

Ryanair Holdings plc

Full Rating Report

Ratings

Foreign Currency
Long-Term IDR BBB+

Ryanair Limited
Senior unsecured BBB+

Outlook

Foreign-Currency Long-Term IDR Stable

Financial Data

Ryanair Holdings plc

	31 Mar 13	31 Mar 14
Revenue (EURm)	4,884.0	5,036.7
Operating EBITDAR (EURm)	1,146.0	1,112.5
Operating EBITDAR margin (%)	23.5	22.1
Funds from operations (EURm)	963.0	910.7
Cash flow from operations (EURm)	1,023.0	1,044.6
Free cash flow (EURm)	712.8	538.8
FFO gross interest coverage	10.5	11.8
Total debt with equity credit (EURm)	3,580.2	3,222.2
Gross lease-adjusted debt/EBITDAR (x)	3.81	3.63
Gross lease adjusted debt/FFO+interest + rentals (x)	3.85	3.74

Key Rating Drivers

Cost Leadership: Ryanair Holdings plc is the lowest-cost carrier in the European market with cost per available seat kilometre (CASK, excluding fuel and depreciation) as low as 50% of that of its nearest peer. Fitch Ratings views Ryanair's cost leadership as sustainable over the medium term, and it is a key driver of the company's competitive advantage.

High Margins: Ryanair has consistently enjoyed one of the highest profitability levels across Fitch's global airline portfolio. Its EBITDAR margins are approximately 22%, which is 4pp to 5pp higher than its closest European competitors'. Margins are high, but they have been declining, and EBITDAR margins dipped 1.4pp in the financial year to March 2014 (FY14). Fitch conservatively expects EBITDAR margins to dip an additional 50bp-100bp in FY15 because of continued yield pressures and higher marketing and distribution costs.

High Leverage, Substantial Liquidity: The company's gross debt leverage levels are high for the rating because of its policy of maintaining substantial liquidity in cash, although its leverage net of cash is strong. Ryanair manages its business on a net cash basis, targeting close to a zero net-debt position. FFO gross adjusted leverage stood at 3.7x at FYE14 and total adjusted debt/EBITDAR was 3.6x. However, on a net basis, FFO adjusted leverage was below 1x at 0.75x. We expect these metrics to remain broadly flat over the rating horizon.

Strong Cash Generation: Ryanair generates strong cash flow from operations (CFO) averaging about 20% of revenues. Free cash flow (FCF) (CFO minus capex minus regular dividends) has also been very strong, with an average annual inflow of over EUR600m over the last three years. Ryanair's FCF can be lumpy because of its aircraft delivery cycle. Fitch believes positive FCF is possible throughout the delivery period if there are no material shocks to the European aviation sector and excluding likely special dividends and share buybacks.

Substantial Cash Deployment: Fitch expects capex to be flat to up modestly in FY15, before increasing noticeably for three years from FY16. Fitch expects shareholder cash deployment will continue over the next few years. We anticipate that Ryanair will be able to fund shareholder distributions with only modest increases in debt and will slow or eliminate distributions in the event of an economic downturn or disruption to the airline industry.

Rating Sensitivities

Thinner Margins: A drop in EBITDAR margins to consistently below 19% and/or changes to Ryanair's liquidity strategy resulting in FFO fixed charge coverage consistently in the 4.5x-5.0x range or lower, and FFO net adjusted leverage consistently above 1.0x would be negative for the ratings. The ratings have limited upside potential because of the inherent risks in the airline industry and the company's shareholder distribution policies.

Liquidity and Debt Structure

Very Strong Liquidity: Ryanair's liquidity position is the strongest in Fitch's airline portfolio, and it serves as one of the main credit differentiators. Ryanair has maintained an average cash balance of about 60% of annual revenue compared to an airline average of below 20%. Ryanair had a cash balance of more than EUR3bn at FYE14. Ryanair's cash balance fluctuates only moderately despite the high seasonality of bookings and its pre-delivery payment schedule.

Related Research

2014 Transport Outlook – EMEA Airlines and Shipping (January 2014)

2014 Outlook: North and Latin American Airlines (December 2013)

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Key Rating Issues

Cost Leadership

Industry-low costs are the key source of Ryanair's competitive position and financial performance, and the company is arguably the only true ultra low-cost carrier (ULCC) in the European market. Fitch estimates that Ryanair's cost per available seat kilometre (CASK) excluding fuel and depreciation is as low as 50% of most of its nearest peers' and Fitch believes that Ryanair's cost position is sustainable. This cost advantage allows Ryanair to provide the lowest fares on each route, and also allows it to operate profitable routes that would be unprofitable for higher-cost competitors. The low fares also keep load factors high, driving high-margin ancillary revenues. The company has a low break-even load factor, which Fitch estimates at 70%.

Ryanair's lower cost position is also one element of its business model that provides protection in downturns because it generates high margins and ULCC traffic is likely less volatile than overall airline traffic.

Because of low non-fuel costs, fuel costs as a percentage of overall costs or overall revenues are higher than the percentages at other airlines. Fuel costs are the most difficult cost item for an airline to control. Ryanair addresses this risk with a more extensive fuel hedging programme than most of its peers. For example, it is currently 90% hedged for FY15 and 55% hedged for the H116.

For FY15 Fitch expects some marketing costs will rise with Ryanair's new advertising programme and that airport charges will rise slightly due to a higher proportion of flights to primary airports. Investment in the company's digital strategy will continue. Fitch estimates that fuel costs should be a modest tailwind in FY15 because of oil price trends. Our rating case is based on a long-term oil price of USD100 per barrel.

High Margins

Ryanair generates high margins compared to the bulk of Fitch's global airline portfolio. Its EBITDAR margins are approximately 22%, 4pp to 5pp higher than its closest European competitors. The company generates net income margins of greater than 10%, which exceeds the EBITDA margins of some of its peers. Net margin in past periods of lower fuel prices exceeded 20%. While not our rating case, Fitch believes Ryanair could return to that level if fuel prices fall, although it would also depend on the competitive environment.

Ryanair has generated more than EUR500m in net income in each of the past three years despite high fuel prices and the lacklustre European economy.

Ryanair's healthy margins result from its low-cost structure, competitive position on routes, and relatively high percentage of high-margin ancillary revenues. The margins are also an element of risk reduction, as they provide significant downside cushion for unforeseen negative developments.

Related Criteria

[Corporate Rating Methodology \(May 2014\)](#)

While margins are high, they have been declining. EBITDAR margin dipped 1.4pp in FY14 as a result of lower yields, weaker sterling, and high fuel costs. Fitch conservatively expects EBITDAR margins to dip an additional 50bp-100bp in FY15 because of continued yield pressures and higher marketing and distribution costs.

Industry Leading Liquidity Position

Ryanair's liquidity position is the strongest in Fitch's airline portfolio, and it serves as one of the main credit differentiators. Ryanair ended FY14 with cash and equivalents of EUR3,228m or about 64% of revenues. Ryanair's cash balance fluctuates only moderately, despite the seasonality of bookings and its pre-delivery payment schedule for new aircraft on order. In the airline industry, cash liquidity of 25% of revenues is strong, so Ryanair's liquidity position is exceptional, and it generally exceeds its closest European peers by approximately 40pp.

The company's liquidity is one of the foundations of its conservative, reduced risk strategy, and it allows it to address potential risks such as fuel spikes and demand shocks. Fitch estimates that Ryanair's cash balance plus projected cash from operations in the next two years covers projected capex and debt maturities by more than 2.5x. Cash is Ryanair's main source of liquidity, as it does not have a revolving credit facility. In addition to cash balances and healthy cash flow, other potential sources of liquidity include the Aer Lingus shareholding stake (29.8%, estimated market value approximately EUR230m) and equity in the 737-800 fleet, which Fitch estimates could be valued at up to EUR2.75bn.

Strong liquidity is a key part of Ryanair's competitive position as well, in Fitch's view. It allows the company to borrow at low rates and hedge fuel and currency exposures in ways unavailable to weaker competitors. In addition, Ryanair can find opportunities in downturns when weaker players exit the business or reduce capacity. Ryanair increased passenger levels by 16 million in the past downturn.

Gross Credit Metrics High

The company's gross debt leverage levels are high for the rating because of its policy of maintaining substantial liquidity in cash, although Ryanair's leverage net of cash is strong. Ryanair manages its business on a net cash basis, targeting close to a zero net-debt-to-EBITDA position, and Fitch believes that both gross and net leverage should be analysed for an accurate view of the credit profile. Gross adjusted debt to EBITDAR was 3.6x for FY14, down from 3.8x in FY13, while FFO gross adjusted leverage was 3.7x for FY14, down from 3.8x in FY13.

Net adjusted debt to EBITDAR was 0.7x in FY14 (0.7x in FY13), and FFO net adjusted leverage was 0.8x (0.7x in FY13). Fitch expects these metrics to remain broadly flat over the rating horizon. The bulk of Ryanair's debt is pre-payable bank debt, so the company has the flexibility to reduce debt quickly. Other credit metrics such as fixed charge coverage (5.8x in FY14, up from 5.7x in FY13), margins, and liquidity are strong for the rating category. The metrics delivered by Ryanair in the past few years were produced in a weak economic environment with high fuel prices.

Strong Cash Flow Generation

Ryanair's strong cash generation is a key element of its financial strength and financial flexibility, and its CFO and FCF yields are the highest in its peer group. Ryanair generates more than EUR1bn of cash flow from operations annually, or more than 20% of revenues. FCF in FY13 and FY14 was EUR713m (14.6% of sales) and EUR539m (10.7%), respectively. FCF declined in FY14 because of pre-delivery payments (PDP) for the upcoming deliveries beginning in September 2014. Ryanair's FCF can be lumpy based on its aircraft delivery cycle.

The strength of the company's cash flow shows that it has the ability to pay cash for its planes if it chooses, and this differentiates it from many other airlines. Fitch expects Ryanair will find

profitable routes for the large number of additional aircraft being delivered over the next five years. However, specific deployment plans are developed only for the short to medium term with long-term flexibility. This should drive CFO higher and support higher capex levels. Fitch believes positive FCF is possible throughout the delivery period if there are no material shocks to the European aviation sector and excluding likely special dividends and share buybacks

Substantial Cash Deployment

Ryanair's cash deployment focuses on capital expenditure, debt maturities, and discretionary shareholder distributions, both special dividends and share repurchases. Capex rose in FY14 to EUR506m from EUR311m in FY13 because of PDPs, and Fitch expects capex to be flat to up modestly in FY15, before increasing noticeably for three years in FY16. The company said on its FY14 earnings call that FY15 capex would be approximately EUR600m, and it would then rise to approximately EUR1bn for three years, before declining to EUR700m-800m in FY19. Fitch notes that these numbers, especially in FY2019, could be affected by the recent order for 737 MAX 200 aircraft, as discussed below. Fitch also expects that the previous numbers could be affected by asset disposals and sale-leaseback transactions.

Debt reduction net of new issuance was about EUR400m over the past three years, and debt maturities in the next three years should average approximately EUR450m per year.

Ryanair has distributed a substantial amount of cash to shareholders over the past six years, and its ability to do so while maintaining a strong financial position demonstrates its financial flexibility. The company indicates that shareholder distributions are subject to continued profitability, the economic environment, capital expenditure, fuel prices, yields and shareholder approval. The company has said it would distribute up to EUR1bn over FY14 and FY15, and it paid out EUR482m in FY14. The company expects to issue a EUR520m special dividend in the fourth quarter of FY15, which is incorporated into Fitch's cash-flow forecasts.

Fitch expects shareholder cash deployment will continue over the next few years assuming no material disruptions to Ryanair's business. The ratings incorporate expectations that Ryanair will be able to fund shareholder distributions with only modest increases in debt, and Fitch expects the company will slow or eliminate distributions in the event of an economic downturn, fuel shock, or other unexpected disruption to the airline industry. In FY09 and FY10, when the industry faced several challenges, Ryanair limited distributions to EUR46m of share buybacks.

Manageable Growth and Fleet Deliveries

With 2013's 175 aircraft order with Boeing (later raised to 180), Ryanair will enter a five-year growth period lifting annual passengers to approximately 110 million from 81 million. This could be a positive if the company executes successfully, as it has historically, but it must find the growth opportunities in its market to support the larger fleet. Annual growth of approximately 5% is lower than past periods of Ryanair's growth (also when measured in absolute terms), and it should be manageable for the company. Fitch believes Ryanair has the financial capacity to fund the deliveries without damaging its credit profile. Around 100-105 of the new aircraft will be for growth and the rest for replacement of existing aircraft, so the fleet should rise to roughly 400 aircraft by FYE19 from approximately 300 at FYE14. Deliveries begin in September 2014 and run through FY19.

Ryanair needs to find profitable growth opportunities for the new aircraft. The company has indicated it has identified specific opportunities for the first year, but beyond that it has said that general opportunities should drive growth. Fitch expects these to include the new contract at Stansted, restructuring by network carriers, and approaches by airports who are interested in having Ryanair fly to their areas. Fitch believes that Ryanair's cost advantage should allow it to find growth opportunities for the new aircraft and the low penetration of LCC in some jurisdictions are potential areas for growth (Germany, eastern Europe, France). Ryanair has said it is looking to lease aircraft currently because it is short capacity.

Another perspective on Ryanair's potential growth can be gained by looking at Southwest Airlines Co.'s (Southwest, BBB/Positive) market and fleet. Depending on how the market and region is defined, Southwest's market is either smaller or about the same size as Ryanair's addressable market (based on population, GDP and geographic footprint). Southwest currently operates a fleet of approximately 680 aircraft compared to Ryanair's 300 aircraft, which should grow over five years to approximately 400 aircraft, still less than two-thirds of Southwest's fleet.

Ryanair recently announced a new aircraft order for the purchase of up to 200 Boeing 737 MAX 200 aircraft (100 firm orders and 100 options) which will be delivered during 2019-2024. Fitch expects bulk of the payments for this order to happen from FY19 onwards. Given the limited near-term implications of this order, there is no impact on the current Fitch rating case for Ryanair. See *Order for up to 200 Boeing 737 MAX 200 Aircraft* below for more details on this order.

Order for up to 200 Boeing 737 MAX 200 Aircraft

In early September Ryanair announced an order for Boeing 737 MAX 200 aircraft, a new variant of the manufacturer's MAX family. The agreement includes 100 firm orders with 100 options, and deliveries will run from FY19 to FY23. Fitch expects the order will be approved by shareholders in November.

The MAX 200 will be able to have up to 200 seats, 11 more than the 737 MAX 8, by adding a mid-exit door. Ryanair's aircraft will reportedly have 197 seats, which is eight more than Ryanair's existing 737-800NGs, and the aircraft is projected to be up to 18% more fuel efficient than the existing 737s. Ryanair's new aircraft will have the MAX's standard Sky Interior, which could be a significant change to the typical Ryanair set-up. The 737 MAX 200 order will support Ryanair's strategy of low operating costs, fleet commonality, and young fleet age.

With deliveries not beginning until FY19, most of the financial impact of the order will take place beyond Fitch's current forecast horizon. In addition, the total spending impact of the new orders will be influenced by the percentage of aircraft financed with sale-leasebacks and the number of options exercised. There could be a modest capex impact in FY15 depending on purchase deposit terms, but these have not been made public. The next impact will probably appear in FY18 when pre-delivery payments begin.

Fitch previously expected capital spending would peak in FY17 or FY18, but the new order will extend this by several years. Fitch continues to forecast Ryanair will be able to maintain positive FCF throughout this period of heavy capital spending, although FY19 FCF could be low as both the existing aircraft order for 180 planes and the new MAX 200 order will drive spending in that year. If cash flow or liquidity came under pressure, Fitch expects Ryanair will temporarily reduce cash deployment to shareholders.

Business Model Modifications

In response to customer comments and competition, Ryanair has recently made some modifications to its business model, and others are in progress. Its goal is to increase its customer focus while keeping its low-fare focus, lifting load factors, and modestly raising average fares. Fitch believes many are common-sense moves, and the net cost appears modest. We believe these efforts are a manageable challenge so far, although it will probably take several quarters to determine the ultimate impact on the company's financials and competitive position.

Debt Structure Diversifying from Ex-Im Financing

Ryanair's previous orders with Boeing were mainly financed through the Export-Import Bank of the United States (Ex-Im) guaranteed loans, in addition to Japanese operating leases, finance leases and sale and leaseback transactions through operating leases. Only 17% of Ryanair's fleet is operating leased. Debt is thus largely secured and assets encumbered. Ryanair's

current average cost of funds is below 3%. Over 90% of debt is euro-based, with Ex-Im loans swapped into euros at drawdown, removing most foreign-exchange risk. 70% of debt is fixed rate.

With the new Aviation Sector Understanding, Ex-Im funding has become less efficient for strong credit profiles such as Ryanair. Ryanair diversified its funding for its 2013 Boeing order through the issuance of unsecured bonds and can potentially issue enhanced equipment trust certificates (EETCs). This will lead to only a modest increase in funding costs.

Competitive Position

Ryanair is the leading low-fare airline in Europe, where it carries more international passengers than any other airline. It follows an ULCC model, and it is difficult to find a pure comparison for the company, as most of the similar airlines follow LCC or hybrid business models. Ryanair has a significant cost advantage over its European peers, who would have a difficult time competing with it on an ULCC basis. Ryanair has leading market shares in several countries including Italy and Spain.

“LCC” is currently a broadly used term encompassing both ULCCs (which are now like the traditional LCC) and LCCs and hybrids, which still have lower costs than legacy network carriers, but also provide services beyond those offered by ULCCs.

Fitch does not have separate ratings approaches for LCCs versus legacy carriers, but some factors will receive heavier weightings depending on the business model. For example, relative cost position will be a more important factor in determining an LCC’s competitive position than it would for a legacy carrier.

Select LCCs have some of the strongest credit profiles in the airline sector (Southwest, Westjet), but it is not a guarantee of a strong profile (Gol Linhas Aereas Inteligentes S.A. (B-/Stable)). The ability to generate new demand and to sustain low costs are key factors in evaluating LCCs. Cost convergence with major airlines and the unbundling trend at majors are competitive factors that Fitch is watching

Reduced Risk, Simplified Business Model

High profit margins, high cash generation, substantial liquidity, a relatively flexible cost structure, and robust hedging policies help Ryanair defend itself against the inevitable demand and fuel shocks in the airline industry. These factors also allow Ryanair to address competitive pressures, and to take advantage of downturns while competitors are restructuring. While Ryanair still has high operating leverage, its labour contracts provide it with some flexibility to furlough employees, and its use of contract employees adds further flexibility. Ryanair is also still exposed to prolonged fuel shocks, but it hedges a higher percentage of its fuel exposure than its peers, and Fitch also believes that Ryanair’s strong financial position offers it the advantage of hedging further into the future than most of its peers. Consequently, Ryanair’s business model mitigates many of the main risks that have driven credit problems at other airlines in the past.

Ryanair’s performance in the downturn of 2008 to 2010 illustrates its resilience. In 2008 the industry was hit by a fuel spike and demand pressures that drove yields down. In addition, during this period Ryanair was in the middle of taking substantial aircraft deliveries, which drove higher capital expenditure. The company’s metrics deteriorated and FCF was pressured, but not to the point where there were questions over Ryanair’s ability to meet its obligations. The company maintained healthy liquidity by limiting shareholder distributions to less than EUR50m in FY09 and FY10, and it continued to take delivery of aircraft. Load factors in the period remained fairly stable, passengers grew by 16 million, and margins increased 10pp in FY10 after dipping noticeably in FY09.

Unsecured Notes Issuance

In June Ryanair issued EUR850m of unsecured 1.875% seven-year notes. The notes, which are guaranteed by Ryanair Holdings plc, are part of Ryanair Limited's EUR3bn euro medium-term note programme. The proceeds of the notes will be used for general corporate purposes, including for funding Ryanair's upcoming aircraft deliveries, which will support its fleet expansion and help maintain a low average fleet age.

This rating of the notes is 'BBB+', which is aligned with Ryanair's Issuer Default Rating despite potential subordination to Ryanair's existing EUR3.1bn of debt mainly secured by the existing aircraft fleet. Factors supporting the alignment of the unsecured ratings with the IDR, as opposed to notching down, include the company's strong overall credit profile, the value of the enterprise relative to the outstanding debt, an unencumbered assets to unsecured debt test, and the potential residual market value in encumbered assets.

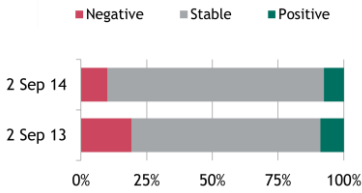
Rating Issues Register

Issue	Fitch view	Likelihood, timescale, rating impact
Cost Leadership. Ryanair is by far the lowest cost Airline in Europe.	Fitch views Ryanair's cost leadership as sustainable over the medium term. For FY15, Fitch expects some marketing costs will rise with Ryanair's new advertising programme and airport charges will rise slightly due to a higher proportion of flights to primary airports.	Likelihood: Present Timescale: Short to medium term Rating impact: Positive
High Margins. Ryanair is one of the most profitable airlines in Fitch's global airline portfolio.	Its EBITDAR margins are approximately 22%, 4pp to 5pp higher than its closest European competitors'. While margins are high, they have been declining. Fitch conservatively expects EBITDAR margins to dip an additional 50bp-100bp in FY15 because of continued yield pressures and higher marketing and distribution costs.	Likelihood: Present Timescale: Short to medium term Rating impact: Positive
Industry Leading Liquidity Position: At FYE14, Ryanair's cash position stood at EUR3,228m, or 64% of revenue. In the airline industry, cash liquidity of 25% of revenues is considered strong, so Ryanair's liquidity position is exceptional.	Ryanair's liquidity position is the strongest in Fitch's airline portfolio, and it serves as one of the main credit differentiators. The company's liquidity is one of the foundations of its conservative, reduced risk strategy, and it allows the company to address potential risks such as fuel spikes and demand shocks.	Likelihood: Present Timescale: Short to medium term Rating impact: Positive
Strong Cash Flow Generation. Ryanair has generated more than EUR1bn of cash flow from operations in each of the last three years representing around 20% of its revenues.	Ryanair's strong cash generation is a key element of its financial strength and financial flexibility, and its CFO and FCF yields are the highest in its peer group. Fitch believes positive FCF is possible throughout the aircraft delivery period if there are no material shocks to the European aviation sector and excluding likely special dividends and share buybacks.	Likelihood: Present Timescale: Short to medium term Rating impact: Positive
Gross Credit Metrics High: FFO gross adjusted leverage stood at 3.7x at FYE14 and total adjusted debt/EBITDAR was 3.6x. However, on a net basis, FFO adjusted leverage was below 1x at 0.75x. We expect these metrics to remain broadly flat over the rating horizon.	The company's gross debt leverage levels are high for the rating, because of its policy of maintaining substantial liquidity in cash, although Ryanair's leverage net of cash is strong. Ryanair manages its business on a net cash basis, targeting close to a zero net-debt-to-EBITDA position, and Fitch believes that both gross and net leverage should be analysed for an accurate view of the credit profile.	Likelihood: Present Timescale: Short to medium term Rating impact: Neutral on balance
Substantial Cash Deployment: Ryanair does not have a regular dividend policy. However, it has returned an average of EUR300m pa in the last seven years and intends to return EUR520m in FY15. Apart from shareholder returns (through dividends or share buybacks) the company has used internal cash flow generation to fund new aircraft purchases. Currently, Ryanair has 180 aircraft on order which will be delivered over the next five years.	Fitch estimates that in the absence of demand or fuel price shocks, Ryanair should be able to fund its planned fleet expansion over the next five years through internal cash generation.	Likelihood: Very likely Timescale: Short to Medium term Rating impact: Neutral on balance
Debt Structure Changes: Ryanair has historically funded most of its debt through EXIM-backed loans and bonds. However, Ryanair is looking to source new debt through bonds and EETC structures due to the declining attractiveness of EXIM funding. Ryanair issued a EUR850m bond at the beginning of FY15.	At Ryanair's current rating, it should be able to issue bonds and EETCs at relatively attractive prices. Unsecured bond issuance will also reduce the proportion of secured debt in the capital structure to the benefit of unsecured debt holders.	Likelihood: Likely Timescale: Short to medium term Rating impact: Neutral
Business Model Modifications: Ryanair is making small changes to its service offering with a focus on improving customer service levels. The announced changes include the introduction of a new business service, allocated seating for a fee, reduction on checked bag and boarding pass fees, launch of a mobile app and distribution of tickets through third-party platforms (GDSs).	These changes are relatively modest and do not change Ryanair's core strategy of low fares and low costs. Most of the changes appear to make sense and are perhaps overdue. Fitch sees only modest additional costs from these changes, but the benefits could help broaden Ryanair's appeal and support margins.	Likelihood: Present Timescale: Short to medium term Rating impact: Neutral
Expansion into Primary Airports or Long-Haul Services: Some of Ryanair's new airport bases are primary airports where airport charges can be significantly higher than secondary airports. While Ryanair has limited itself to short-haul point-to-point operations until now, there is a possibility that the airline might look to expand into long-haul operations in future.	Ryanair's cost leadership primarily derives from its point-to-point short-haul operations. Long-haul operations or presence in primary airports could dilute the cost advantage.	Likelihood: Somewhat likely Timescale: Medium term Rating impact: Negative

Source: Fitch

Distribution of Sector Outlooks

Directional Outlooks and Rating Watches



Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- RPK growth lower than ASK growth which in turn is driven by the company's fleet growth plans;
- EBITDA margin to decline 50bp-100bp in Fitch's conservative expectations;
- capex in line with planned fleet growth.

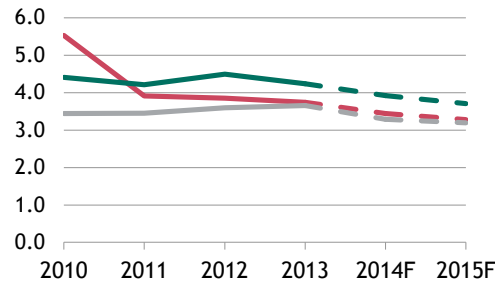
Definitions

- **Leverage:** Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid minus interest received plus preferred dividends plus rental expense.
- **Interest cover:** FFO plus gross interest paid minus interest received plus preferred dividends divided by gross interest paid plus preferred dividends.
- **FCF/revenue:** FCF after dividends divided by revenue.
- **FFO profitability:** FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report see Fitch's "[Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format](#)" Special Report, dated 25 November 2009 and available at www.fitchratings.com.

Ryanair Holdings plc — Transportation Median — Developed BBB+ Median — Source: Company data;

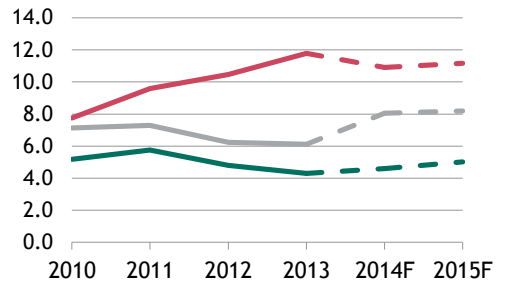
Leverage

including Fitch expectations



Interest Cover

including Fitch expectations



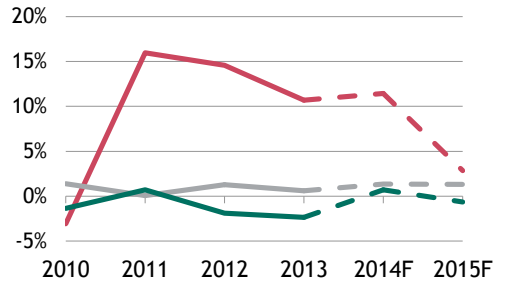
Debt Maturities and Liquidity at March 2014^a

Debt maturities	(EURm)
2015	380
2016	440
2017	439
2018	436
After 2018	1,389
Cash and equivalents	3,228

Source: Ryanair debt presentation

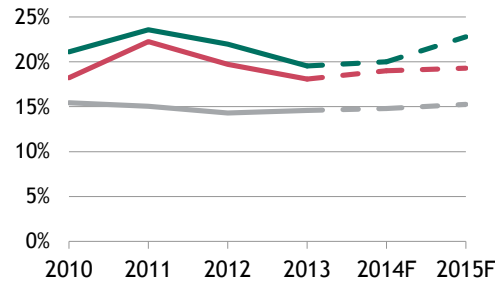
FCF/Revenues

including Fitch expectations



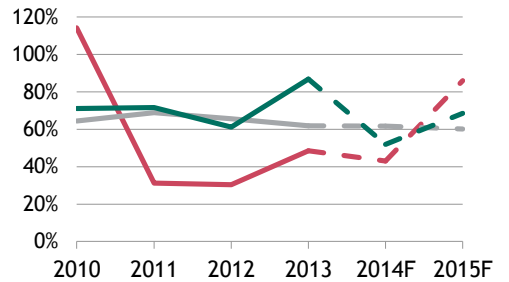
FFO Profitability

including Fitch expectations

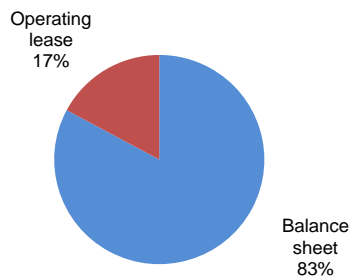


Capex/CFO

including Fitch expectations

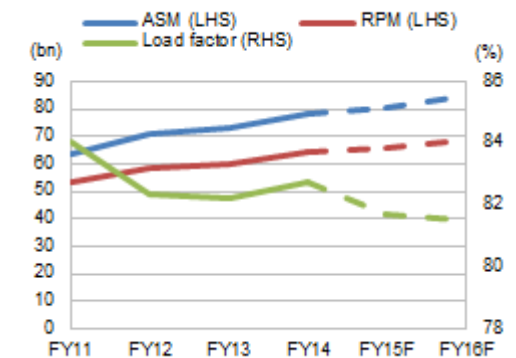


Ryanair-Aircraft Financing FY14



Source: Company data, Fitch

Ryanair Capacity Growth and Load Factor



Building Blocks - Airline Sector - Ryanair Holdings plc (BBB+/Stable)

Sector Risk Profile	Company-Specific Traits						Financial Profile (historical where relevant and forecast, mid-points)				
	Competitive strength		Cost structure				EBITDAR margin (%)	FCF	Operational liquidity (Cash as % of LTM revenue)	FFO fixed charge cover	FFO adj. gross leverage (x)
	Route structure	Market position	Fuel	Labour	Non-fuel costs	Fleet strategy					
BBB	<ul style="list-style-type: none"> Extensively diversified domestic and international network with strong hubs or LCC price leader Core member of global alliance 	<ul style="list-style-type: none"> Strong market positions in key businesses, high-growth, and/or high barrier markets 	<ul style="list-style-type: none"> Effective pass-through mechanism Conservative hedging strategy 	<ul style="list-style-type: none"> Non-unionized and/or flexible work rules No DB plans Solid labor relations 	<ul style="list-style-type: none"> Low-fixed cost structure Ability to reduce costs quickly relative to peers 	<ul style="list-style-type: none"> Young, fuel-efficient fleet (relative to peers) Sound fleet management 	20	Positive across the cycle	>20	4.5	2.5
BB	<ul style="list-style-type: none"> Extensively diversified domestic/regional, limited international network, with strong regional hub(s) or LCC leader in some markets Member of global alliance 	<ul style="list-style-type: none"> Solid market positions in some key businesses, high-growth, and/or less protected markets 	<ul style="list-style-type: none"> Limited ability to pass-through fuel costs Conservative hedging strategy 	<ul style="list-style-type: none"> Unionized and/or inflexible work rules No DB plans Constructive labor relations 	<ul style="list-style-type: none"> Moderate-fixed cost structure Ability to reduce costs quickly relative to peers 	<ul style="list-style-type: none"> Relatively young, fuel-efficient (relative to peers) fleet Adequate fleet management 	15	Neutral to negative across the cycle	20	3.0	3.5
B	<ul style="list-style-type: none"> Limited domestic or regional network, no international network, secondary regional hubs No alliances 	<ul style="list-style-type: none"> Secondary market positions in few/weaker markets 	<ul style="list-style-type: none"> No ability to pass-through fuel costs No hedging strategy 	<ul style="list-style-type: none"> Unionized or inflexible work-rules DB plans Difficult labor relations 	<ul style="list-style-type: none"> High-fixed cost structure Limited or no ability to reduce costs quickly relative to peers 	<ul style="list-style-type: none"> Aging, inefficient fleet (relative to peers) Poor fleet management 	10	Negative across the cycle	10	2.0	4.5

General

- Highly cyclical
- Highly leveraged
- Capital intensive, but solid access to aircraft financing
- Low barriers to entry, high barriers to exit
- Variable demand, limited revenue visibility
- Large fixed-cost base, including volatile fuel

- Extremely competitive
- Prone to exogenous shocks

Indicative factors observed or extrapolated for rated issuers in developed countries. Ratio levels refer to the mid-point of a through-the-cycle range; actual observations are likely to vary from these. Certain sub-sectors may contain a small number of observations; where no observations currently exist, guidelines for a category are extrapolated based on Fitch judgment. The factors give a high-level overview and are neither exhaustive in scope nor uniformly applicable. Additional factors will influence ratings, including corporate governance issues and particularly where group relationships constrain or enhance a rating level.

Peer Group

Issuer	Country
BBB+ Ryanair Holdings plc	Ireland
BBB Southwest Airlines Co.	United States
BBB- Alaska Air Group Inc.	United States
BB LATAM Airlines Group S.A. Tam Linhas Aereas S.A.	Chile Brazil
BB- Delta Air Lines JSC Aeroflot	United States Russian Federation

Issuer Rating History

Date	FC LT IDR	Outlook/ Watch
16 May 14	BBB+	Stable

Exogenous shocks typically affecting the airline industry include:

- economic downturns;
- regulatory changes;
- capital market conditions;
- fuel price shocks;
- war and terrorism;
- disease pandemics;
- environmental factors, such as volcano ash clouds..

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

The airline industry is inherently a high-risk sector given that it is cyclical, seasonal and capital intensive with various structural challenges, and also prone to exogenous shocks. High fixed costs combined with huge swings in demand and fuel prices typically translate into volatile profitability and cash flows. Demand for air travel is highly correlated with GDP growth, unemployment levels, disposable income, consumer confidence and demographics.

Financial Risks

The industry’s cost structure is largely fixed. Aircraft purchases require significant commitment both in terms of capital and years, and carriers may not always have the flexibility to fully adjust their fleet to changing times. The cost of jet fuel is volatile and difficult to manage. Labour costs also tend to be relatively fixed in the short run due to a high proportion of organised labour. A largely unionised workforce makes carriers potentially vulnerable to operating disruptions from strikes and many have a large pension burden. Airlines also have other long-term commitments to airports, gates/hangers, landing rights, investments in technology and other equipment.

Peer Group Analysis

	Ryanair BBB+/Stable	Southwest BBB/Positive	EasyJet NR	Aeroflot BB-/Stable ^a
Revenue (m)	5,037	13,308	5,093	6,767
EBITDAR margin (%)	22.1	18.2	16.7	18.0
FFO gross adjusted leverage (x)	3.74	3.86	2.19	4.94
FFO fixed charge cover (x)	5.85	2.48	5.47	2.17

Source: Fitch, companies a – standalone rating of B+ with one notch uplift reflecting state support.

Key Credit Characteristics

Airlines are subject to high operating leverage due to the asset-intensive nature of the business in addition to demand and fuel price risks. This provides an upper limit to airline ratings at ‘BBB+’ with most of the airlines rated sub-investment grade by Fitch.

Overview of Companies

Southwest Airlines Co. (BBB/Positive) – investment-grade ratings are supported by Southwest’s strong competitive position in the US domestic market, healthy free cash flow, declining leverage, substantial financial flexibility and large base of unencumbered assets. The ratings are also supported by the company’s consistent profitability and management’s commitment to investment grade ratings.

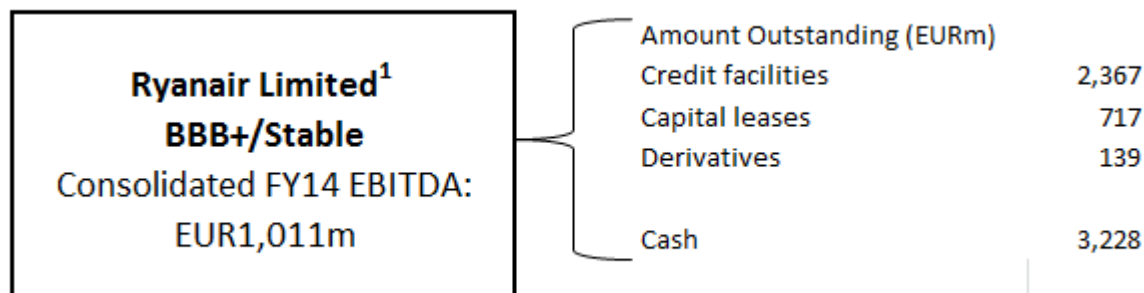
Cost positions and margins are key differences between Ryanair and Southwest, mainly due to differing business models. Liquidity positions are robust at both airlines, but while Ryanair has a large cash position and used debt to fund aircraft, Southwest’s liquidity also benefits from a revolving credit facility, and significant unencumbered assets since it generally paid cash for its airplanes. Ryanair’s fleet is much younger and fleet commonality differs – Southwest has 737-700s, 737-800s and has ordered some 737 Max aircraft. Levels of service also differ as “bags fly free” at Southwest. Southwest has limited FX exposure and revenues are less seasonal.

easyJet (not rated) – is the closest competitor for Ryanair in the low-cost European sector. easyJet has a strong business profile, although its EBITDAR margins at 16.7% are only moderately better than the industry average. Its credit profile is strong due to a net cash position and low FFO gross adjusted leverage of 2.2x at FYE13.

JSC Aeroflot (BB-/Stable) – Fitch expects a deterioration in JSC Aeroflot’s credit metrics in 2014 driven by Russia’s slower GDP growth and currency weakness. FFO gross adjusted leverage is forecast to exceed 5x and FFO fixed charge cover to decline below 2x in 2014.

Figure1

Simplified Group Structure Diagram



Source: FY14 annual report, Offering Memorandum, Fitch

¹ Ryanair Limited is the issuer of the unsecured bonds under the EMTN and all operating cash flows are generated at this entity. Fiscal year end is 31 March. Debt and cash amount outstanding are consolidated figures as of FY14. EUR850m unsecured bonds were issued after FY14.

Figure 2
Historical Financial Information

Ryanair Holdings Plc	Year End (EURm)			
	31 Mar 2014	31 Mar 2013	31 Mar 2012	31 Mar 2011
Profitability				
Revenue	5,037	4,884	4,390	3,630
Revenue growth (%)	3.13	11.25	20.94	21.49
Operating EBIT	659	718	683	488
Operating EBITDA	1,010	1,048	992	766
Operating EBITDA margin (%)	20.06	21.45	22.61	21.10
FFO return on adjusted capital (%)	14.96	15.20	15.21	11.34
Free cash flow margin (%)	10.70	14.60	15.95	-3.06
Coverages (x)				
FFO gross interest coverage	11.78	10.46	9.58	7.75
Operating EBITDA/gross interest expense	12.17	10.58	9.11	8.15
FFO fixed charge coverage (inc. rents)	5.85	5.75	5.68	4.32
FCF debt-service coverage	0.96	1.53	1.60	-0.03
Cash flow from operations/capital expenditures	2.07	3.29	3.20	0.88
Debt leverage of cash flow (x)				
Total debt with equity credit/operating EBITDA	3.19	3.42	3.74	4.94
Total debt less unrestricted cash/operating EBITDA	-0.01	0.04	0.23	1.16
Debt leverage including rentals (x)				
Annual hire lease rent costs for long-term assets (reported and/or estimate)	102	98	91	97
Gross lease adjusted debt/operating EBITDAR	3.63	3.81	4.09	5.28
Gross lease adjusted debt /FFO+int+rentals	3.74	3.85	3.91	5.53
FFO adjusted net leverage	0.75	0.73	0.84	2.01
FCF/lease adjusted debt (%)	13.36	16.33	15.80	-2.44
Debt leverage including leases and pension adjustment (x)				
Pension and lease adjusted debt/EBITDAR + pension cost	3.63	3.81	4.09	5.28
Balance sheet summary				
Readily available cash	3,228	3,534	3,481	2,898
Restricted/not readily available cash	13	25	35	43
Short-term debt	563	432	397	462
Long-term senior debt	2,659	3,149	3,310	3,321
Equity credit	n.a.	n.a.	n.a.	n.a.
Total debt with equity credit	3,222	3,580	3,707	3,783
Off-balance-sheet debt	812	786	726	776
Lease-adjusted debt	4,034	4,366	4,433	4,559
Pension adjusted debt	4,034	4,366	4,433	4,559
Cash flow summary				
Operating EBITDA	1,010	1,048	992	766
Gross cash interest expense	-83	-99	-109	-94
Cash tax	-32	-26	-14	-6
Other items before FFO (incl. interest receivable)	16	41	108	-5
Funds from operations	911	964	977	661
Change in working capital	134	60	41	125
Cash flow from operations	1,045	1,024	1,018	786
Capital expenditures	-506	-311	-318	-897
Dividends paid	0	0	0	0
Free cash flow	539	713	700	-111
Net equity proceeds/(buyback)	-465	-538	-118	-473
Other cash flow items	807	5	73	-15
Total change in net debt	880	180	655	-599
Working Capital				
Accounts Receivable Days	4	4	4	5
Inventory Days	0	0	1	1
Accounts Payable Days	24	28	34	39

Source: Fitch

Figure 3
Reconciliation of Key Financial Metrics for Ryanair

(EURm)	31 Mar 14	31 Mar 13
Interest bearing loans and borrowings	3,222	3,580
+ Subordinated debt	0	0
- Equity credit	0	0
= Total debt with equity credit	3,222	3,580
+ Total off-balance sheet debt (8 x long-term leases)	812	786
= Total lease-adjusted debt (a)	4,034	4,366
- Cash and equivalents (unrestricted)	3,228	3,534
= Net lease-adjusted debt (b)	806	832
Cash flows from operating activities (as reported)	1,045	1,024
+ Reversal of taxation paid	32	26
+ Reversal of interest paid	83	99
+ Reversal of interest received	17	27
= Net cash from operating activities (adjusted by Fitch)	1,144	1,121
- Gross interest paid (c)	83	99
+ Interest received (d)	17	27
- Taxation paid	32	26
+ Dividend received (recurring)	0	0
= Cash flow from operations	1,045	1,024
- Change in working capital	134	60
= Funds from operations (FFO) (e)	911	964
Long-term (LT) leases (f)	102	98
FFO net adjusted leverage (x)		
Net lease-adjusted debt/(FFO + net finance charge + LT leases) (b)/(e+c+d+f))	0.75	0.73
FFO gross adjusted leverage (x)		
Gross lease-adjusted debt/(FFO + net finance charge + LT leases) (a)/(e+c-d+f))	3.74	3.85
FFO fixed charge cover (x)		
(FFO + net interest paid + LT leases)/(gross interest paid + LT leases) ((e+c-d+f)/(c+f))	5.85	5.75
FFO gross interest coverage (x)		
(FFO + net interest)/gross interest ((e+c-d)/c))	11.78	10.46

Source: Fitch

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