UK: +44 (0)207 989 0813
NA: +1 646 896 3065
AU +61 2 9280 0700
action@proactiveinvestors.com

10:35 04 May 2020

Airlines have 'too many planes' says Warren Buffett

US investment guru Warren Buffett sold all his airline shares last month and the explanation he provided over the weekend may have repercussions on this side of the Atlantic.

In short, the coronavirus pandemic means "there are too many planes", said Buffett, the chairman and chief executive of Berkshire Hathaway Inc (NYSE:BRK.A), as he reported a US$49.7bn first-quarter loss at the company's first online-only annual shareholder meeting.

Berkshire Hathaway sold its entire holdings of American Airlines, Delta Airlines, Southwest Airlines and United Airlines, recouping only around US$6.5bn of an original investment of "between US$7bn and US$8bn" to buy about 10% of the four airlines.

"It turned out I was wrong about that business", the man known as the Sage of Omaha said, explaining that the pandemic had created new dynamics for the airline industry.

"It's obviously changed in the fact that the four companies are each going to borrow perhaps an average of at least $10bn or $12bn each," Buffett said.

"You have to pay that back out of earnings over some period of time."

He then added: "The airline business has the problem that if the business comes back 70% or 80%, the aircraft don't disappear.

"You've got too many planes."

Shares in the US airlines tanked, as did aeroplane makers Boeing (NYSE:BA) and Airbus.

London-listed peers also swooped lower, with easyJet (LON:EZJ) diving 9%, IAG (LON:IAG) 5% and Ryanair (LON:RYA) also 5%. Their shares are around two-thirds lower since the start of the year.

His argument ties in with that of easyJet founder and major shareholder Stelios Haji-Ioannou, who has been **railing against the budget airline for not terminating a £4.5bn aeroplane orders from Airbus**.

The FTSE 100 airline, which has borrowed £600mln as part of the government's coronavirus support scheme, said it is currently spending around £30-40mln of its cash pile per week, even with its entire fleet grounded.

When flights are resumed and remain subject to social distancing measures or lack of demand, Haji-Ioannou said the cash burn will be higher current levels as flying half-empty planes "will be heavily loss making".

Haji-Ioannou, a 34% shareholder, has called a shareholder meeting for 22 May to **remove four of easyJet's 11 directors, including the chairman and CEO**.

Price: 808.158

Market Cap: £3.7 billion

1 Year Share Price Graph

Share Information

Code:		EZJ
Listing:		LSE
52 week	**High**	**Low**
	1570	**410**
Sector:		**Leisure, gaming and gambling**
Website:		**www.easyjet.com**

Company Synopsis:
EasyJet is engaged in the provision of a low-cost airline service on short-haul and medium-haul point-to-point routes principally within Europe.

action@proactiveinvestors.com

According to analysts at Barclays, if airlines are only 65% full due to social distancing and lower demand, then yields would need to rise between 10-30% for an airline to achieve breakeven, either through material cost savings or higher prices.

Ryanair boss Michael O'Leary last week dismissed a call for airlines to **leave middle seats idle for social distancing as "idiotic"** and said governments would have to pay the fares or it won't fly.

The impact of social distancing will also mean there is not enough space in airports, with Heathrow's chief executive saying a single jumbo jet "**would require a queue a kilometre long**".

Proactive Investors facilitate the largest global investor network across 4 continents in 4 languages. With a team of analysts journalists & professional investors Proactive produce independent coverage on 1000's of companies across every sector for private investors, private client brokers, fund managers and international investor communities.

Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

No investment advice