

Ryanair (RYA.I)

INCREASE TARGET PRICE

Rating	OUTPERFORM*
Price (03 Sep 15, Eu)	12.88
Target price (Eu)	(from 14.40) 15.11 ¹
Market cap. (Eu m)	17,428.57
Enterprise value (Eu m)	16,476.0

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

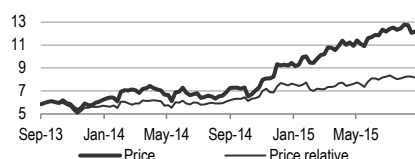
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Strong summer and surplus cash

- **Upgrade and special dividend expected – we raise 2016E estimates by 6%:** With strong summer trading suggested by RYA and IAG August traffic, and easyJet's FY15 upgrade (6% at the top end of prior and new guidance range), we raise our Ryanair average fare forecast from a 1% decline to flat for 2016E (revenue per seat +2%), driving a 6% upgrade to our net income estimate which moves to €1,089m. We expect a strong end to the summer with 2Q fares up 6% (rev per seat +7%), to drive a guidance upgrade from the current forecast of €970m, at AGM on 24 September or 2Q results on 2 November, while we also expect the announcement of a special dividend of c€500m (3% yield) funded by the sale of RYA's 29.8% stake in Aer Lingus for €404m. We raise our TP by 5% to €15.11, suggesting 17% upside potential before excess cash distributions.
- **Likely winter caution requires some perspective:** We forecast net income of €781m in 2Q to produce €1,026m for 1H. While trading momentum seems strong, we also expect caution on winter trading at 2Q – however we highlight that our 2H net income figure of €63m actually represents a modest deterioration on €72m in prior year, with a loss making winter required to prevent upgrades. We find this difficult to contemplate given 2Q and 1H earnings growth of 31% and 29% while fuel tailwinds continue (albeit at a more moderate level). Our 2H fares are down 3% yoy (latest guidance -8%).
- **Catalysts:** (i) AGM on 24 September, (ii) 2Q results on 2 November.
- **TP up 5% to €15.11, re-iterating Outperform:** RYA currently trades on a 9.6x-7.8x 2016E-2017E EV/EBITDAR multiple on our numbers, with a 4-7% FCF yield suggested on top of €404m Aer Lingus sale proceeds (2% yield).

Share price performance



The price relative chart measures performance against the ISEQ OVERALL IDX which closed at 6388.92 on 03/09/15. On 03/09/15 the spot exchange rate was €1/Eu 1. - Eu .89/US\$1

Performance over	1M	3M	12M
Absolute (%)	1.3	10.1	80.9
Relative (%)	4.9	5.4	50.1

Financial and valuation metrics

Year	03/15A	03/16E	03/17E	03/18E
Revenue (Eu m)	5,654.0	6,358.0	6,516.3	7,136.1
EBITDA (Eu m)	1,420.60	1,703.43	1,975.05	2,105.55
Adjusted Net Income (Eu m)	866.70	1,089.18	1,299.97	1,384.09
CS adj. EPS (Eu)	0.62	0.79	0.95	1.01
Prev. EPS (Eu)	—	0.76	0.91	0.97
ROIC (%)	25.06	32.86	38.05	38.46
P/E (adj., x)	20.62	16.24	13.60	12.77
P/E rel. (%)	98.5	81.8	80.3	86.4
EV/EBITDA	12.0	9.7	7.7	6.7
Dividend (03/16E, Eu)	—	IC (03/16E, Eu m)		3,462.54
Dividend yield (%)	—	EV/IC		4.8
Net debt (03/16E, Eu m)	-952.5	Current WACC		10.00
Net debt/equity (03/16E, %)	-21.6	Free float (%)		100.00
BV/share (03/16E, Eu)	3.2	Number of shares (m)		1,353.15

Source: FTI, Company data, Thomson Reuters, Credit Suisse Securities (EUROPE) LTD. Estimates.

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Ryanair RYA.I

Price (03 Sep 15): **Eu12.88**, Rating: **OUTPERFORM**, Target Price: **Eu(from 14.40) 15.11**

Income statement (Eu m)	03/15A	03/16E	03/17E	03/18E
Revenue (Eu m)	5,654	6,358	6,516	7,136
EBITDA	1,421	1,703	1,975	2,106
Depr. & amort.	(378)	(414)	(442)	(478)
EBIT (Eu)	1,043	1,289	1,533	1,628
Net interest exp.	(56)	(51)	(59)	(59)
Associates	—	—	—	—
Other adj.	(4)	(4)	—	—
PBT (Eu)	982	1,234	1,473	1,569
Income taxes	(116)	(145)	(173)	(185)
Profit after tax	867	1,089	1,300	1,384
Minorities	—	—	—	—
Preferred dividends	—	—	—	—
Associates & other	—	—	—	—
Net profit	867	1,089	1,300	1,384
Other NPAT adjustments	—	—	—	—
Reported net income	867	1,089	1,300	1,384

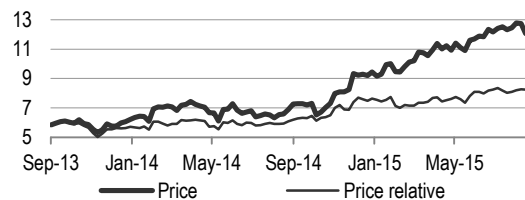
Cash flow (Eu)	03/15A	03/16E	03/17E	03/18E
EBIT	1,043	1,289	1,533	1,628
Net interest	(46)	(53)	(59)	(59)
Cash taxes paid	(88)	(97)	(109)	(117)
Change in working capital	362	252	256	283
Other cash & non-cash items	418	416	442	478
Cash flow from operations	1,689	1,807	2,063	2,212
CAPEX	(788)	(1,000)	(1,000)	(1,300)
Free cashflow adj.	—	—	145	291
Free cash flow to the firm	901	807	1,209	1,203
Acquisitions	—	—	—	—
Divestments	—	404	145	291
Other investment/(outflows)	—	—	—	—
Cash flow from investments	(788)	(596)	(855)	(1,009)
Net share issue/(repurchase)	(98)	(234)	—	—
Dividends paid	(520)	(404)	—	—
Issuance (retirement) of debt	—	—	—	—
Other	(77)	15	—	—
Cash flow from financing	(695)	(623)	—	—
Effect of exchange rates	—	—	—	—
Changes in Net Cash/Debt	206	588	1,209	1,203
Net debt at start	(158)	(364)	(953)	(2,161)
Change in net debt	(206)	(588)	(1,209)	(1,203)
Net debt at end	(364)	(953)	(2,161)	(3,365)

Balance sheet (Eu m)	03/15A	03/16E	03/17E	03/18E
Assets				
Cash and cash equivalents	4,796	5,280	6,489	7,692
Accounts receivable	60	60	60	60
Inventory	2	2	2	2
Other current assets	884	687	686	686
Total current assets	5,742	6,029	7,237	8,440
Total fixed assets	5,471	6,057	6,469	7,001
Intangible assets and goodwill	47	47	47	47
Investment securities	—	—	—	—
Other assets	926	297	297	297
Total assets	12,185	12,430	14,051	15,785
Liabilities				
Accounts payable	196	755	1,011	1,295
Short-term debt	—	—	—	—
Other short term liabilities	3,150	2,612	2,677	2,744
Total current liabilities	3,346	3,368	3,689	4,039
Long-term debt	4,032	3,931	3,931	3,931
Other liabilities	772	716	716	716
Total liabilities	8,150	8,015	8,336	8,686
Shareholders' equity	4,035	4,415	5,715	7,099
Minority interest	—	—	—	—
Total equity & liabilities	12,185	12,430	14,051	15,785
Net debt (Eu m)	(364)	(953)	(2,161)	(3,365)

Per share data	03/15A	03/16E	03/17E	03/18E
No. of shares (wtd avg)	1,388	1,373	1,373	1,373
CS adj. EPS (Eu)	0.62	0.79	0.95	1.01
Prev. EPS (Eu)	—	0.76	0.91	0.97
Dividend (Eu)	—	—	—	—
Div yield	—	—	—	—
Dividend payout ratio	—	—	—	—
Free cash flow per share	0.65	0.59	0.88	0.88

Key ratios and valuation	03/15A	03/16E	03/17E	03/18E
Growth (%)				
Sales	12.3	12.5	2.5	9.5
EBIT	58.4	23.6	18.9	6.2
Net profit	66.7	25.7	19.4	6.5
EPS	70.4	27.0	19.4	6.5
Margins (%)				
EBITDA margin	25.1	26.8	30.3	29.5
EBIT margin	18.4	20.3	23.5	22.8
Pretax margin	17.4	19.4	22.6	22.0
Net margin	15.3	17.1	19.9	19.4
Valuation metrics (x)				
EV/sales	3.0	2.6	2.3	2.0
EV/EBITDA	12.0	9.7	7.7	6.7
EV/EBIT	16.4	12.8	10.0	8.6
P/E	20.6	16.2	13.6	12.8
P/B	4.4	4.0	3.1	2.5
Asset turnover	0.46	0.51	0.46	0.45
ROE analysis (%)				
ROE stated-return on	23.7	25.8	25.7	21.6
ROIC	25.1	32.9	38.0	38.5
Interest burden	0.94	0.96	0.96	0.96
Tax rate	11.8	11.8	11.8	11.8
Financial leverage	1.1	1.0	0.8	0.6
Credit ratios (%)				
Net debt/equity	(9.0)	(21.6)	(37.8)	(47.4)
Net debt/EBITDA	(0.3)	(0.6)	(1.1)	(1.6)
Interest coverage ratio	18.5	25.2	25.9	27.5

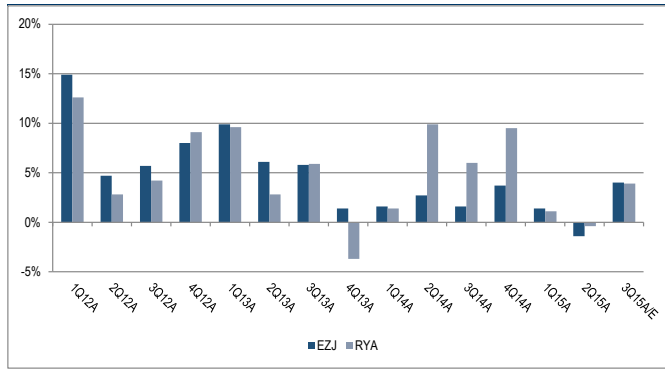
Source: FTI, Company data, Thomson Reuters, Credit Suisse Securities (EUROPE) LTD. Estimates.



The price relative chart measures performance against the ISEQ OVERALL IDX which closed at 6388.92 on 03/09/15
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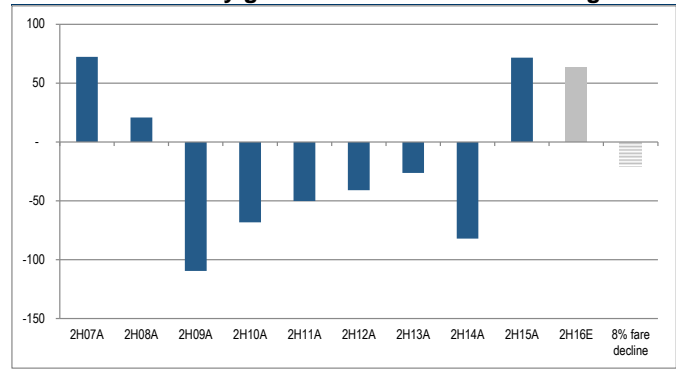
Summer heat - winter likely warmer than forecast

Figure 1: EZJ vs RYA quarterly revenue per seat yoy



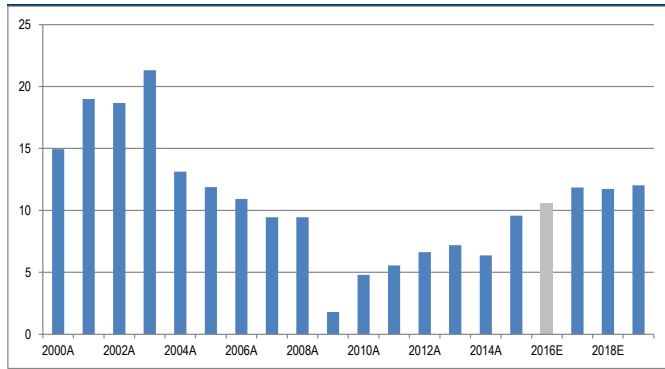
Source: Company data at constant currency

Figure 2: RYA's 2H returned to profit in FY15 – a 2H16 loss seems unlikely given momentum/Easter timing



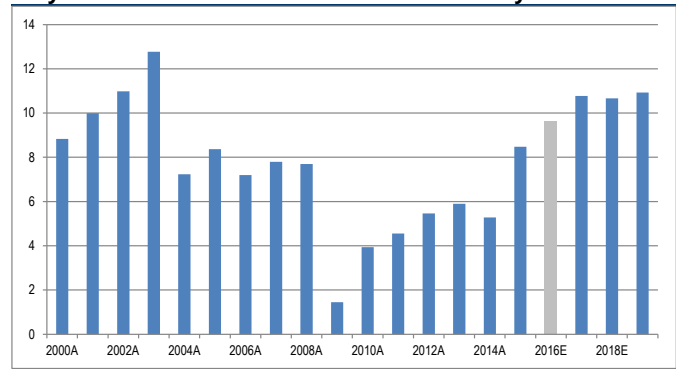
Source: Company net income data, Credit Suisse estimates

Figure 3: FY16E net income per pax of €10.58 highest since 2006A



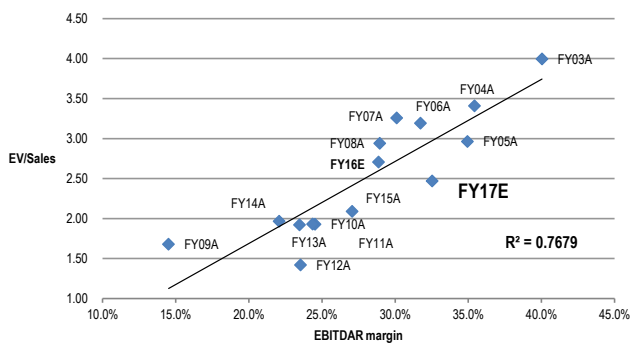
Source: Company data, Credit Suisse estimates

Figure 4: FY16E net income per seat of €9.62 exceeded only three times since 2000A – utilisation key



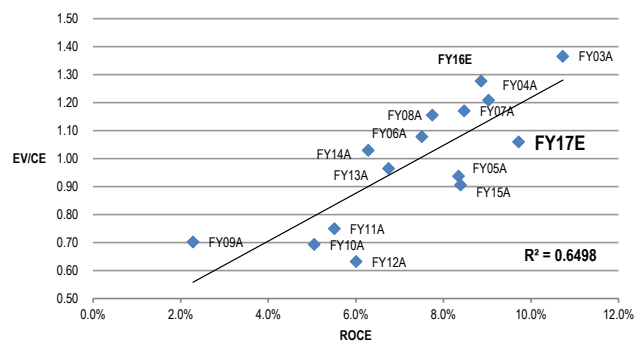
Source: Company data, Credit Suisse estimates

Figure 5: FY03A-FY17E EV/Sales vs EBITDAR margin suggests FY17E can re-rate by 25%



Source: Company data, Credit Suisse estimates

Figure 6: FY03A-FY17E EV/CE vs ROCE suggests FY17E can re-rate by 15%



Source: Company data, Credit Suisse estimates

Figure 7: Ryanair 2011A-2017E forecasts - estimate changes

€m	Actual 2012A	Actual 2013A	Actual 2014A	Actual 2015A	Old 2016E	New 2016E	Change %	Old 2017E	New 2017E	Change %
Operating revenues										
Scheduled revenues	3,439	3,820	3,790	4,260	4,768	4,837	1%	4,833	4,897	1%
Ancillary revenues	886	1,064	1,247	1,394	1,517	1,521	0%	1,617	1,619	0%
Total operating revenues	4,325	4,884	5,037	5,654	6,285	6,358	1%	6,449	6,516	1%
Operating expenses										
Staff costs	415	436	464	503	564	564	0%	583	581	0%
Depreciation and amortisation	309	330	352	378	414	414	0%	442	442	0%
Fuel & oil	1,594	1,886	2,013	1,992	2,105	2,106	0%	1,821	1,823	0%
Maintenance, materials and repairs	104	121	116	135	136	137	0%	149	150	0%
Aircraft rentals	91	98	102	109	131	132	0%	144	145	0%
Route charges	461	487	522	547	626	626	0%	681	678	0%
Airport and handling charges	554	612	617	713	829	831	0%	901	902	0%
Other operating expense	180	198	193	234	259	260	0%	262	263	0%
Operating profit before exceptional items	618	718	659	1,043	1,222	1,289	6%	1,466	1,533	5%
Exceptionals	-	-	-	-	-	-	-	-	-	-
Operating profit after exceptional items	618	718	659	1,043	1,222	1,289	6%	1,466	1,533	5%
Total other income/(expenses)	(50)	(68)	(69)	(61)	(55)	(55)	0%	(59)	(59)	0%
Profit before taxation	568	650	590	982	1,167	1,234	6%	1,406	1,473	5%
Tax on profit on ordinary activities	(73)	(82)	(72)	(116)	(137)	(145)	6%	(166)	(173)	5%
Profit for the period	495	569	518	867	1,029	1,089	6%	1,241	1,300	5%
Underlying profit for the period	503	569	520	867	1,029	1,089	6%	1,241	1,300	5%
Adjusted earnings per ordinary share										
- Basic	34.0	39.3	36.8	62.6	75.3	79.7	6%	90.9	95.2	5%
- Diluted	34.0	39.2	36.7	62.5	74.9	79.3	6%	90.4	94.7	5%
Passengers	75.8	79.3	81.7	90.5	102.5	102.9	0.4%	109.2	109.7	0.4%
Growth %	5%	4%	3%	11%	13%	14%		7%	7%	
Seats	92.1	96.5	98.4	102.3	113.1	113.2	0.1%	120.5	120.6	0.1%
Growth %	5%	5%	2%	4%	11%	11%		7%	7%	
Load factor	82.4%	82.1%	83.0%	88.5%	90.6%	90.9%	0.3%	90.6%	90.9%	0.3%
Growth pts	-0.6%	-0.3%	0.9%	5.5%	2.1%	2.4%		0.0%	0.0%	
Average fares	45.3	48.2	46.4	47.1	46.5	47.0	1.0%	44.3	44.6	0.9%
Growth %	16%	6%	-4%	1%	-1%	0%		-5%	-5%	
Ancillary spend per passenger	11.7	13.4	15.3	15.4	14.8	14.8	-0.2%	14.8	14.8	-0.3%
Growth %	5%	15%	14%	1%	-4%	-4%		0%	0%	
Revenue per passenger	57.0	61.6	61.7	62.4	61.3	61.8	0.7%	59.1	59.4	0.6%
Growth %	13%	8%	0%	1%	-2%	-1%		-4%	-4%	
Revenue per seat	47.0	50.6	51.2	55.3	55.6	56.1	1.0%	53.5	54.0	0.9%
Growth %	12%	8%	1%	8%	1%	2%		-4%	-4%	
Total cost per passenger	48.8	52.4	53.5	50.8	49.3	49.1	-0.3%	45.5	45.3	-0.4%
Growth %	13%	7%	2%	-5%	-3%	-3%		-8%	-8%	
Fuel cost per passenger	21.0	23.7	24.5	21.9	20.4	20.3	-0.4%	16.5	16.5	-0.3%
Growth %	23%	13%	4%	-11%	-7%	-7%		-19%	-19%	
Ex-fuel cost per passenger	27.9	28.8	29.0	28.9	28.9	28.8	-0.3%	29.0	28.8	-0.5%
Growth %	7%	3%	1%	0%	0%	-1%		0%	0%	
Sector length growth	6%	-1%	5%	0%	0%	0%	0%	0%	0%	0%

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 03-Sep-2015)

EasyJet (EZJ.L, 1762.0p)
International Airlines Group (ICAG.L, 564.5p)
Ryanair (RYA.I, €12.88, OUTPERFORM, TP €15.11)

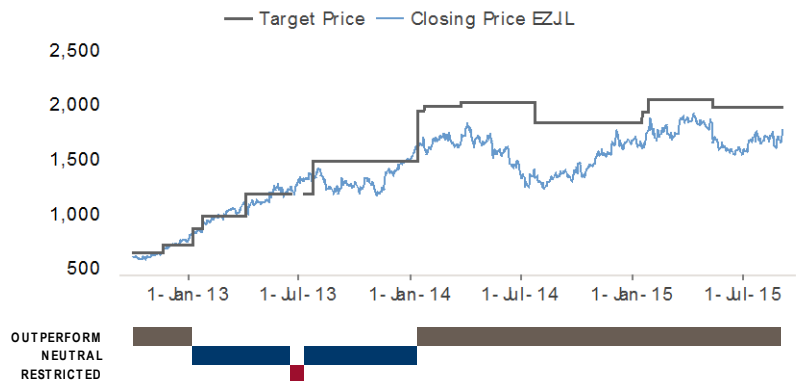
Disclosure Appendix

Important Global Disclosures

Neil Glynn, CFA, Hugo Turner and Tim Ramskill, CFA each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for EasyJet (EZJ.L)

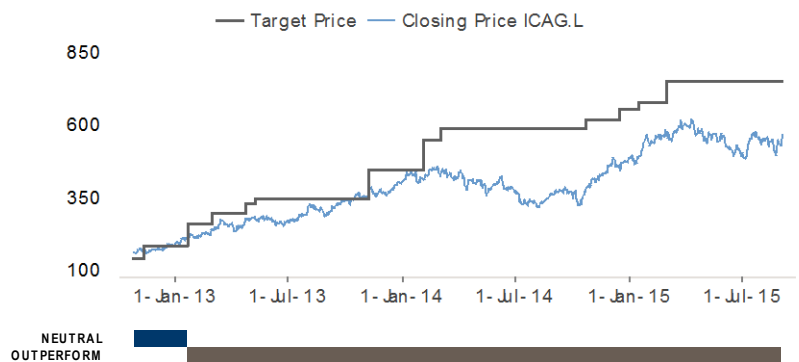
EZJ.L	Closing Price	Target Price	
Date	(p)	(p)	Rating
03-Oct-12	599.69	636.74	O
20-Nov-12	674.77	714.75	
08-Jan-13	800.56	861.99	N
24-Jan-13	876.13	975.10	
05-Apr-13	1001.43	1175.97	
18-Jun-13	1247.15		R
11-Jul-13	1313.46	1175.97	N
24-Jul-13	1350.51	1480.20	
13-Jan-14	1648.89	1938.50	O
23-Jan-14	1630.37	1988.00	
25-Mar-14	1692.00	2021.00	
24-Jul-14	1333.00	1837.00	
16-Jan-15	1600.00	1930.00	
27-Jan-15	1789.00	2050.00	
12-May-15	1654.00	1973.00	



* Asterisk signifies initiation or assumption of coverage.

3-Year Price and Rating History for International Airlines Group (ICAG.L)

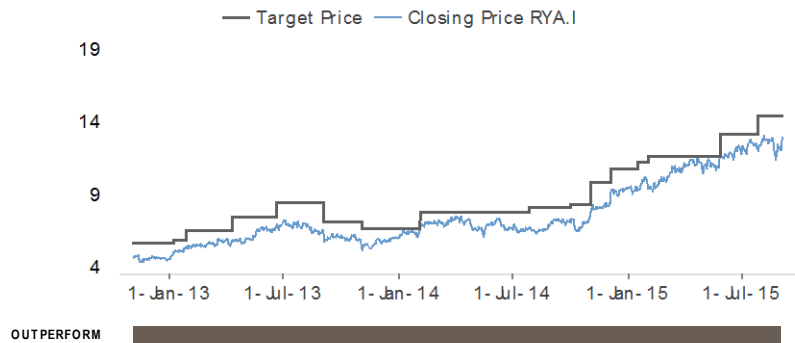
ICAG.L	Closing Price	Target Price	
Date	(p)	(p)	Rating
26-Oct-12	160.20	140.00	N
12-Nov-12	170.50	184.00	
21-Jan-13	212.50	259.00	O
01-Mar-13	237.80	295.00	
24-Apr-13	277.00	328.00	
10-May-13	275.90	345.00	
08-Nov-13	376.90	443.00	
04-Feb-14	411.20	546.00	
03-Mar-14	422.80	587.00	
23-Oct-14	384.00	618.00	
15-Dec-14	454.40	654.00	
16-Jan-15	491.30	678.00	
02-Mar-15	574.00	750.00	



* Asterisk signifies initiation or assumption of coverage.

3-Year Price and Rating History for Ryanair (RYA.I)

RYA.I	Closing Price	Target Price	
Date	(€)	(€)	Rating
05-Nov-12	4.65	5.63	O
08-Jan-13	5.03	5.83	
28-Jan-13	5.34	6.50	
11-Apr-13	5.86	7.41	
20-Jun-13	6.79	8.42	
04-Sep-13	5.78	7.10	
04-Nov-13	5.13	6.64	
04-Feb-14	6.55	7.75	
28-Jul-14	6.76	8.14	
02-Oct-14	7.13	8.33	
03-Nov-14	7.88	9.82	
05-Dec-14	9.33	10.74	
16-Jan-15	9.29	11.22	
02-Feb-15	9.40	11.65	
27-May-15	11.75	13.15	
27-Jul-15	12.01	14.40	



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The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

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Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

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Price Target: (12 months) for Ryanair (RYA.I)

Method: We value Ryanair using a blend of historical multiple and discounted cash flow (DCF) methodology designed to capture the potential for, and the sustainability of, earnings recovery, in combination with the outlook for the strength of long-term cash generation. We blend our historical multiple-derived fair value of Eur15.49 and our DCF-derived fair value of Eur14.73 to produce a target price of Eur15.11. Our DCF model uses a midcycle EBIT margin of 23%, a weighted average cost of capital (WACC) of 8.5% and a terminal growth rate of 3%

Risk: 1) Macro-economic cycles will heavily impact Ryanair, despite the defensive nature of its business model. Every 1% movement in 2016E average fares would impact our FY16E earnings by Eur40m (3c). 2) Fuel price volatility: the airline hedges against fuel price risk in the short term however we estimate that every \$50/mt jet fuel price movement around \$650/mt impacts earnings by Eur9m (1c) in FY16E. 3) Other risks include: difficulties in raising average fares as the network grows, and cost-cutting challenges given a lowest-in-industry cost base and increasing sector lengths.

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