COMPANY NOTE

Target | Estimate Change

Ireland | Consumer | Airlines

29 May 2015

Jefferies

EQUITY RESEARCH EUROPE

Ryanair Holdings plc (RYA ID)
Kingmaker to Cash Returner?

BUY
Price target €13.50
(from €11.00)
Price €11.83

Key Takeaway

IAG's bid for Aer Lingus offers an attractive way for RYA to monetise its 30% stake and return up to €400m to shareholders. We lift our FY16/FY17 estimates by 2-6% and raise our PT to €13.5, keeping our Buy rating.

Ryanair finds itself playing kingmaker to the proposed IAG/Aer Lingus (AL) deal, which is conditional on Ryanair's acceptance of the offer in respect of its 29.8% interest in AL. Given Ryanair's own history of not being allowed to buy AL on competition grounds, and its position as kingmaker, we can see the temptation to play hard ball. But assuming IAG is true to its word that the €2.55 bid is best and final, negotiation will rely on commercial (not financial) terms. IAG has committed to maintaining AL's existing schedules between London Heathrow and Dublin, Cork and Shannon for at least seven years. But we do not think this prevents IAG from reducing its British Airways overlap on the same routes, e.g. 8 flights daily LHR-DUB for BA and 12 for AL. We can envisage a mutually beneficial scenario which: i) eases the competitive environment for Ryanair and ii) allows IAG to transfer some Heathrow slots into better returning long-haul routes.

Potential €400m cash windfall for RYA shareholders. An IAG/Aer Lingus transaction, if consummated, could crystallise a cash windfall for Ryanair, which would likely be returned to shareholders. Ryanair's 29.8% stake in Aer Lingus is in the books at €371m (as at 31 March) but is worth €405m at the €2.55 bid price. The existing €400m share buy-back programme is already c€350m complete.

FY16/FY17 estimates raised by 2-6%. True to form, Ryanair struck a cautious tone at this early stage of the new financial year, although forward bookings to September are running 4% ahead of last year, adding a more positive balance to the 0% to -2% Summer yield guidance (JEFe 1Q -1%, 2Q flat). For Winter, where visibility is low, we forecast 3Q/4Q yield of -6%/-3% versus -4%-8% guidance.

Valuation/Risks

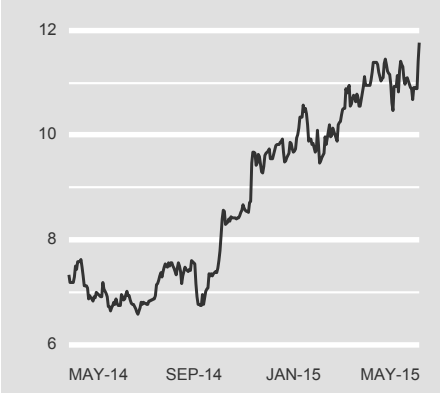
Our €13.5 PT is based on RYA trading on a 45% premium to the sector average CY16E EV/IC, which the strong ROIC profile deserves. Ryanair currently trades on 8.2x CY15E EV/EBITDAR versus easyJet on 7.5x which partly reflects its superior margins.

Financial Summary	
Net Debt (MM):	**(€564.0)**
Market Data	
52 Week Range:	**€11.83 - €6.25**
Total Entprs. Value (MM):	**€15,527.5**
Market Cap. (MM):	**€16,091.5**
Shares Out. (MM):	**1,360.0**
Float (MM):	**1,305.0**
Avg. Daily Vol.:	**1,834,013**

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EUR	*Prev.*	**2014A**	*Prev.*	**2015A**	*Prev.*	**2016E**	*Prev.*	**2017E**
Rev. (MM)	--	5,037.0	*5,694.0*	5,654.0	*6,106.0*	6,189.0	*6,198.0*	6,462.0
EBITDA (MM)	--	1,010.0	--	1,421.0	*1,575.0*	1,648.0	*1,883.0*	1,910.0
Net Profit	--	523.0	*858.0*	867.0	*947.0*	992.0	*1,169.0*	1,176.0
EV/EBITDA		15.4x		10.9x		9.4x		8.1x
EPS								
FY Mar	--	0.37	*0.62*	0.63	*0.69*	0.73	*0.85*	0.86
FY P/E		32.0x		18.8x		16.3x		13.7x

Price Performance



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RYA ID

Target | Estimate Change

29 May 2015

Ryanair

Buy: €13.5 price target

THE LONG VIEW

Scenarios

Target Investment Thesis

- FY16 traffic +10%, FY17 +6%.
- FY16 RPS -1%, FY17 -2%.
- FY16 ex-fuel unit cost +1.0%.
- FY17 ex-fuel unit cost +2.0%.
- FY16 PAT €992m, FY17 €1,176m.
- CY16 45% EV/IC premium = €13.5.

Upside Scenario

- FY16 traffic +10%, FY17 +6%.
- FY16 RPS +1%, FY17 flat.
- FY16 ex-fuel unit cost flat.
- FY17 ex-fuel unit cost +1.0%.
- FY16 PAT €1,190m, FY17 €1,410m.
- CY16 55% EV/IC premium = €14.5.

Downside Scenario

- FY16 traffic +10%, FY17 +6%.
- FY16 RPS -3%, FY17 -4%.
- FY16 ex-fuel unit cost +2.0%.
- FY17 ex-fuel unit cost +3.0%.
- FY16 PAT €795m, FY17 €945m.
- CY16 35% EV/IC premium = €12.5.

Long Term Analysis (source Factset)

+1Y EV/Sales (x)



+1Y EV/EBITDA (x)

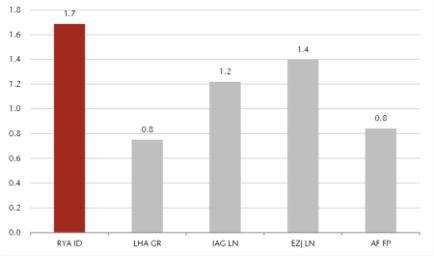


Other Considerations

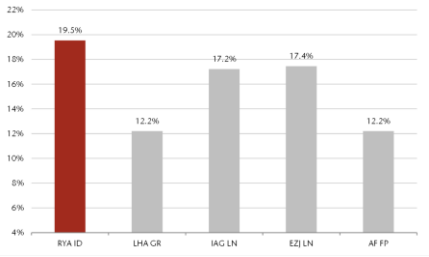
- IAG bid for Aer Lingus.
- Possible cash windfall.
- Bid for Cyprus Airways.

Peer Group

CY16E Lease adj EV/IC (x)



CY16E CROIC (%)



Recommendations/Price Targets

Ticker	Rec.	PT
RYA ID	**BUY**	**€13.5**
IAG LN	BUY	700p
AF FP	UNPF	€6.00
EZJ LN	BUY	1,800p
LHA GR	HOLD	€13.00

Catalysts

- 1st week June May traffic.
- 27 July 1Q16 results.
- 24 September AGM.
- Aer Lingus bid response

Company Description

Ryanair is a leading low cost carrier (LCC) passenger airline, serving short-haul, point-to-point routes across Europe (and Morocco). Founded in 1984, Ryanair becoming a public company in 1997 (listed Dublin and NASDAQ), growing rapidly under the stewardship of Michael O'Leary (CEO since 1994). The group now carries c90m passengers across 73 bases, with a fleet of 308 Boeing 737-800s. Key to Ryanair's strategy is low operating costs, allowing it to sell low cost fares profitably. There are four primary cost areas that Ryanair strives to contain: 1) Aircraft equipment costs, 2) Personnel costs, 3) Customer service costs, 4) Airport access and handling costs.

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Ryanair – Forecasts

Table 1: Summary Forecasts Changes for Ryanair

Forecasts (€m)	FY16e New	FY16E Old	% Chg	FY17E New	FY17E Old	% Chg
Sales	6,189	6,106	1	6,462	6,198	4
PAT	992	947	5	1,176	1,169	1
EPS (€c)	72.8	68.7	6	86.3	84.8	2
Drivers of Change	Summer yields and ex-fuel unit costs					

Source: Jefferies estimates

Table 2: Ryanair Profit & Loss FY12-FY18E

Year end 31 March (€m)	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Revenue	4,325	4,884	5,037	5,654	6,189	6,462	6,946
YoY growth %	*19%*	*13%*	*3%*	*12%*	*9%*	*4%*	*8%*
Operating costs ex-fuel	1,714	1,852	1,912	2,132	2,378	2,572	2,820
YoY growth %	*13%*	*8%*	*3%*	*12%*	*12%*	*8%*	*10%*
Fuel	1,594	1,886	2,013	1,992	2,043	1,846	2,002
EBITDAR, clean	**1,018**	**1,146**	**1,112**	**1,530**	**1,768**	**2,044**	**2,124**
	24%	23%	22%	27%	29%	32%	31%
Operating leases	91	98	102	109	120	134	151
Depreciation	309	330	352	378	438	509	560
Operating profit, clean	**618**	**718**	**659**	**1,043**	**1,210**	**1,402**	**1,413**
YoY growth %	*20%*	*16%*	*-8%*	*58%*	*16%*	*16%*	*1%*
Operating margin	14%	15%	13%	18%	20%	22%	20%
Finance income	44	27	17	18	21	21	21
Finance expense	-109	-99	-83	-74	-87	-78	-71
Profit before tax, clean	568	651	591	982	1,134	1,345	1,363
Exceptional	65	0	0	0	0	0	0
Tax	-65	-82	-69	-116	-142	-168	-177
Tax rate	13%	13%	12%	12%	13%	13%	13%
Profit after tax, clean	**503**	**569**	**523**	**867**	**992**	**1,176**	**1,186**
EPS diluted, clean (€c)	**33.5**	**39.3**	**36.9**	**62.5**	**72.8**	**86.3**	**87.0**
YoY growth %	*25%*	*17%*	*-6%*	*69%*	*17%*	*19%*	*1%*

Source: Jefferies estimates, company data

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Table 3: Ryanair Cash Flow & Net Debt FY12-FY18E

Year end 31 March (€m)	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
EBITDA	927	1,048	1,010	1,421	1,648	1,910	1,973
Other	74	38	-3	41	0	0	0
Change in working capital	95	36	137	362	48	39	61
Cash flow from operations	**1,096**	**1,122**	**1,144**	**1,824**	**1,696**	**1,949**	**2,034**
Net interest	-62	-75	-68	-46	-66	-57	-50
Tax	-14	-26	-32	-88	-142	-168	-177
Net cash flow from operations	**1,020**	**1,022**	**1,044**	**1,689**	**1,488**	**1,724**	**1,807**
Capex	-318	-311	-506	-789	-1,000	-1,100	-1,000
Disposals	27	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0
Cash flow from investments	-290	-311	-506	-789	-1,000	-1,100	-1,000
Dividend	0	-492	0	-520	0	0	0
Change in equity	-118	-46	-465	-98	-288	0	0
Change in debt	-37	-132	-391	1,271	0	0	0
Change in restricted cash/deposits	105	-1,511	807	-2,100	0	0	0
Cash flow from financing	680	-1,469	489	-546	200	624	807
FX	0	2	0	0	0	0	0
Net cash flow	**680**	**-1,467**	**489**	**-546**	**200**	**624**	**807**
Cash opening	2,028	2,708	1,241	1,730	1,185	1,385	2,008
Cash closing	**2,708**	**1,241**	**1,729**	**1,185**	**1,385**	**2,008**	**2,815**
Net (debt)/cash	-110	61	158	364	564	1,188	1,995
Lease adj average net debt	-1,135	-810	-703	-614	-499	-196	381

Source: Jefferies estimates, company data

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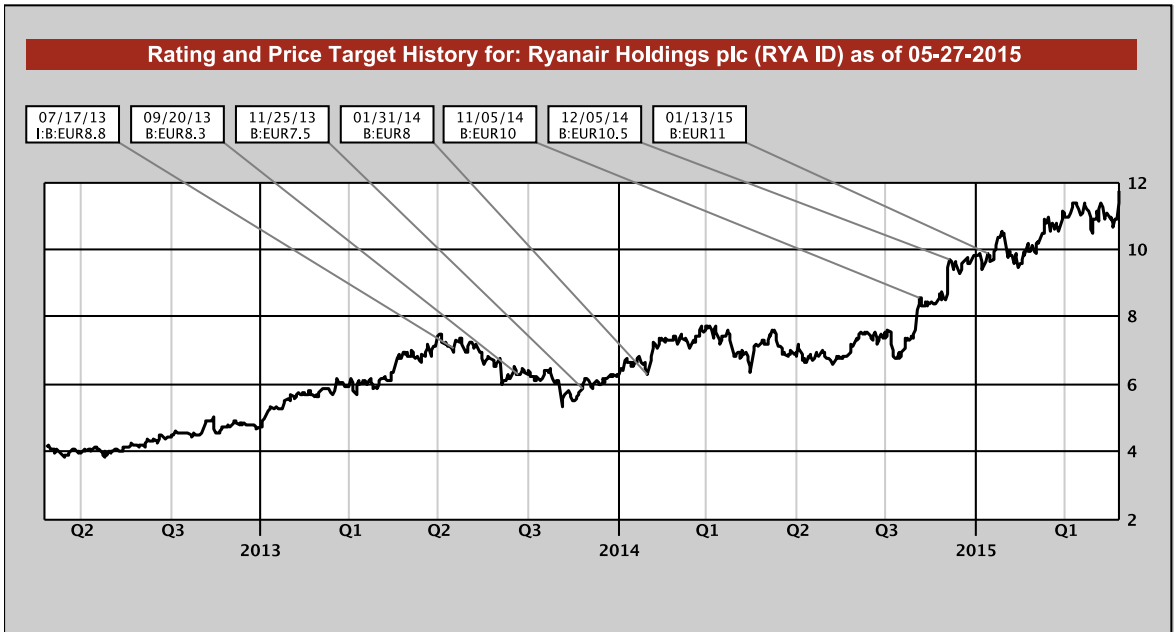
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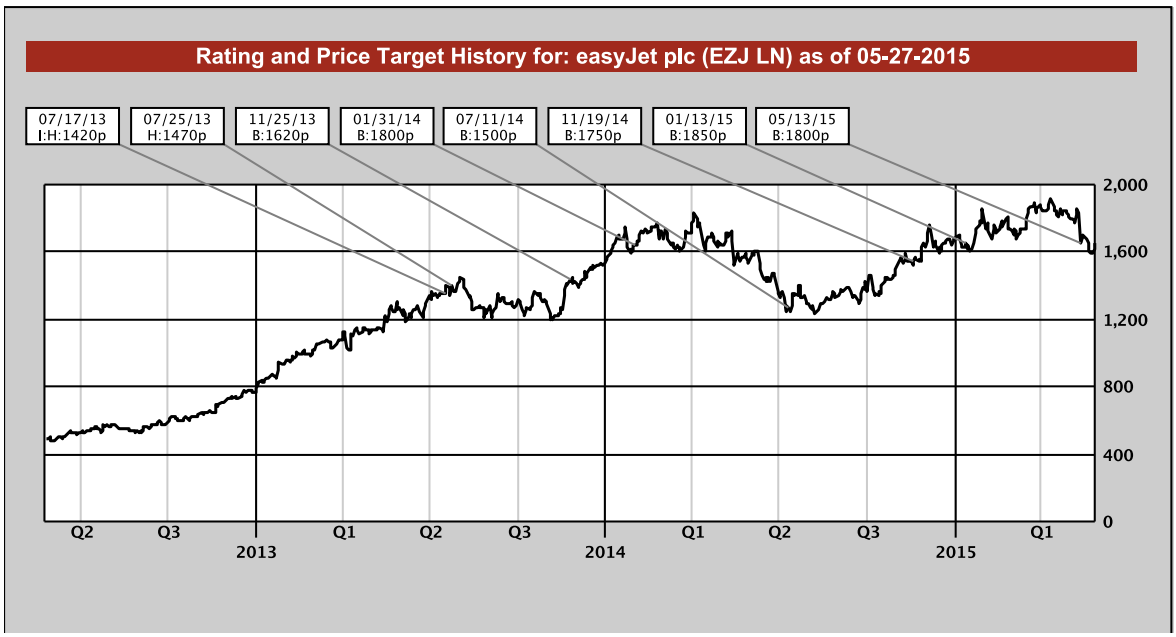
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- International Consolidated Airlines Group SA (IAG LN: p569.00, BUY)



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