short-haul is awash with bailed-out airlines and surplus capacity.

Ultimately, easyJet should be able to navigate easily any financial pressures next spring. Even if vaccines are delayed, it has options. It could borrow more or turn to shareholders (though probably not the irate Sir Stelios Haji-Ioannou) for fresh funds. That's a comfort, but the list of trading uncertainties remains long.

Its chief executive, Johan Lundgren, is probably right that punters, wearied by lockdown, will be desperate to travel when quarantines are lifted. But the timing of release of the pent-up demand, and the prices easyJet will be able to charge, are big unknowns. The clouds haven't cleared yet.

Index of unfairness

Tesla is not a better or worse company now it has been selected for the S&P 500 index next month. But the maker of electric cars is, apparently, worth about $40bn (£30bn) more. That was the effect of the near-10% improvement in the share price as the market digested the shuffle in the makeup of the main US stock market index.

The explanation, of course, is that passively managed funds that track the S&P 500 will be

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obliged to buy the stock. So a lot more demand for Tesla shares, as opposed to Tesla cars, has been created. As S&P Dow Jones Indices, in charge of index selection, explained, the entry of a company as large as Elon Musk's "will generate one of the largest funding trades in S&P 500 history".

Rather than delighting in their own powers of influence, however, the index compilers should be asking about fairness. Their process looks rotten. Investors in popular S&P 500 tracker funds have become forced buyers of a stock at a temporarily inflated price, which can't be right. There must be a better way to manage an index.

Uncomfortable fit at Co-op

To the surprise of some, customers of the Co-operative Bank did not desert in droves when the ethical but troubled lender fell into the hands of US hedge funds in 2017.

Perhaps the loyalists valued the fact that the ethical lending policies were protected in the bank's articles of association. Or perhaps they consoled themselves that a hedge fund collective couldn't possibly prove less competent than the former Co-operators who led the bank to the brink of collapse.

But their loyalty may be tested afresh if Cerberus Capital Management succeeds with its takeover approach. OK, it may be just another hedge fund, but this one is named after the three-headed hound of Hades, which is a clue that inclusive capitalism is not its usual habitat.

One assumes Cerberus would keep the lending policies intact since they are Co-op Bank's point of difference. All the same, the fit looks very odd.

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