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Airlines scramble as passengers take off again

Wizz's bid for easyJet shows how low-cost carriers are battling for market share as the skies open up, finds *Rachel Millard*

EasyJet is on the brink of a "once in a lifetime" opportunity to grow, its chief executive Johan Lundgren said yesterday, as the budget airline rejected a takeover approach from rival Wizz Air. It has pledged to go it alone with a new £1.2bn war chest raised from shareholders.

Sadly for him, competitors feel the same way as the industry reshapes post-pandemic. Michael O'Leary, Ryanair's famously feisty boss, spoke in July of the company facing the "greatest growth opportunity" since its founding in 1984.

In a sign of the opportunity at hand Wizz Air's board has placed a possible £100m bonus within reach of boss József Váradi if he can more than double the share price over the next five years.

The pandemic has largely been a horror story for the aviation industry. With passengers having to stay at home and borders closed, revenue has dried up and many bosses have been forced to go cap in hand to banks, shareholders and governments.

It may never return to its former frantic pace. Zoom risks becoming a permanent replacement for many face-to-face meetings, while holiday-makers face pressure to fly less under a torrent of bad news about the climate.

But travellers are, at least, hopping back on short-haul flights, with Ryanair expected to fly 10.5m passengers per month in September, October and November. O'Leary is predicting a "very strong recovery."

Now, low-cost carriers are trying to seize the chance to continue their onslaught against legacy rivals, who are waiting for long-haul journeys to return or weighed down by heavy borrowing.

It has unleashed a fierce wave of competition between budget carriers such as easyJet, Wizz Air and Ryanair. British Airways is even trying to enter the fray with its own similar model.

"Every crisis is an opportunity, and I think this one is going to sort the winners from the losers," Wizz's Váradi told *The Times* in December.

"Pre-Covid we carried 40m passengers a year. We're looking at doubling that in the next five years, then doubling again, so 160m passengers in 10 years. We want to be the go-to airline of every country we operate from."

The market seems to agree that low-cost carriers are in a good spot. Wizz Air's shares are well above their pre-pandemic levels, at £49.13, while Ryanair's have also recovered, trading at €15.71 compared to €15.30 as the pandemic hit. EasyJet's shares remain down, reflecting its slower recovery. But the bid is a sign of opportunity, argues Goodbody's Mark Simpson. "You can argue that a management team have looked at the point in the cycle and see this is an opportunity to buy significant footprints at major airports at an attractive price before the markets start repricing."

James Halstead, at Aviation Strategy consultancy, agrees. "I think the low-cost carriers, particularly the ultra low-cost such as Ryanair and Wizz, will be able to make huge inroads. They will take this opportunity to grow and use this to attack legacy carriers, but also everyone else who has difficulty."

EasyJet sits slightly more in the middle: a low-cost airline but with higher costs of its own to pay. It has also cut its fleet which puts it at a potential disadvantage, notes John Strickland at JLS Consulting.

Picking up from retrenching legacy carriers "has worked quite well for easyJet to date – they have done that successfully by offering reliable high frequency flights at competitive prices," he says. "But the biggest opportunity currently is the VFR [visiting friends and family] and leisure segment, and that's where Wizz has been grabbing more opportunities than easyJet during the pandemic.

"The constraint for easyJet is the size of their fleet which, though large, has been shrinking about 10pc over the last year in contrast to the enormous growth in Ryanair and Wizz. So I think easyJet could grow, but their position will become smaller."

EasyJet boss Lundgren insisted yesterday it was "extraordinarily well-placed" to make the most of emerging opportunities.

He argued it can beef up its fleet via leasing while it is also in good stead to be awarded landing slots due to good conditions for workers.

"This is a low-risk way of taking opportunities that comes up once in a lifetime, because of the situation that we have been in," he said.

"We compete for some 120m seats of capacity from legacy airlines: those are the big buckets of competition.

"There's a retrenchment from these airlines, partly because they are reducing the feeder networks because there's a delay in the start-up of long-haul travel. The state aid they have received also means slots will become available."

Lundgren says the £1.2bn easyJet is raising through a rights issue, also

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announced yesterday, will help it seize those opportunities and protect it against further risks. The company's debts rose to £2bn during the crisis and it also needs to repay a £300m state-backed Covid loan this autumn.

Shares fell more than 10pc as it unveiled the rights issue and revealed the rejected bid. It did not say who the bidder was – widely reported as Wizz Air – dismissing the approach as "fundamentally undervaluing the company" and a "highly conditional all-share transaction".

Founder and largest shareholder Sir Stelios Haji-Ioannou is no doubt among those watching closely to see if the company has made the right call. The billionaire quit the airline's board in 2010 and tried to oust members last year over a £4.5bn order of Airbus aircraft.

Wizz Air has walked away for now, but further attempts to take out the company are not likely to be far away in the current cut-throat climate. "Logically there should be more consolidation in the sector," says Strickland. "I would say these three low cost carriers could still remain, but I accept it's possible they could consolidate to two if there was to be another bid in the future which whet the appetite of easyJet shareholders."

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