EasyJet: cash call cannot disguise appeal of Wizz bid - For wary investors it may look like a choice between being diluted out of the water or throwing good money after bad

It smacks of defensiveness when a company slaps down a takeover bid — no matter how risible — then pushes out a £1.2bn rights issue. EasyJet protests that the cash call is about repairing a pandemic-torn balance sheet and preparing for growth opportunities. The low-cost European airline has already raised £5.5bn of debt and equity since the pandemic started, with £2.9bn of that readily accessible.

Yet there is no doubt a patch-up is in order. EasyJet has lots of debt and burns through £40m of cash a week. Net borrowings have swollen from £326m in 2019 to more than £2bn in the latest quarter. Following £1.4bn aircraft sales and leasebacks, only 41 per cent of the total fleet is unencumbered, down from 70 per cent.

Prospects remain murky. Holidays are back on the agenda but the UK's hefty cost of testing continues to deter travellers. Fourth-quarter capacity is one-third of 2019 levels.

Wizz Air, the Hungarian rival which mounted the abortive bid, was given short shrift. Its all-share offer, says easyJet, had too much conditionality and too little premium. Maybe so. But the axiomatic promise of excised capacity and reduced competition would have appealed to some investors, as would the growth trajectory of an upstart rival now worth far more than easyJet itself.

Will the rights issue fly? The 31-for-47 shares, priced at 410p, represent a 35.8 per cent discount to the theoretical ex-rights price, a measure of the implicit cost to current investors of withholding fresh funds. Investors who sell enough of their rights to fund taking up the balance — tail swallowing, as it is called — will be diluted by 25 per cent. Those flogging all their rights face 40 per cent dilution.

For investors wary of the post-pandemic growth story this may look like a choice between being diluted out of the water or throwing good money after bad. That may be the view of Stelios Haji-Ioannou, the airline's ebullient founder who quit in a boardroom row a decade ago and whose family retains a 25 per cent stake. Haji-Ioannou has been adamant that any further infusions will require a reconstruction of the order book, something which did not feature in easyJet's slide presentation on Thursday.

Other shareholders may be tempted to take the cash. Shares, which slumped 8 per cent on the news on Thursday morning, are languishing at half of pre-Covid levels, equity infusions notwithstanding. EasyJet is expected to pay underwriters handsomely for backstopping the deal. Chances are they will be earning their money.