Source: The Times {Main}
Edition:
Country: UK
Date: Friday 10, September 2021
Page: 37
Area: 179 sq. cm
Circulation: ABC 365880 Daily
Ad data: page rate £16,645.00, scc rate £75.00
Phone: 020 7782 5000
Keyword: Stelios Haji-Ioannou

BUSINESS COMMENTARY *Simon Duke*

Airline boss cannot sit comfortably

Who doesn't dream of a one-way ticket out of Coronaville? EasyJet boss Johan Lundgren yearns for a return to normality more than most. The no-frills airline burnt through £1 million a day in the early summer and it doesn't expect demand to recover to pre-Covid levels until 2023.

It's anyone's guess what will become of the carrier or its pilot by then. Lundgren has combustible founder Sir Stelios Haji-Ioannou on his case, wielding his 25 per cent stake. Hungarian rival Wizz Air looms on the horizon, after having its takeover approach rebuffed. And Stephen Hester, the forthright ex-RSA and Royal Bank of Scotland chief, will step on to the flight deck in December as easyJet's new chairman.

If all that weren't enough, Lundgren must assuage investors. Since last spring, he has raised £5.5 billion to tide it through the pandemic, including a £419 million share placing last summer. Now the carrier is tapping shareholders for £1.2 billion to prevent its credit rating nosediving into junk territory.

Lundgren has cast the rights issue as a sweeter alternative to Wizz Air's paper offer. With new capital in the hold, Lundgren believes easyJet can be a post-Covid winner. He's right to say opportunities abound: Covid-19 unleashed a wave of bailouts for indebted European airlines. Under state aid rules, the weak must pay a price. EasyJet wants to be in the box-seat when auctions start for landing slots at Paris Orly, Schiphol and other hot spots.

Yet investors' patience must be wearing thin — and not just the easyJet founder's. The pandemic has altered the pecking order in Europe's low-cost airline sector. Ryanair shares are up 5 per cent since the start of last year and it remains the largest player by far, with an €18 billion market cap. EasyJet has dramatically underperformed the competition. Its shares have fallen by a half since last January, reducing its valuation to £3.6 billion, while the London-listed Wizz Air's value has climbed by a fifth to £5.5 billion.

The comparison is somewhat flattering to Ryanair and Wizz Air. The two are far less exposed to the British market and they have not suffered as much as easyJet from the vagaries of its misfiring traffic light system. Yet easyJet's lowly rating reflects justifiable scepticism over its growth prospects. It shares similar goals to its rivals, but may struggle to emulate them.

All three believe that they can pick off routes and passengers from Covid-weakened rivals. All three have slashed costs and hope that earnings will rebound rapidly when recovery takes hold. EasyJet, for instance, is cutting overheads by £500 million this year, of which half will be permanent.

However, Wizz Air and Ryanair look stronger candidates to profit from the post-pandemic wreckage. The duo have lower costs, stronger balance sheets and, with their shares flying high, have ready access to cheap capital. EasyJet will do well to stay in their slipstream.