

Ryanair

Airlines

The Fast and the Furious 15, 16 & 17

€860m net profit expected for FY15, release on Tuesday May 26th

FY15 guidance started out at €580-620m before rising through the year to now stand at €840-850m. Much of this was driven by rising demand, with passengers up 10.9% yoy to 90.5m vs an original 4% forecast. FY15 ended with Q4 pax up 30% yoy and load factor up 11pp, helped by an expected yield fall of 8% yoy.

FY16 expected to show an acceleration in capacity growth

While there is always the danger that the company talks down expectations at the results briefing, citing yield pressures and the cost of expansion, we believe FY16 returns will be driven by a 1% load factor gain on capacity growth of 9.2%. This will likely be supported by a forecast ticket price decline of 4.45%, driven by fuel savings, with this partially offset by a positive FX gain of +1.57%.

FY17 German growth expected to be to the fore

Ryanair will dictate the European competitive landscape over the next 3 years as it accounts for ~30% of narrow-body seat deliveries. We believe this capacity will be well deployed by Ryanair as it pursues a 20% share of the German market by 2019, up from <5% currently (equivalent to some 20m additional seats)

Adjusted ROIC returns supports valuation

We expect adjusted ROIC (adj. NOPAT over adj. Capital Employed) to run out at 23.5% for FY15 and to be between 22-23% over the next two years, with these levels last seen back in 2004. On a P/CE basis this gives us a 12mth fair value at €13.40 on 3.4x Capital Employed and marking its Aer Lingus stake to market.

Financial & Valuation Summary

Headline Figures	Mar 14a	Mar 15f	Mar 16f	Mar 17f
Revenues (€m)	5,037	5,692	6,250	6,649
EBITDAe (€m)	1,010	1,419	1,578	1,880
Adj EPS (c)	36.1	61.9	70.6	85.1
DPS (c)	-	37.6	-	50.7
Valuation				
EV / EBITDARe	9.1x	10.2x	9.3x	8.2x
P/E	18.2x	17.6x	15.4x	12.8x
Free Cash Flow Yield	5.7%	4.2%	0.6%	1.1%
Dividend Yield	-	3.4%	-	4.6%
Balance Sheet Strength				
Interest Cover (EBITDAe)	15.1x	22.2x	21.5x	21.9x
Debt / Equity	-4.8%	-8.0%	-2.9%	7.3%
Net Debt / EBITDAe	-0.2x	-0.2x	-0.1x	0.2x
Profitability				
EBITDAe Margin	20.1%	24.9%	25.2%	28.3%
ROCE	17.0%	25.9%	24.6%	24.4%
ROE	15.9%	24.6%	23.8%	25.1%

Equity Research

19 May 2015

Recommendation

BUY

Price Target

Unchanged

€13.40

from €12.20

Key Stock Data

Closing Price:	€10.90
Market Cap / EV	€15,090 / €15,596.9m
Average Daily Volume	2.052m
Free Float	95%
52 Wk Hi/Lo	€11.45 / €6.58
Price Perf (1m/3m/12m)	-1.0% / 12.6% / 71.8%

Ryanair Vs Factset Europe Airlines



Source: Factset

International Comparative Ratings

	Price	Cal. P/E	Cal. EV/EBITDAR		
	1c	15f	16f	15f	16f
Ryanair	10.90	16.0	13.3	9.5	8.4
AF-KLM	8.12	n/m	6.3	5.6	4.5
easyJet	16.78	12.9	12.0	8.3	7.6
Lufthansa	13.69	8.3	6.0	5.3	4.4

Analysts

Mark Simpson

+353-1-641 0478

mark.a.simpson@goodbody.ie

Jack Diskin

+353-1-641 9193

jack.w.diskin@goodbody.ie

Ryanair

Share Price	€10.90	Mkt Cap (m)	€15,090
Recommendation	Buy	Avg Daily Volume	2,052m
Price Target	€13.40	Free float	95%

Sector	Airlines	Analyst	Mark Simpson
Ticker	RYA ID	Email	mark.a.simpson@goodbody.ie
Web Site	www.ryanair.com	Tel	+353-1-641 0478

Value Drivers

	Mar 13a	Mar 14a	Mar 15f	Mar 16f	Mar 17f
Per Share Data - c					
Adj EPS	39.3	36.1	61.9	70.6	85.1
DPS	33.7	-	37.6	-	50.7
Dividend cover	1.2x	n/m	1.6x	n/m	1.7x
NAV	226.8	227.7	267.2	322.2	357.6
No. of Shares (m)	1,443.1	1,443.1	1,384.4	1,355.9	1,355.9

Momentum

Sales	12.9%	3.1%	13.0%	9.8%	6.4%
EBITDAe	13.0%	-3.6%	40.5%	11.2%	19.2%
EBITAE	16.2%	-8.3%	58.2%	11.7%	20.3%
Adj EPS	15.6%	-8.2%	71.5%	14.0%	20.6%
DPS	n/a	-100.0%	n/a	-100.0%	n/a
Free Cashflow	38.1%	-6.2%	18.6%	-86.4%	78.1%
NAV	1.0%	0.4%	17.4%	20.6%	11.0%

Profitability Metrics

EBITDAe margin	21.5%	20.1%	24.9%	25.2%	28.3%
EBITAE margin	14.7%	13.1%	18.3%	18.6%	21.1%
ROCE	18.0%	17.0%	25.9%	24.6%	24.4%
ROE	17.3%	15.9%	24.6%	23.8%	25.1%
- Asset Turnover - x	1.2x	1.3x	1.4x	1.3x	1.2x
- PAT Margin - %	11.7%	10.4%	15.1%	15.4%	17.4%
- Leverage - x	1.2x	1.2x	1.2x	1.2x	1.2x

Balance Sheet Metrics

Debt / Equity	-1.9%	-4.8%	-8.0%	-2.9%	7.3%
Net Debt / EBITDAe	-0.1x	-0.2x	-0.2x	-0.1x	0.2x
Interest Cover (EBITDAe)	14.6x	15.1x	22.2x	21.5x	21.9x
Avg Working Capital / Sales	-26.8%	-31.9%	-28.9%	-27.7%	-27.0%
Capex / Depreciation	136.0%	143.5%	205.1%	345.9%	325.4%

Cashflow Metrics

Operating Cashflow per share	81.6	79.3	115.3	127.1	144.6
Free Cashflow per share	39.9	37.4	46.2	6.4	11.5
Cashflow Conversion	101.1%	96.5%	74.5%	9.1%	13.4%
FCF Yield (Mkt Cap)	8.6%	5.7%	4.2%	0.6%	1.1%

Enterprise Value

Market Capitalisation	6,714.7	9,500.5	15,090.0	15,090.0	15,090.0
Net Debt	24.5	-110.0	-295.0	-127.4	355.3
Pension	10.2	10.2	10.2	10.2	10.2
Minorities	-	-	-	-	-
Other	661.2	699.1	791.8	996.2	1,072.9
Enterprise Value	7,410.6	10,099.7	15,596.9	15,968.9	16,528.4

Valuation

PE	11.8x	18.2x	17.6x	15.4x	12.8x
EV / Sales	1.5x	2.0x	2.7x	2.6x	2.5x
EV / EBITDARe	6.5x	9.1x	10.2x	9.3x	8.2x
EV / EBITAE	10.3x	15.3x	15.0x	13.7x	11.8x
Dividend Yield	7.2%	-	3.4%	-	4.6%
Price / NAV	2.1x	2.9x	3.1x	3.4x	3.0x
EV / Cap Employed	1.9x	2.6x	3.7x	3.0x	2.7x

Share Price Performance

Share Price Movement	-1.0%	12.6%	29.6%	11.2%	71.8%
vs Factset Europe Airlines	-1.1%	6.6%	1.8%	-1.7%	30.1%

Financial Statements

	Mar 13a	Mar 14a	Mar 15f	Mar 16f	Mar 17f
Profit & Loss (€m)					
Sales	4,884.0	5,036.7	5,692.1	6,249.7	6,649.3
EBITDAe	1,047.8	1,010.4	1,419.4	1,577.7	1,880.2
Depreciation	-329.6	-351.8	-377.4	-414.0	-480.0
EBITAE	718.2	658.6	1,042.0	1,163.7	1,400.2
Amortisation	-	-	-	-	-
JV's & Associates	-	-	-	-	-
Other	4.6	-0.5	-0.4	-	-
Operating Profit	722.8	658.1	1,041.6	1,163.7	1,400.2
Net Financial Charge	-71.9	-66.7	-63.9	-73.5	-85.8
PBT	650.9	591.4	977.8	1,090.3	1,314.5
Tax	-81.6	-68.6	-118.1	-130.8	-157.7
Minority Interests	-	-	-	-	-
Discontinued Operations	-	-	-	-	-
Exceptional Items	-	-	-	-	-
PAT	569.3	522.8	859.7	959.4	1,156.7

Cashflow Statement (€m)

EBITDAe	1,047.8	1,010.4	1,419.4	1,577.7	1,880.2
Change in Working Capital	36.3	136.7	156.2	140.7	75.6
Other Operating Cashflows	93.6	-3.4	20.6	4.8	4.8
Operating Cashflow	1,177.7	1,143.7	1,596.2	1,723.2	1,960.6
Net Interest	-72.4	-66.7	-63.9	-73.5	-85.8
Tax Paid	-81.6	-32.4	-118.1	-130.8	-157.7
Capex	-448.2	-504.9	-774.0	-1,431.7	-1,561.9
Dividends from Assoc. / Minorities	-	-	-	-	-
Free Cashflow	575.6	539.7	640.3	87.2	155.3
Dividends Paid	-491.5	-	-520.0	-	-686.9
Acquisitions	-	-	-	-	-
Disposals	-	-	-	-	-
Changes in Share Cap	-46.1	-321.8	-94.8	-294.8	5.2
FX Translation	-	-	-	-	-
Other	150.7	13.5	18.7	-40.8	5.4
Mvt in Net Debt	188.7	231.4	44.2	-248.4	-521.0

Balance Sheet (€m)

Net Tangible Assets	4,906.3	5,060.3	5,436.3	6,414.1	7,452.2
Goodwill	-	-	-	-	-
Other Net Intangible Assets	46.8	46.8	46.8	46.8	46.8
Financial Assets	226.3	260.7	340.3	340.3	340.3
Total Fixed Assets	5,179.4	5,367.8	5,823.4	6,801.2	7,839.3
Stock	2.7	2.5	4.2	7.4	8.2
Debtors	201.9	199.0	466.2	526.5	531.8
Creditors	-1,511.8	-1,806.6	-2,113.9	-2,262.3	-2,338.3
Working Capital	-1,307.2	-1,605.1	-1,643.5	-1,728.5	-1,798.3
Other Liabilities	37.5	84.6	26.5	175.1	174.6
Capital Employed	3,909.7	3,847.3	4,206.3	5,247.9	6,215.6
Shareholders Funds	3,272.6	3,285.8	3,699.4	4,368.9	4,848.8
Net Debt	-60.7	-159.2	-295.0	-127.4	355.3
Net Pension	10.2	10.2	10.2	10.2	10.2
Other	687.6	710.5	791.8	996.2	1,001.4
Capital Employed	3,909.7	3,847.3	4,206.3	5,247.9	6,215.6

Key Dates

Last Report	25/03/2015	Ex Final Div	n/a
Forecast Change	17/05/2015	Ex Interim Div	n/a
Next Update	26/05/2015		

FY15 set to establish ROIC at over 20% sustainable

	FY13	FY14	FY15 est.	FY16f	FY17f
Year end aircraft	301	297	308	340	360
Capex (inc. forward payments)	-569	-516	-686	-1,347	-1,518
Seat capacity (m)	96.5	100.1	102.5	112.0	120.3
yoy change	4.9%	3.7%	2.4%	9.2%	7.4%
Load factor	82.1%	81.6%	88.3%	89.3%	89.6%
Passengers (m)	79.3	81.7	90.5	100.0	107.7
yoy change	4.5%	3.0%	10.9%	10.5%	7.7%
Standard Standard fares (€)	48.20	46.40	47.15	45.63	44.25
yoy change	6.3%	-3.7%	1.6%	-3.2%	-3.0%
Business penetration rates	-	-	0.6%	3.2%	5.2%
Average overall fare (€)	48.2	46.4	47.4	47.0	46.5
Average ancillary (€)	13.4	15.3	15.5	15.5	15.2
Total yield/pax (€)	61.6	61.7	62.9	62.5	61.7
Total Revenues (€m)	4,884	5,037	5,692	6,250	6,649
Costs: (€m)					
Fuel	-1,886	-2,013	-1,977	-2,081	-1,921
Labour	-436	-464	-495	-555	-610
Leases	-98	-102	-113	-142	-143
Route Charges	-487	-522	-553	-634	-704
Airport Charges	-612	-617	-731	-851	-941
Engineering	-121	-116	-134	-143	-143
Depreciation	-330	-352	-377	-414	-480
Others	-198	-193	-269	-265	-306
Operating Costs	-4,166	-4,378	-4,650	-5,086	-5,249
Op costs/pax (€m)	-52.6	-53.6	-51.4	-50.9	-48.7
Ex-Fuel Op costs/pax (€m)	-28.8	-29.0	-29.5	-30.1	-30.9
Operating Profit (€m)	718	659	1,042	1,164	1,400
Operating margin	14.7%	13.1%	18.3%	18.6%	21.1%
Adjusted NOPAT (€m)	656.8	605.6	944.4	1,059	1,267
NPAT (€m)	569	523	860	959	1,157
(€m)					
Shareholders' Equity	3,273	3,286	3,699	4,386	4,849
Net (debt)/cash	61	159	295	127	-355
Capital employed	3,212	3,127	3,404	4,242	5,204
Av. Capital employed	3,315	3,169	3,266	3,823	4,723
Rentals	-98	-102	-113	-142	-143
Capitalised	688	711	792	996	1,001
Average Capitalised leases	661	699	751	894	999
Adj. Capital employed	3,976	3,868	4,017	4,717	5,722
ROIC	16.5%	15.7%	23.5%	22.5%	22.1%
Implied P/CE (x)			3.61	3.45	3.40
Implied Share price at each year end (€)			10.48	11.98	14.32
Implied 12mth Target Price ex-Aer Lingus stake (+25c)				€13.15	
Dividends (€m)	492		520 (Feb'15)		687
DPS (€)	0.34		0.38		0.50
Share buy-backs (€m)	67.5	327	100	300	

Source: Goodbody

FY15 – We expect a small guidance beat at €860m NPAT

Guidance for FY15 net profit stands at €840-850m currently. With a net profit for the nine months to December at €843.9m, this suggests a Q4 loss of some €4m to a profit of €6m. We forecast a €16m profit for this last quarter, with this suggesting a €60m Q4 improvement yoy as against the €84m yoy gain seen in Q3 (with Q315 net profits of €48.9m as against a €35.2m loss the year before).

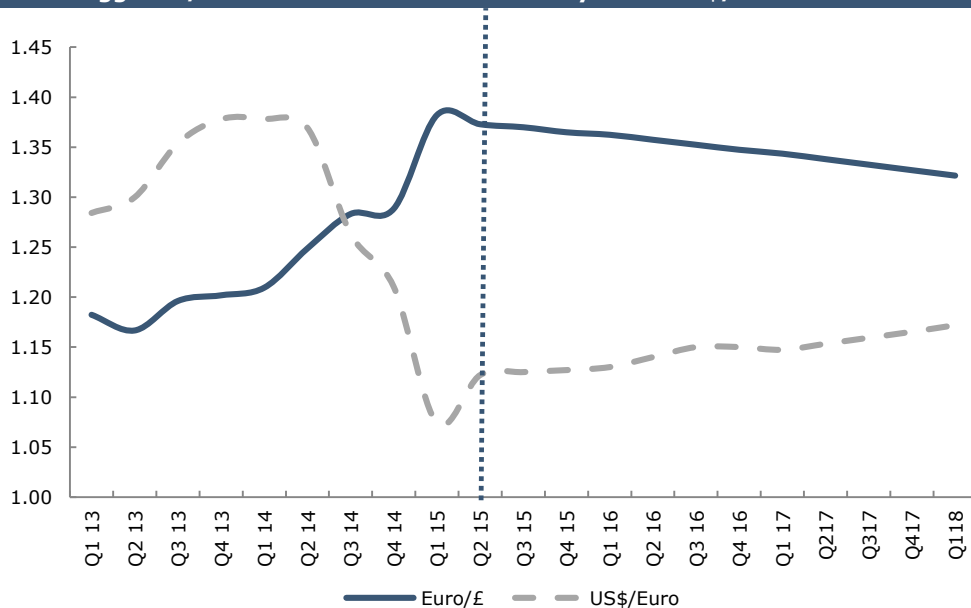
What we are looking out for:

- 1) Q4 yield. The company has been adamant that yields were going to be down 6-8% despite the fact that guidance for the prior three quarters were all beaten. We expect an 8% decline at the **ticket price level** for a net change in the **standard fare (ticket plus baggage)** of -6.2% yoy. This equates to €35.07/pax for Q4 and €47.15/pax for FY16 (+1.6%).
- 2) FY15 ancillary revenues per pax at €15.46, +1.3% yoy but reflecting a 2% fall yoy in Q4.
- 3) Total FY15 revenue per pax of €62.87, up 1.9% yoy but reflecting -3.5% yoy in Q4.
- 4) The difference between our standard fare plus ancillary revenue per pax, as in points 1 and 2 above, and our total rev/pax, as in point 3, reflects circa €50m of revenue from an estimated 580,000 Business Plus passengers carried in the year. It is unlikely, however, that the company will give much detail around this product at the briefing to verify these assumptions.
- 5) FY15 Operating Costs at €51.4/pax, -2.9% yoy but with the Q4 fall estimated to be 8.3% yoy.
- 6) Cost performance driven by fuel with fuel/pax down 21% yoy in Q4 and 10% for the year.
- 7) FY15 costs/pax ex-fuel up 3.3% yoy at €29.5, with airport charges up 8% yoy at €8.1/pax.

FX is of note in Q4 and for current FY16 year.

The fall of the euro against Sterling has had a beneficial impact on the company, with circa 25% of revenues denominated in Sterling. However, there is a negative impact on costs given that some 53% of these are incurred in US\$ (43% accounted for by fuel, 10% others including aircraft leasing and engineering). However, the impact of this is expected to become less pronounced through the current year given forecasts for a gentle appreciation of the Euro from here on in. As such, we estimate that the impact on yields falls from +2.5% yoy in Q1 to -0.36% by Q4, although this Sterling move is worth some €90m to FY16 revenues overall. The impact of the US\$ is less visible given that Ryanair is 90% hedged on fuel for this year at US\$920/bbl and 90% hedged on its US\$/€ rate at 1.33. As such, the FY16 US\$ negative is assessed at €15m.

Forwards suggest €/£ from 1.39 to 1.34 over next 2yrs and US\$/€ from 1.12 to 1.15



Source: Goodbody

FY16 – accelerating capacity but Ryanair likely to temper guidance

Following on from easyJet's commentary, at its recent H1 results briefing, that yields are coming down in the face of falling fuel prices, we expect that Ryanair will want to emphasise this point so as to temper guidance and keep expectations for FY16 net profits below €1bn. However, in our opinion, Ryanair is not so much a victim of this trend as in fact the instigator as it looks to introduce significant new capacity into the European market place.

Fares expected to be down 3.2% yoy, but with overall yields down 60bp on flat ancillary/pax

We forecast overall yields per pax will be down 60bp this year at €62.50/pax, made up of the following;

- 1) Standard ticket prices are forecast to be down 3.8% yoy to €39.20 on average, made up of a ticket price fall of 4.45%, a 1.57% offset overall from the stronger £ and a 0.90% decline due to the greater level of growth seen in lower average yielding second half of the year.
- 2) We assume no change to baggage charges but expect the same 1.57% benefit from FX.
- 3) As such, the average fare price (ticket plus baggage) is forecast to be down 3.2% yoy at €45.63/pax.
- 4) Business penetration rates are forecast to be 3.2% for the year, equivalent to 3.19m business fares at an average of €89/pax. We therefore forecast €284m of business fare revenues for the year, or 4.5% of Ryanair's total, with this adding 1.3% to yields.
- 5) Ancillary revenues/pax are expected to be essentially flat yoy at €15.48/pax, with this still seeing the benefits of allocated seating, which was introduced just over a year ago in April 2014. It is worth noting that easyJet assessed the benefits of the yield management of bags and allocated seating (introduced in 2012) as adding 27p to its H115 yield, or 0.5%.

With regards our assumption that nominal ticket prices will be cut 4.45% for the year, this is based on Ryanair passing on 75% of the cumulative fuel savings over the FY16 period. The saving is assessed on the basis that any fuel saving is discounted away over the 12mths to the anniversary of that saving. We have modelled this using Ryanair's hedged fuel and US\$ position and discounted each quarter's yoy savings out over the following four quarters. For FY17, the implied annualised discount is 2.85%, leading us to adopting a 3% ticket price reduction in our model.

Fuel savings expected to see a 4.45% fall in FY16 ticket prices (pre-FX) and 3% in FY17

	FY15a	Q116	Q216	Q316	Q416	FY16f	Q117	Q217	Q317	Q417	FY17f
Total needs MTm	2.79	0.86	0.90	0.71	0.61	3.07	1.03	1.03	0.79	0.66	3.51
Hedged	90%	90%	90%	90%	90%	90%	70%	45%	10%	0%	35%
Price (US\$/MT)	952	950	944	910	860	920	680	680	680	680	680
Spend (US\$m)	2,405	733	768	579	470	2,549	490	316	53	0	859
Spot											
Fwds (US\$/MT)	810	548	568	580	597	571	618	631	637	642	631
Spend (US\$m)	231	47.0	51.3	41.0	36.3	176	190.8	358.3	450.3	423.0	1,422
Combined US\$m	2,636	780	819	620	506	2,725	681	674	504	423	2,282
US\$/Euro hedged	1.333	1.309	1.310	1.310	1.310	1.310	1.200	1.195	1.180	1.166	1.188
Fuel Cost (€m)	1,977	595	626	473	387	2,081	568	564	427	363	1,921
Pax (m)	90.53	26.47	29.49	23.56	20.48	100.00	29.16	32.08	25.05	21.44	107.74
Av Fuel/pax (€)	21.84	22.50	21.22	20.08	18.87	20.81	19.46	17.58	17.04	16.92	17.83
yoy change	-10.3%	-3.2%	-5.5%	-7.7%	-1.5%	-4.7%	-13.5%	-17.1%	-15.2%	-10.4%	-14.3%
Ch/pax (€) in Q		-0.74	-1.25	-1.67	-0.30	-1.03	-3.04	-3.63	-3.05	-1.96	-2.98
Cumulative 4Qs		-3.07	-2.86	-2.77	-2.39	-2.79	-0.99	-1.56	-2.16	-2.50	-1.73
% passed on		75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Euro equivalent		-2.76	-2.14	-2.07	-1.79	-2.10	-0.89	-1.17	-1.62	-1.88	-1.30
As % of ticket price		-5.9%	-3.5%	-5.3%	-5.1%	-4.45%	-1.9%	-2.0%	-4.3%	-5.6%	-2.85%

Source: Goodbody

Fare discounting supports a forecast 9.2% increase in FY16 capacity.

In terms of capacity, we expect Ryanair to add some 9.5m seats this year for a total of 112m. This will see a faster rate of capacity expansion in the second half of the year, at 11% growth yoy vs circa 7.5% growth on average over Q1 and Q2, as additional 2015/16 winter capacity is added to further promote its all year round business product and schedules.

In the shorter term, we see the first two quarters growth as;

- Deepening its domestic footprint in a number of important markets, including Italy, the UK, Poland, Portugal and Greece. Of note is the 9% growth in domestic Italian capacity, equivalent to an additional 500,000 seats, given that this is Ryanair's single biggest market segment across its European operations.
- Promoting a number of smaller but important markets beyond their respective domestic markets, with yoy growth in H1 international capacity for Poland and Portugal forecast to be 21% and 13% respectively.
- Stability in its Spanish capacity this summer ahead of what we would expect to be stronger capacity growth into FY17 as the domestic economy begins to recover.
- Notable increases in Irish and German capacity.

Ryanair's summer schedule will see some 4.3m additional seats added in that period

Seats (m)	Italy	UK	Spain	Ireland	France	Germany	Poland	Portugal	Belgium	Greece	Other	Total
Italy	6.36	1.13	1.55	0.25	0.48	0.57	0.26	0.14	0.60	0.32	0.98	12.64
UK	1.13	0.56	3.01	1.88	0.71	0.59	0.92	0.56	0.08	0.25	1.78	11.47
Spain	1.55	3.01	3.17	0.72	0.36	1.00	0.21	0.17	0.65	0.01	1.03	11.88
Ireland	0.25	1.88	0.72	-	0.23	0.17	0.25	0.18	0.10	0.01	0.37	4.17
France	0.48	0.71	0.36	0.23	0.28	0.03	0.08	0.36	0.24	0.02	0.45	3.24
Germany	0.57	0.59	1.00	0.17	0.03	-	0.03	0.31	-	0.10	0.32	3.11
Poland	0.26	0.92	0.21	0.25	0.08	0.03	0.30	0.01	0.09	0.07	0.32	2.53
Portugal	0.14	0.56	0.17	0.18	0.36	0.31	0.01	0.51	0.16	-	0.10	2.50
Belgium	0.60	0.08	0.65	0.10	0.24	-	0.09	0.16	-	0.09	0.34	2.35
Greece	0.32	0.25	0.01	0.01	0.02	0.10	0.07	-	0.09	0.87	0.29	2.03
Others	0.98	1.78	1.03	0.37	0.45	0.33	0.32	0.10	0.34	0.29	0.45	6.44
Total	12.64	11.47	11.88	4.17	3.24	3.11	2.53	2.50	2.35	2.03	6.44	62.36
Addition	0.79	0.70	0.17	0.42	(0.07)	0.28	0.52	0.56	0.20	0.34	0.38	4.30

	Italy	UK	Spain	Ireland	France	Germany	Poland	Portugal	Belgium	Greece	Others	Total
Italy	9%	-3%	6%	31%	9%	-1%	7%	145%	-1%	12%		
UK	-3%	157%	-6%	10%	-2%	16%	11%	5%	3%	3%		
Spain	6%	-6%	1%	3%	3%	7%	45%	3%	4%	-7%		
Ireland	31%	10%	3%		-2%	41%	6%	-2%	92%	19%		
France	9%	-2%	3%	-2%	-28%	-25%	104%	1%	2%	213%		
Germany	-1%	16%	7%	41%	-25%		50%	38%		-17%		
Poland	7%	11%	45%	6%	104%	50%	87%		38%	99%		
Portugal	145%	5%	3%	-2%	1%	38%		181%	2%			
Belgium	-1%	3%	4%	92%	2%		38%	2%		3%		
Greece	12%	3%	-7%	19%	213%	-17%	99%		3%	40%		
Growth yoy	6.7%	6.5%	1.5%	11.2%	-2.2%	9.9%	26.1%	28.8%	9.5%	20.0%	6.4%	7.5%

Source: innovata

Into the Winter 2015/16 period, we would expect to see a similar pattern to the Winter season just ended, with significant growth being seen in Northern European primary city pairs. This will be underpinned by the opening of Ryanair's Berlin base from October. Ryanair intends to operate five aircraft from there, to treble its activity with 16 new winter routes, taking the total to 22 in total, and to target a total of 2.6m customers per annum.

FY17 German capacity growth should be an increasingly vibrant story

Ryanair has had a limited exposure to the German domestic market in the past before exiting in 2011, and is underrepresented in the intra-European German routes as compared to its other markets. Currently, it has about a 4.5% share of the total German European capacity, although this was as high as 6.5% back in 2009. However, it now feels that there is an opportunity to profitably re-enter the German domestic market and to win share on all routes. This obviously reflects Ryanair's competitive cost position versus the traditional German incumbents but also, more importantly, the fact that German airports are now willing to do deals in order to bring in airlines that can offer growth in the face of stagnant performances from its own domestic carriers.

Germany's lead airlines growth rates are weak

	2010	2011	2012	2013	2014	FY14 to Oct	FY15 to Oct	Ch yoy
Germany to Europe	70.9	75.0	76.0	76.3	78.2	67.1	70.2	4.6%
All Germany Domestic	38.0	37.8	36.3	33.3	33.5	28.1	27.8	-1.0%
Total Europe	108.9	112.8	112.2	109.6	111.7	95.2	98.1	3.0%
Leading German airlines to Europe:								
Lufthansa	22.0	24.9	26.5	25.7	23.4	20.1	19.1	-4.8%
Germanwings	3.3	3.3	3.5	3.9	6.5	5.5	6.9	25.0%
LHA combined	25.3	28.2	30.1	29.6	29.9	25.6	26.0	1.7%
Airberlin	10.5	9.4	9.7	9.3	9.6	8.6	7.9	-7.8%
Combined total	35.8	37.6	39.7	39.0	39.6	34.2	33.9	-0.7%
Market share	50.5%	50.1%	52.3%	51.1%	50.6%	50.9%	48.3%	-2.6%
Leading German airlines Domestic:								
Lufthansa	20.9	22.6	23.1	20.3	18.5	15.5	15.1	-2.7%
Germanwings	3.6	3.2	2.9	3.8	5.5	4.5	5.4	20.4%
LHA combined	24.5	25.8	26.0	24.1	24.0	20.0	20.5	2.5%
Airberlin	11.5	11.1	9.6	8.5	9.0	7.6	6.8	-10.9%
Combined total	36.0	36.9	35.6	32.6	33.0	27.6	27.3	-1.2%
Market share	94.8%	97.7%	98.1%	98.0%	98.3%	98.3%	98.1%	-0.2%
Leading German Airlines Combined:								
Lufthansa	42.8	47.5	49.6	46.0	41.9	35.6	34.2	-3.9%
Germanwings	6.9	6.4	6.4	7.8	12.0	10.0	12.3	22.9%
LHA combined	49.7	53.9	56.1	53.7	53.9	45.6	46.6	2.0%
Airberlin	22.1	20.6	19.2	17.8	18.6	16.2	14.7	-9.2%
Combined total	71.8	74.5	75.3	71.6	72.6	61.8	61.2	-0.9%
Total market share	65.9%	66.0%	67.1%	65.3%	65.0%	64.9%	62.4%	-2.4%

Source: innovata, Goodbody

In terms of costs, there is no doubt that Ryanair has a network wide advantage to its German based competitors, with Lufthansa's average cost per ASK some 4x that of Ryanair's. Even Lufthansa Group's lowest cost unit, Eurowings, looks to have operating costs some 155% higher than Ryanair.

Eurowings' and airberlin's ex-fuel cost bases still ~2.5x higher than Ryanair's

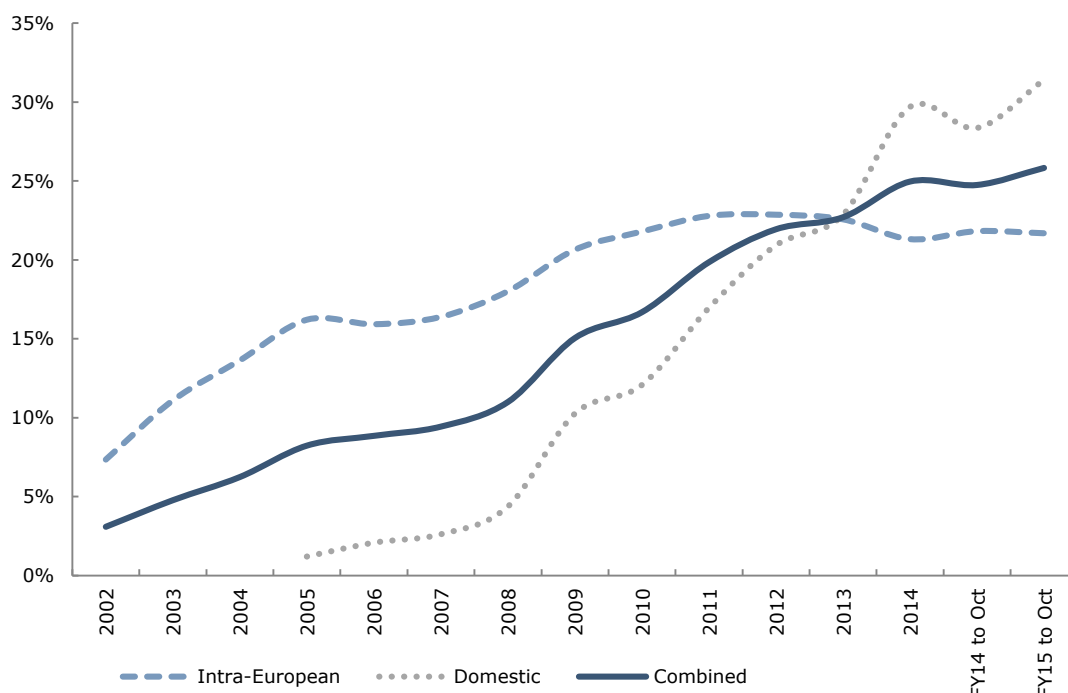
	Lufthansa	Germanwings ('20% lower')	Eurowings (20% lower than GW)	airberlin	Ryanair
Average Costs:					
CASK (cents)	10.5	8.4	6.7	7.4	3.69
Ex-fuel CASK (cents)	8.2	6.5	5.4	5.65	2.12
Premium to Ryanair:					
CASK (cents)	185%	128%	82%	101%	
Ex-fuel CASK (cents)	287%	207%	155%	167%	

Source: Companies, Goodbody

Given this cost advantage, Ryanair’s ambitions to have a 20% share of the total German market by 2019 doesn’t seem so farfetched, especially when mapped to the progress it made in Italy when it decided to enter that market.

In a similar pattern to Germany, Ryanair established its brand on the intra-European routes before entering the domestic Italian market back in 2005. Having opened 3 domestic routes in 2005, Ryanair added 3 more the following year, including the important Rome Ciampino-Milan Orio Al Serio (Bergamo) service. It added a further 3 in 2007, while increasing the Rome-Milan capacity by 45%, taking its total seats offered to 1.15m in that year. As of calendar 2014, domestic seats flown had grown to almost 11m, or almost 30% of the domestic market, having reached a 20% share only two years earlier in 2012. At the same time, Ryanair’s share of the intra-European capacity was 21.3% in calendar 2014, having reached a 20% share back in 2009.

Ryanair’s Italian Market Share 2002-October 2015 and its premium domestic performance



Source: innovata, Goodbody

If we extrapolate this same pattern of growth to the German market at the point that Ryanair reached a 20% share of capacity in Italy, while recognising that there is a 70:30 split between intra-Europe and domestic traffic in the German market place as against a 55:45 split for Italy, we could expect the carrier to offer 25m seats into the market by 2019. Some 4m of these would be domestic (a 10% market share) while 21m would be on intra-European routes (a 24% market share), up from the circa 5m seats on these latter routes currently. Growth of this nature on the German routes alone would represent a 4.6% expansion in Ryanair’s overall capacity over the four years ending 2019 and account for over half the proposed increase in capacity from 102m seats as offered in FY15 to a forecast 140m seats in FY19.

We believe that Ryanair’s focus on Germany will become increasingly visible over the next twelve months and that this offers further upside to growth prospects and valuations. The corollary of this is that both Lufthansa and airberlin look likely to come under increasing pressure over the next couple of years on their core routes, which informs our negative view on Germany’s flag carrier.

Ryanair could see a broader dominance over Europe as a whole

In terms of aircraft deliveries, Ryanair has the required aircraft in its pipeline to provide this intended increase in capacity in Germany and beyond over the medium term. As it stands currently, we are looking for some 169 deliveries over the next four years to March 2019, although this is 164 calendarised as below.

Ryanair dominating the market for new narrowbody deliveries				
Calendar year	2015	2016	2017	2018
All identified:				
Deliveries - hulls	84	170	171	170
Seats	15,679	30,923	31,066	29,088
Ryanair:				
Gross Deliveries - hulls	27	51	53	33
Seats	5,103	9,639	10,017	6,237
Ryanair share of total seats	33%	31%	32%	21%

Source: CAPA

Some 57 of Ryanair's older aircraft will be sold or returned to lessors over this time, for a net addition of 112 aircraft. As can be seen, on a gross basis, Ryanair will account for over 30% of gross seat deliveries over the next three years. At a net level, this is at a broadly similar level at 30% in FY16 but is 'only' 25% in FY17, although this may reflect the greater visibility we have on Ryanair's retirement plans further out as compared to European market as a whole. If even FY17 runs out closer to that 25% level, Ryanair essentially will dictate the competitive landscape in Europe over the next three to four years.

Summer 2016 advantage over easyJet given its attractive fuel hedge book

We have pointed out a number of times that Ryanair looks to be well positioned into the summer 2016 period (which falls in H117) given that its major fuel hedges roll-off over the current year. We believe that this gives Ryanair a comparative advantage over easyJet, whose fuel hedging looks 'long and wrong' by comparison. Given our view that Ryanair will pass on the majority of these savings to consumers in lower ticket prices, easyJet appears to be disadvantaged in that it will have lower fuel savings at that time with which to compete with.

easyJet's LCC competitors appear to have more to give back from lower fuel costs							
		FY15 March		Sept FY15/Mar 16		Sept FY16/Mar 17	
US\$/MT	Yr end	Hedged	at US\$/MT	Hedged	at US\$/MT	Hedged	at US\$/MT
easyJet	Sept			87%	929	74%	862
Wizz	March	61%	942	70%	814	60%	673
Ryanair	March	90%	952	90%	920	35%	680

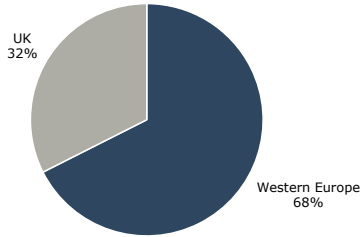
Source: Goodbody

Ryanair

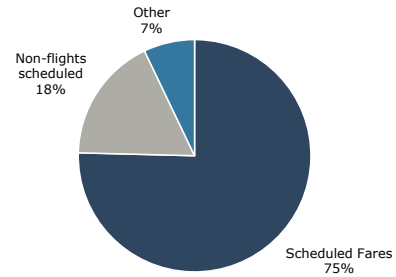
Operational Overview

Ryanair is a low-cost, low-fares airline providing point-to-point services across the European short-haul air travel market. Operating from 70 European bases, it operates over 1,600 routes across 30 countries in Europe and expects to carry c.89m passengers in FY15. The carrier expects to finish FY15 operating a fleet of 308 Boeing 737-800s (with an average age of c.3 years) and delivers services off the lowest unit costs of any airline in Europe. Key target markets for growth in the next year include Poland, Germany, UK, Ireland, Portugal and Italy with particular focus on Dublin and Stansted

Geographical Mix Revenues (FY14)



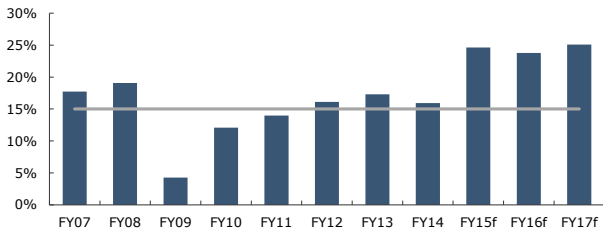
Divisional mix Revenues (FY14)



Source : Goodbody

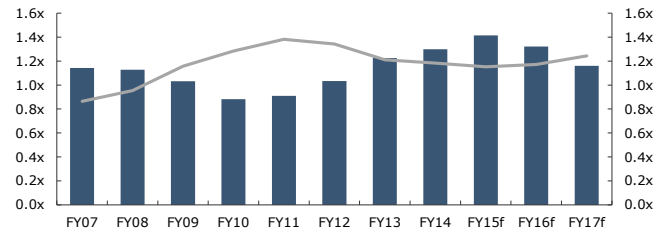
Source : Goodbody

Ryanair: Return on Equity



Source : Goodbody

Ryanair: Leverage & Asset turnover



Source : Goodbody

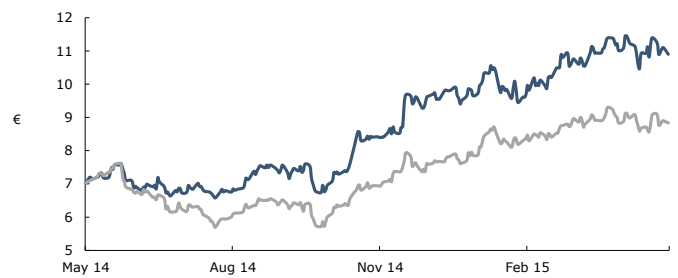
Share Price & Valuation

Ryanair Rel to Factset Europe Airlines rebased (2 yrs)



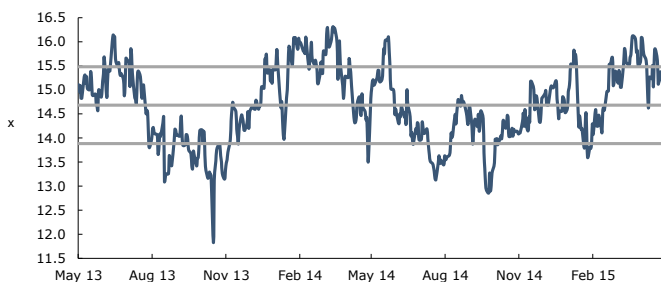
Source : Factset

Ryanair Rel to Factset Europe Airlines rebased (1 year)



Source : Factset

Ryanair 12 mth fwd P/E



Source : Factset

Ryanair 12 mth fwd P/NAV



Source : Factset

Issuer & Analyst Disclosures**Recommendation History**

Ryanair	Current Rec: Buy	Date of First issue: 06/10/2014
	Previous Rec: N/R	Date of First issue: 27/05/2014

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