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Trouble at easyJet

Uneasy relationship

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A fight breaks out at the low-cost airline

THERE is never a good time to have a full-blown boardroom brawl in public. But for Sir Stelios Haji-Ioannou, a flamboyant serial entrepreneur, to have chosen this moment to go to war with his fellow directors at easyJet, a budget airline, is as puzzling as it is potentially destructive.

The airline industry is reeling from the twin effects of seesawing fuel prices and tumbling demand. Thirty airlines have already succumbed this year and as many again are forecast to disappear in 2009. As Europe's fourth-biggest airline, easyJet, founded by Sir Stelios 13 years ago, will not be one of them. Its strong balance-sheet, modern fleet and low-cost operating model mean it is much better placed than most of its competitors to ride out the storm. But it is still feeling the strain. This week it announced annual pre-tax profits of £123m ($187m), slightly ahead of expectations but still 36% down on the previous year. The last thing easyJet needs is a distracting internal fight over strategy. Yet that is precisely what Sir Stelios seems to want.

Sir Stelios, who controls 38% of easyJet, began his attack on November 13th, arguing that the airline's plans to expand its fleet during the recession should be abandoned. He added that easyJet should consider paying a dividend from 2011, reversing its policy of investing available funds to support the airline's growth. To this end, he invoked rights that were established when the company was floated, by proposing to put two representatives of his holding company, easyGroup, on the board. Sir Stelios hinted that if the chairman, Sir Colin Chandler, refused to acquiesce, he would reassume the chairmanship himself, as he is entitled to do.

This week Sir Stelios went a step further. On the eve of easyJet's publication of its annual accounts, he announced that he was refusing to approve them. PricewaterhouseCoopers, the firm's auditors, had given an unqualified report, but Sir Stelios took issue with the balance-sheet value of £72.4m put on the take-off and landing slots at Gatwick acquired along with GB Airways, a small carrier, early this year. He also expressed doubts about the likely price of seven former GB Airways aircraft that easyJet wants to sell.

Sir Stelios says he is only calling for a more cautious approach. Some observers think that his knowledge of the shipping industry, which is undergoing even greater pain than the airline business, has persuaded him that this is a time to batten down hatches. Others have suggested that he needs the promise of a dividend flow to fund his other interests. There has even been some far-fetched speculation that he may be trying to drive down easyJet's share price in order to retake control of it.

It is possible that the usually genial Greek Cypriot is just very angry. Geoff van Klaveren, an analyst at Exane BNP Paribas, says Sir Stelios has always been concerned that in its quest for ancillary income, which now accounts for 16% of its revenues, easyJet might end up competing with other easyGroup brands. Under a "relationship agreement" struck at the time of its flotation, easyJet's ancillary revenues are capped at 25% of the total. But a visit to the airline's website confirms that it is pushing easyJet Hotels in direct competition with easyHotel, a more recent enterprise launched by Sir Stelios.

Whatever his reasons, they spell trouble for easyJet. The airline's expansion plans for the coming year are modest: capacity is planned to grow by 5% compared with the 15% that is easyJet's norm. Given the desperate state of Alitalia and the difficulties of Iberia, easyJet, which has hubs at Milan Malpensa and Madrid Barajas, is in a strong position to benefit. Mr van Klaveren fears that the ultra-cautious approach Sir Stelios is advocating, combined with talk of dividends, could result in the stock going "ex-growth" and losing the premium it shares with its rival, Ryanair. It is hard to see how that is in anyone's interests.