EasyJet shoots down takeover bid and taps City for £1.2 billion

TRAVEL
Robin Pagnamenta

EASYJET today took the bold step of asking investors for £1.2 billion to shore up its balance sheet and fund expansion after rejecting an audacious takeover approach, reportedly from Wizz Air.

EasyJet surprised the market today with a statement saying it had received an unsolicited approach from an unnamed bidder. The airline described the offer as a “low premium and highly conditional all-share transaction which... fundamentally undervalued the company.”

EasyJet said: “In deciding to reject it, the board took into account all relevant factors including the highly conditional nature of the proposal and the certainty and strategic opportunity that the rights issue presented.”

Bloomberg later reported the approach was from Wizz Air, the Hungarian group that is Europe’s biggest low-cost carrier. Wizz declined to comment to the news wire. EasyJet, which has lost £2 billion during the pandemic, said the bidder has since confirmed it is no longer considering an offer.

Shares in EasyJet, Wizz Air and across the wider aviation sector tumbled sharply following the news.

EasyJet announced plans for a £1.2 billion rights issue alongside news of the surprise approach. EasyJet, whose stock was down 9.8% at 711.5p in mid-morning trading, said the proceeds would help ease its recovery and enable it to “take advantage of long-term strategic and investment opportunities” as the European aviation market recovers from Covid-19.

Johan Lundgren, chief executive of EasyJet, said: “The capital raise announced today not only strengthens our balance sheet enabling us to accelerate our post-Covid-19 recovery plan but will also position us for growth so that we can take advantage of strategic investment opportunities.”

John Woolfitt, director of trading at Atlantic Capital Markets in London, said: “The rejection of a bid and instead pursuing a rights issue is a bold move.”

A string of airlines including Britain’s Flybe have collapsed during the pandemic with more expected to follow as strict travel restrictions and reduced demand reshape the industry. Others are expected to pare back routes, opening up fresh slots at airports. Both trends open up opportunities for businesses like EasyJet but analysts said the approach was high risk given the ongoing uncertainty in the travel sector.

Laura Hoy, analyst at Hargreaves Lansdown, said: “It’s a risky move, particularly if the pandemic continues to drag on beyond the winter. However, it’s sink or swim time in the aviation industry and the move could pay off.”

Under the terms of the rights issue, shareholders will be able to buy 31 new shares for every 47 existing shares at a price of 410p per share, a 35.8% discount.

EasyJet also said it had secured a $400 million revolving credit facility.

Shares in Wizz Air were down 3.36% at 4808p.