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Business view

Nils Pratley

Airline has done the easy bit. Now, what about that order for those new jets?

Grounding its entire fleet of planes was the easy bit for easyJet. Now comes the tricky task of negotiating in public with Sir Stelios Haji-Ioannou, who, metaphorically speaking, is threatening to storm the cockpit and take hostages.

The founder and 34% shareholder (with a couple of siblings) says he will call a shareholder meeting to fire one easyJet non-executive director every seven weeks unless the board does what he wants, which is to abandon an order for 107 Airbus aircraft due to arrive in batches until 2023.

At a simple level, Haji-Ioannou makes a fair point about the Airbus order being "the largest single threat to the solvency of the company". Even cabin-fevered punters won't necessarily come rushing back when lockdowns in Europe end. They may fear more viral outbreaks and stay at home to repair their bank balances. If so, adding new aircraft in an over-supplied market would be risky.

EasyJet's board, though, will surely realise as much. It will already be exploring the Airbus contract for ways to defer deliveries. Since all big aircraft orders tend to come with moveable dates, there will be room for flexibility.

The problem, though, is that Haji-Ioannou isn't asking for greater flexibility; he wants outright cancellation and, over time, a smaller easyJet fleet. The gap in strategic expectations looks wide.

Haji-Ioannou lost a fight in 2011 to ditch the then-chairman in the last row about aircraft orders, so there's no guarantee he would win a series of votes now. But this time there is a complicating factor: the possible need to recapitalise easyJet.

Haji-Ioannou says he'd support a rights issue – as he should, given that his family has collected £620m in dividends since 2011, including £60m this month – but he's vowing to make his backing dependent on an Airbus cancellation.

What should chairman John Barton and chief executive Johan Lundgren do? Well, they should start by providing some much-needed clarity on easyJet's financial position. Describing the current set-up as "strong" is fair, given the airline says it has £1.6bn of cash and $500m of credit facilities. But what's the rate of cash-burn? EasyJet hasn't said, but the figure is critical.

The other requirement is detail on any revision to the Airbus deal. If Barton and Lundgren can provide that, they'd stand a decent chance of rallying other shareholders and facing down Haji-Ioannou. But they do need to get a move on. The first rule of rights issues is to go early.

Bank dividends can wait

The most urgent problem in British banking, from the point of view of protecting the economy, is not the payment of £7.5bn of dividends to shareholders over the next few weeks. Rather, it is the pace at which banks are processing loan applications and converting the government's £330bn support package into hard cash in the hands of crisis-hit companies.

Frustrated borrowers' complaints about delay and red tape have clearly rattled the Treasury, the Bank of England and the Financial Conduct Authority, which is why the regulatory trio dispatched a "hurry up" letter to lenders last week.

The dividend question, then, is secondary. Yet a six-month ban on distributions to shareholders would still be the right thing to do – for two reasons.

First, nobody knows how long the current crisis will last. Preserving bank capital now would help to create confidence that the UK economy is capable of a rebounding quickly with banks' support after the lockdown. If the economic damage turns out to be slighter than feared, the current crop of announced dividends could always be reinstated later. Second, it's surely useful for policymakers to be seen to be whipping the banks firmly. The sector was bailed out in the last crisis, so needs to be seen publicly to be throwing everything at addressing the current one. If not, borrowers' grumbles about

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foot-dragging lenders will become a running sub-plot.

The first dividend of this season is Barclays' £1bn distribution, due to be paid on Friday. So Threadneedle Street has about 24 hours to decide whether to allow it. Best to err on the side of caution and say no to all banks' dividends for a while.

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