

Stance

**Overweight**

Country  
**UK**

Industry Class  
**Airlines**

Company

**EasyJet**

Date  
**28<sup>th</sup> February 2014**

Bloomberg  
**EZJ LN**

Company Update

<b>Price</b>	<b>1685p</b>
<b>Price Target</b>	<b>2050p</b>
<b>52-week Range</b>	<b>964.50-1776.71</b>
<b>Dividend Yield</b>	<b>2.00%</b>
<b>P/E</b>	<b>17.12x</b>
<b>Market Cap</b>	<b>£6.7bln</b>

Next Events  
**06/03/2014 – Feb 14 Sales & Revenue Releases**

## Investment Thesis

EasyJet flies to airports people want to fly to; its principal competitors at these primary airports are the legacy carriers and charter airlines.

EasyJet has managed to increase sales year-on-year by at least 10% since 2007. This has often been translated into double digit earnings per share increases.

EasyJet's (EZJ) success comes at the back of

- A young fleet making it more fuel efficient. The Group continues to focus on increasing capacity and has a target of purchasing a further 130 aircraft between 2015 and 2022. It is important to point out that these new aircraft will be financed through a combination of EZJ's internal resources, cashflow, sale and leaseback transactions and debt;
- The seating and loading capacity of each aircraft is above average giving EZJ a competitive advantage over its competitors;
- The Group has higher aircraft utilisation than the average in the industry;
- EZJ focuses on a point-to-point model. This means that the airline focuses on taking people from point A to point B and back and does not focus on connection flights etc. significantly reducing costs;
- **Due to the above EZJ has managed to find a niche on short haul flights which historically has been a loss making strategy for major airlines.**

Furthermore

- EZJ hedges 65-85% of fuel and currency expectations for the following year to be able to minimise as much as possible uncertainty;
- The Company is well promoted on the internet. 85% of sales are made online and EZJ is the 3<sup>rd</sup> most searched airline globally;
- It is mainly present at major airports and not at secondary airports; EZJ has developed a niche by offering low cost prices to main destinations. Therefore, while being more expensive than the typical low cost carriers, they have managed to attract 'higher' income earners due to convenience in routes.
- EZJ boasts significant market share in the main tourist destinations of England, Italy and France;

For 2014 we assume

- Improving global growth – we expect improved economic growth figures out of the developed world including Europe. This will influence positively EZJ as economic growth will benefit the airline industry,
- Management to stay focused on:
  - Steady cash generation (£1bln over 3 years);
  - New order for aircraft being spread over 8 years;

- Careful consideration before launching new destinations;
- Targeting 20% of sales come from corporate clients – EZJ struck a deal in Europe to further extend the airline's offerings among corporate travellers through BCD Travel's global network. The new partnership provides EasyJet access to BCD Travel's extensive corporate travel client base and makes it easier for the travel management company (TMC) to offer its corporate clients EasyJet's great services and value.
- Management delivering on their key objectives namely;
  - Build strong network positions;
  - Maintain cost advantage ;
  - Drive demand, conversion and yields across Europe ;
  - Disciplined use of capital.

## Positioning

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1. We position EasyJet as a satellite holding exhibiting an above average return potential, but also above average risk.
2. EasyJet is especially sensitive to geopolitical turmoil.

## Valuation

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Our valuation is based on:

- **Revenue** – we expect revenue to increase by 13.1%, 13.0% and 10.0% in 2014, 2015 and 2016 respectively. This strong growth will come from an improved economic environment in Europe, an increase in corporate clients due to the Group's deal with BCD Travel coupled with EasyJet's competitive advantages listed below.
- **Operating Expenses** – we are expecting operating expenses to remain constant going forward rather than improving mainly due to the increase in capex caused by the purchase of new aircraft.
- **EBIT margins** – we expect margins to hover around the 12% level which is decent compared to the historical rates of the Group.

We start with our 1yr price target of 2050p based on the assumption of sales growth of 13.1% in 2014, 13.0% in 2014 and 10.0% in 2015. The price target is calculated using an Earnings Based Model with a forward PE of 17x and an Equity Risk Premium of 8.0%.

## Financial Forecasts

Year end Sept (£'mln)	FY 2015E	FY 2015E	FY 2014E	FY 2013A	FY 2012A
Revenue	5,987	5,443	4,817	4,258	3,854
Operating Expenses	5,269	4,790	4,241	3,761	3,522
<b>Operating Income (EBIT)</b>	<b>718</b>	<b>653</b>	<b>576</b>	<b>497</b>	<b>332</b>
Interest charges	21.0	19.5	17.7	14.0	25.0
Foreign Exchange Losses	7.0	7.0	8.0	0.0	0.0
Net Non-Operating Losses	-21.6	-19.6	-17.3	5.0	-10.0
<b>Pretax Income</b>	<b>712</b>	<b>646</b>	<b>568</b>	<b>478</b>	<b>317</b>
<b>Income tax expense</b>	<b>142</b>	<b>129</b>	<b>114</b>	<b>80</b>	<b>62</b>
<b>Income Before XO Items</b>	<b>570</b>	<b>517</b>	<b>454</b>	<b>398</b>	<b>255</b>
Extraordinary losses	0.00	0.00	0.00	0.00	0.00
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Net Income available to shareholders</b>	<b>570</b>	<b>517</b>	<b>454</b>	<b>398</b>	<b>255</b>
<b>Basic Weighted Avg Shares</b>	<b>392.0</b>	<b>393.0</b>	<b>393.0</b>	<b>393.0</b>	<b>408.0</b>
<b>Basic EPS</b>	<b>1.45</b>	<b>1.32</b>	<b>1.16</b>	<b>1.01</b>	<b>0.63</b>

Source: Company's financial statements, Calamatta Cuschieri estimates

## Historical Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
EZJ LN	27.02.2014	1710p	2050p	Team Coverage	Overweight

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