

Business view Nils Pratley



Caught in a perfect storm, Centrica needs more than cost-cutting and prayers

Spare a thought, amid the oil price rout, for Centrica, trying to flog its oil and gas exploration assets in a world where buyers have evaporated. The owner of British Gas “paused” its search for a buyer for its 69% stake in Spirit Energy a fortnight ago, but bowing to the inevitable has merely highlighted its financial strain.

Everything is going wrong at once. Power usage in the UK has plunged as offices and factories have shut. Bad debts will rise among small businesses and British Gas consumers. “Material headwinds are ahead,” said Jefferies’ analysts yesterday as they slashed their estimate of Centrica’s earnings by 30% for this year, 2021 and 2022.

The broker’s more alarming line was the one about “acute stress” on Centrica’s credit rating. A downgrade would be serious since there’s a direct line between the rating and the collateral required for the trading business to buy energy on decent terms.

Disposing of Spirit would have eased the pressure, so what to sell instead? The 20% stake in outage-prone nuclear generator British Energy also looks unsellable. Try the North American supply instead, suggests Jefferies.

That would be a strategic U-turn but something has to give.

The share price stands at an all-time low of 30p and the market fears a dividend (a miraculous 17.5p as recently as 2014) will be unaffordable this year. Centrica is now valued by the stock market at just £1.85bn while net debt is heading towards £4bn.

The chairman, Scott Whewey, and the chief executive, Chris O’Shea, have been in their posts for a combined total of two months so they are untarnished by past boardroom cock-ups.

They do, though, need to present next month’s annual shareholder meeting with something more credible than cost-cutting plus a prayer for higher energy prices. A nasty crisis is brewing at Centrica.

False sympathy

Hiscox, the insurer, says it is “determined to help provide greater certainty for customers” because, touchingly, it recognises “these are extremely difficult times for businesses”. If that sounds like willingness to pay out without a fuss on small firms’ claims for business interruption related to Covid-19, think again. The

“certainty” that Hiscox has in mind is the type where the customer gives up hope of receiving a payment.

The Bermuda-based insurer expects to pay out \$150m-\$175m (£120m-£140m) to larger firms with specific cover, but it hasn’t retreated

from its instance that most small firms aren’t covered for pandemics. Local outbreaks of Legionnaire’s disease are, apparently, what the policies meant by protection against closure of business premises caused by notifiable diseases.

Hiscox’s only concession is to cooperate with the Financial Ombudsman Service to resolve quarrels speedily. Since submission to the arbitration service is semi-obligatory anyway, yesterday’s statement really added nothing.

Meanwhile, the list of small firms wanting to challenge Hiscox is lengthening: more than 100 nightclubs, pubs and bars have joined the ranks. We’ll see where the action leads but, unfortunately for claimants, regulators seem inclined to back insurers’ interpretation.

Whatever the outcome, Hiscox would be well advised to avoid empty expressions of sympathy with angry customers. They’ll make it even harder to restore a reputation that is taking a battering.

Double the chairing

You might assume chairing easyJet would be a full-time gig. The planes are stuck in an aviation parking lot but the job of reinforcing the balance sheet remains a work in progress. There’s also the matter of charming the shareholders to tick the box to stall the founder **Sir Stelios Haji-ioannou**’s attempt to defenestrate half the board. But no, John Barton plans to double up



Source: The Guardian {Main}
Edition:
Country: UK
Date: Thursday 23, April 2020
Page: 29
Area: 309 sq. cm
Circulation: ABC 129961 Daily
Ad data: page rate £11,400.00, scc rate £42.00
Phone: 020 3353 2000
Keyword: Stelios Haji-ioannou

on the chairing front by taking the post at Ted Baker. As he's a former chairman of Next, you can see why Ted wants him. And his experience in handling unpredictable founders might prove useful if Ray Kelvin, who departed last year after "hug-gate", ever uses his Stelios-sized 35% stake to make mischief.

All the same, the timing is odd. Barton won't arrive until July, but does anyone think easyJet will be back to normal by then?



▲ *All of easyJet's fleet is grounded due to Covid-19 travel restrictions*