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HSBC cuts both easyJet and British Airways owner IAG to 'reduce' from 'hold' in cautious sector review

HSBC has downgraded its ratings for both budget carrier easyJet PLC (LON:EZJ) and British Airways, Iberia, and Aer Lingus owner International Consolidated Airlines Group PLC (LON:IAG) to 'reduce' from 'hold' in a cautious review of the European airlines sector in the wake of the recent profit warning from German rival Lufthansa AG.

In a note to clients, the global bank's analysts said: "With the March quarter results, European low-cost carriers and tour operators offered quite cautious revenue commentary. With its 17 June profit warning, Lufthansa flagged very weak short-haul revenue trends in Q2, markedly worse than it described at its end-April Q1 report."

READ: Ryanair, easyJet and IAG descend on Lufthansa warning

The analysts added: "This comes despite the benefit of Easter and European capacity growth of only 4%, the lowest seen in Europe since the Global Financial crisis. Indeed, airline supply has only recently tightened with the 737 Max grounding."

They concluded, thus, that the problem is not excessive supply, but rapidly weakening demand. "We think this is primarily driven by consumer confidence, with environmental sensitivities and the memory of last year's hot summer playing supporting roles," the analysts added.

They also downgraded Air France-KLM and Finnair both to 'hold' from 'buy', leaving Aegean as its sole 'buy' in the sector.

The analysts said they had adjusted sector estimates on the assumption of lower unit revenues, mitigated by a lower working aviation fuel price, leading them to revise target prices for most of the names they cover.

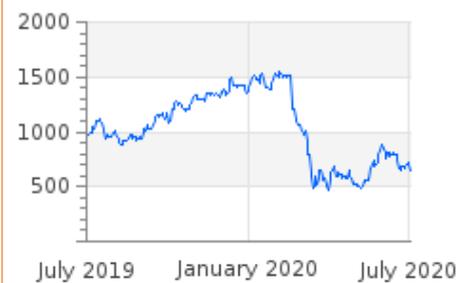
HSBC's target price for easyJet has been cut to 800p from 1,100p, while that for IAG has been reduced to 400p from 550p.

In afternoon trading in London, shares in FTSE 100-listed easyJet was 1.3% lower at 888.80p, while blue-chip peer IAG shed 2.6% at 445.80p.

Price: 652.8

Market Cap: £28.66 m

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.

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