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Research Update:

European Low-Cost Airline Ryanair Holdings Assigned 'BBB+' Rating; Outlook Stable

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Overview

- We assess European low-cost airline Ryanair Holdings PLC (Ryanair) as having a "satisfactory" business risk profile. This reflects Ryanair's leading position in the European low-cost airline market, supported by its track record over the past three years, its industry-leading operating efficiency, and its above-average profitability.
- In our view, Ryanair has a "minimal" financial risk profile, reflecting average Standard & Poor's-adjusted funds from operations (FFO) to debt of well above 60%.
- We modify Ryanair's anchor of 'a-' to reflect our view that the company could undertake capital expenditure or shareholder returns ahead of our current base-case scenario.
- We are therefore assigning our long-term corporate credit rating of 'BBB+' to Ryanair.
- The stable outlook reflects our view that Ryanair will be able to maintain its industry-leading cost position and therefore strong profitability over the next two years. In addition, we believe that Ryanair will have adjusted FFO to debt of well above 50% in the same timeframe.

Rating Action

On March 20, 2014, Standard & Poor's Ratings Services assigned its 'BBB+' long-term corporate credit rating to European low-cost airline Ryanair Holdings PLC (Ryanair). The outlook is stable.

Rationale

The 'BBB+' rating on Ryanair reflects our assessment of the company's business risk profile as "satisfactory" and its financial risk profile as "minimal." Our business risk profile assessment is based on our view of Ryanair's:
- Industry-leading profitability, with return on capital averaging about 13% over the past six years. We believe that the company will maintain return on capital at similar levels in future.
- High operating efficiency, thanks to Ryanair's focus on costs. This allows Ryanair to operate a significantly lower cost per passenger and cost per available seat mile than its peers. In addition, Ryanair has a relatively young fleet of aircraft.
- Strong market position, with significant scale advantages in Ryanair's key airports, as well as a limited amount of competition on the company's

route networks.
- Supportive scale, scope, and diversity. Ryanair is present in most European markets and has a lower concentration of traffic in single airports than most of its peers. Ryanair's diversified-base strategy makes it more flexible than its peers. This is because Ryanair is more able to relocate aircraft to serve more profitable markets than legacy carriers that rely on transfer traffic to support long-haul operations.

These positive factors are partly mitigated by Ryanair's lower exposure to higher-spending and less price-elastic business travelers, leading to lower average revenue per passenger for Ryanair than for its peers. In addition, Ryanair has a lack of geographic diversification outside Europe due to its lack of long-haul flights and reputation for providing less customer-friendly services than some of its peers.

Our base-case scenario for Ryanair reflects our economic forecast for GDP growth in the eurozone (European Economic and Monetary Union) of 0.9% in 2014 and 1.3% in 2015, and in Ryanair's other major market of the U.K. of 2.3% in 2014 and 2.0% in 2015. For more information, refer to "Economic Research: These Green Shoots Will Need A Lot Of Watering," published Dec. 12, 2013, on RatingsDirect.

Based on the aforementioned macroeconomic improvements, we forecast that Ryanair will grow passenger numbers by 2%-3% in the financial year to March 31, 2014 (financial 2014), and by 1%-2% in financial 2015. We forecast that average ticket prices including ancillary revenues will decrease by 1%-2% in financial 2014 and remain relatively flat in financial 2015. In our view, Ryanair's revenues will not benefit as much as some of its peers from the improving macroeconomic conditions, partly due to already-high load factors on its aircraft, as well as Ryanair's lower average ticket prices on account of its position in the low-cost airline market. However, these factors could be offset if customer perception of Ryanair improves thanks to recent corporate actions--including allocated seating and the ability to carry on a second smaller piece of hand luggage--and better yield management.

In terms of costs, our base case sees Ryanair's fuel costs per passenger declining, due to our forecast of a modest decline in the price of Brent crude oil throughout 2014-2015 (see "Standard & Poor's Revises Its Crude Oil And Natural Gas Price Assumptions," published Nov. 20, 2013). In our view, nonfuel costs per passenger will grow by 0%-1% in 2014 and by 1%-2% in 2015.

Based on the above forecasts, and an increase in capex from 2015, we believe that Ryanair will maintain a "minimal" financial risk profile over the next two years. As per our criteria for the transportation industry, we weight financial 2014 and 2015 equally at 50% in calculating our weighted average ratios. We project Ryanair's weighted average adjusted ratios under our base case for 2014 and 2015 as follows:
- Return on capital of 14%-15% (calculated over 2012-2016).
- FFO to debt of 90%-100%.
- Debt to EBITDA of 0.9x-1.0x.

- Free operating cash flow to debt of 50%-60%.

We assess Ryanair's anchor at 'a-'. We adjust our anchor downward by one notch to reflect our view of Ryanair's financial policies regarding capital expenditures (capex), share buybacks, and extraordinary dividends. We believe that the company could undertake opportunistic capex to acquire aircraft at a competitive price. We also see a possibility of Ryanair committing to additional shareholder returns over the short-to-medium term, which could lower its ratios to the "modest" from the "minimal" financial risk profile category.

Liquidity

We assess Ryanair's liquidity as "strong" under our criteria, reflecting our calculation of sources to uses remaining above 1.5x over the 24 months to Dec. 31, 2016, and remaining strongly positive thereafter, despite a 50% haircut to our forecast of EBITDA.

Ryanair's main sources of funding over the next 12 months include:
- Cash and cash equivalents of €2.8 billion.
- FFO of about €800 million.
- Marginally positive working capital inflows.

Ryanair's main uses of funding are:
- Debt maturities of about €400 million.
- Capex of about €500 million.
- Extraordinary shareholder returns of about €600 million.

Outlook

The stable outlook reflects our view that Ryanair will be able to maintain adjusted FFO to debt well above 50% and maintain its current competitive position over the next two years.

Downside scenario

We could downgrade Ryanair if its weighted average adjusted FFO to debt were to decline below 50%. In our view, this could happen in financial 2015 if revenues did not grow and the EBITDA margin decreased by two percentage points. This would require, for example, oil prices to increase by more than 30%, or a mix of oil-price and operating-cost increases if management was not able to take offsetting actions. We could also lower our rating on Ryanair if its business risk profile weakened. This could happen, for example, if Ryanair's profitability declined to average levels or became more volatile, for instance due to strong competition.

Upside scenario

An upgrade is currently unlikely due to Ryanair's financial policies regarding investments, share buybacks, and extraordinary dividends, and the upcoming increase in capex. We could upgrade Ryanair if its weighted average adjusted FFO to debt was above 90% on a sustainable basis and management was committed to maintaining an 'A-' rating.

Ratings Score Snapshot

Corporate credit rating: BBB+/Stable/--
Business risk: Satisfactory
- Country risk: Low
- Industry risk: High
- Competitive position: Excellent

Financial risk: Minimal
- Cash flow/leverage: Minimal

Anchor: a-

Modifiers:
- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong
- Financial policy: Negative (-1)
- Management and governance: Strong
- Comparable rating analysis: Neutral (no impact)

Related Criteria And Research

- Key Credit Factors For The Transportation Cyclical Industry, Feb. 12, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Ratings List

New Rating

Ryanair Holdings PLC

Corporate Credit Rating	BBB+/Stable/--

Additional Contact:
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