

## COMPANY UPDATE

# Ryanair (RYA.I)

Neutral

Equity Research

## Strong summer in Europe likely to drive capacity reactivation; Neutral

### What's changed

Ryanair announced an adhoc update (September 9) upgrading FY16 net income guidance 26% to €1.175-1.225 bn, 21% above company-compiled consensus at the mid-point. The upgrade was driven by stronger summer demand than expected, generating both better passenger traffic and significantly higher fares. 2Q16 (July-Sept) fares increased c.7% (1Q16: -4%), with 3Q16 fares also expected to benefit from better demand (3Q16 fare guidance: flat vs. -4% to -8% previously). Although management commented that travel demand was strong across Europe, we highlight particularly strong UK outbound travel demand (UK outbound holidays +12% yoy in June).

### Implications

We increase our FY16-18 EPS estimates 22%/13%/19% as a result of better near-term yields and FX moves. Importantly, our expectation that Ryanair's FY16 fares (ex. FX) are down just 1% yoy (previously: -5%) implies that it is able to retain much of this year's fuel savings from the lower oil price, in contrast to European legacy carriers. That said, we expect substantial yield pressure next year (FY17 fares ex. FX: -6%), with intra-European capacity reactivating as fuel hedges roll off and to meet stronger travel demand.

### Valuation

Our 12-month returns based price target increases to €16.0 (from €13.2) in line with our estimate changes. The stock trades on a CY16E P/E of 13.5x, which we see as consistent with its strong returns (CY16E CROCI: 23%) and a 10% EPS CAGR (CY15-17E). Its 1.4x CY17E PEG ratio compares to easyJet at 0.7x, and cyclical European travel and leisure peers at 1.1x.

### Key risks

Risks to our view and price target: Worse/stronger-than-expected demand, weaker/stronger-than-expected intra-European capacity re-activation, and fuel and FX volatility.

### INVESTMENT LIST MEMBERSHIP

Neutral

### Coverage View: Neutral

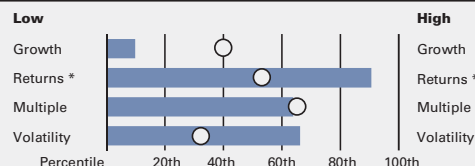
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### Investment Profile



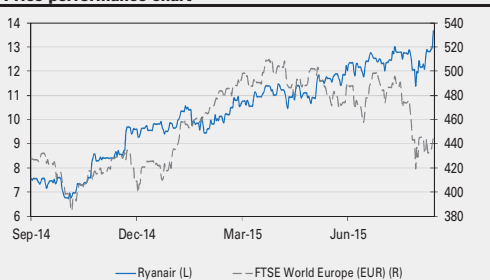
\* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

### Key data

	Current
Price (€)	13.67
12 month price target (€)	16.00
Upside/downside (%)	17
Market cap (€ mn)	20,203.3
Enterprise value (€ mn)	18,513.5

	3/15	3/16E	3/17E	3/18E
Revenue (€ mn) New	5,654.0	6,534.8	6,595.6	6,969.5
Revenue revision (%)	0.0	2.3	1.1	0.9
EBIT (€ mn) New	1,038.7	1,424.2	1,533.5	1,391.5
EBIT revision (%)	0.0	21.3	11.4	17.4
EPS (€) New	0.63	0.91	1.04	1.00
EPS (€) Old	0.63	0.74	0.93	0.84
EV/EBITDA (X)	8.3	10.0	8.8	8.7
P/E (X)	13.0	15.1	13.1	13.7
Dividend yield (%)	4.6	2.2	0.0	0.0
FCF yield (%)	7.9	5.5	6.3	6.8
CROCI (%)	20.5	23.5	23.4	20.6

### Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	18.3	30.4	80.6
Rel. to FTSE World Europe (EUR)	25.4	41.9	73.4

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/09/2015 close.

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## Ryanair: Summary Financials

Profit model (€ mn)	3/15	3/16E	3/17E	3/18E	Balance sheet (€ mn)	3/15	3/16E	3/17E	3/18E
Total revenue	5,654.0	6,534.8	6,595.6	6,969.5	Cash & equivalents	4,795.9	4,936.8	5,165.2	5,519.8
Operating costs	(4,124.0)	(4,564.6)	(4,466.5)	(4,922.1)	Accounts receivable	199.6	230.7	232.8	246.0
R&D	0.0	0.0	0.0	0.0	Inventory	2.1	2.1	2.1	2.1
Lease payments	(109.4)	(124.5)	(146.5)	(168.0)	Other current assets	744.4	744.4	744.4	744.4
Other operating profit/(expense)	(4.2)	0.0	0.0	0.0	<b>Total current assets</b>	<b>5,742.0</b>	<b>5,914.0</b>	<b>6,144.5</b>	<b>6,512.4</b>
<b>EBITDA</b>	<b>1,416.4</b>	<b>1,845.6</b>	<b>1,982.6</b>	<b>1,879.4</b>	Net PP&E	6,072.4	6,506.3	6,742.8	7,074.2
Depreciation & amortisation	(377.7)	(421.5)	(449.2)	(487.8)	Net intangibles	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>1,038.7</b>	<b>1,424.2</b>	<b>1,533.5</b>	<b>1,391.5</b>	Total investments	371.0	0.0	0.0	0.0
Net interest income/(expense)	(56.3)	(60.1)	(50.4)	(49.1)	Other long-term assets	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	<b>Total assets</b>	<b>12,185.4</b>	<b>12,420.3</b>	<b>12,887.3</b>	<b>13,586.6</b>
Profit/(loss) on disposals	0.0	0.0	0.0	0.0	Accounts payable	196.5	196.5	196.5	196.5
Others (recurring)	0.0	0.0	0.0	0.0	Short-term debt	399.6	399.6	399.6	399.6
<b>Pretax profits</b>	<b>982.4</b>	<b>1,364.0</b>	<b>1,483.0</b>	<b>1,342.4</b>	Other current liabilities	1,994.0	2,208.7	2,172.8	2,397.5
Income tax	(115.7)	(160.6)	(174.7)	(158.1)	<b>Total current liabilities</b>	<b>2,590.1</b>	<b>2,804.8</b>	<b>2,768.9</b>	<b>2,993.6</b>
Tax rate (%)	11.8	11.8	11.8	11.8	Long-term debt	4,032.0	4,032.0	4,032.0	4,032.0
Minorities	0.0	0.0	0.0	0.0	Other long-term liabilities	1,528.2	1,566.0	1,610.5	1,650.8
Preferred dividends	0.0	0.0	0.0	0.0	<b>Total long-term liabilities</b>	<b>5,560.2</b>	<b>5,598.0</b>	<b>5,642.5</b>	<b>5,682.8</b>
<b>Net income (pre-exceptionals)</b>	<b>866.7</b>	<b>1,203.4</b>	<b>1,308.4</b>	<b>1,184.3</b>	<b>Total liabilities</b>	<b>8,150.3</b>	<b>8,402.8</b>	<b>8,411.4</b>	<b>8,676.4</b>
Other non-recurring items post tax	0.0	35.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>866.7</b>	<b>1,238.4</b>	<b>1,308.4</b>	<b>1,184.3</b>	<b>Total common equity</b>	<b>4,035.1</b>	<b>4,017.5</b>	<b>4,475.9</b>	<b>4,910.2</b>
EPS (underlying) (€)	0.63	0.91	1.04	1.00	<b>Minority interest</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
EPS (basic, reported) (€)	0.63	0.93	1.04	1.00	<b>Total liabilities &amp; equity</b>	<b>12,185.4</b>	<b>12,420.3</b>	<b>12,887.3</b>	<b>13,586.6</b>
Weighted shares outstanding (mn)	1,384.7	1,328.0	1,253.2	1,187.3	Capitalised leases	765.8	871.7	1,025.6	1,176.1
Common dividends declared	520.0	406.0	0.0	0.0	<b>Capital employed</b>	<b>8,466.7</b>	<b>8,449.1</b>	<b>8,907.5</b>	<b>9,341.8</b>
DPS (€)	0.38	0.31	0.00	0.00	Adj for unfunded pensions & GW	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	60.0	33.7	0.0	0.0	<b>Adj capital employed</b>	<b>8,466.7</b>	<b>8,449.1</b>	<b>8,907.5</b>	<b>9,341.8</b>
Dividend cover (X)	1.7	3.0	NM	NM	<b>Gross cash invested</b>	<b>7,574.0</b>	<b>7,980.7</b>	<b>8,858.3</b>	<b>9,616.6</b>
<b>Growth &amp; margins (%)</b>	<b>3/15</b>	<b>3/16E</b>	<b>3/17E</b>	<b>3/18E</b>	<b>Ratios</b>	<b>3/15</b>	<b>3/16E</b>	<b>3/17E</b>	<b>3/18E</b>
Revenue growth	12.3	15.6	0.9	5.7	CROCI (%)	20.5	23.5	23.4	20.6
EBITDA growth	40.3	30.3	7.4	(5.2)	CROCI/WACC (X)	2.5	2.9	2.9	2.5
EBIT growth	57.8	37.1	7.7	(9.3)	ROIC (%)	13.4	14.9	15.3	13.3
Net income growth	65.8	42.9	5.6	(9.5)	ROIC/WACC (X)	1.7	1.8	1.9	1.6
EPS growth	69.4	44.8	15.2	(4.5)	ROA (%)	9.0	10.4	10.9	9.6
DPS growth	--	(18.6)	(100.0)	--	WACC (%)	8.1	8.1	8.1	8.1
EBITDA margin	25.1	28.2	30.1	27.0	Inventory days	0.1	0.1	0.1	0.1
EBIT margin	18.4	21.8	23.2	20.0	Asset turnover (X)	1.0	1.0	1.0	1.0
<b>Cash flow statement (€ mn)</b>	<b>3/15</b>	<b>3/16E</b>	<b>3/17E</b>	<b>3/18E</b>	Net debt/equity (%)	(9.0)	(12.6)	(16.4)	(22.2)
Net income	866.7	1,203.4	1,308.4	1,184.3	EBITDA interest cover (X)	25.2	30.7	39.3	38.3
D&A add-back (incl. ESO)	377.7	421.5	449.2	487.8	<b>Valuation</b>	<b>3/15</b>	<b>3/16E</b>	<b>3/17E</b>	<b>3/18E</b>
Minority interest add-back	0.0	0.0	0.0	0.0	EV/sales (X)	2.1	2.8	2.6	2.3
Net (inc)/dec working capital	406.4	183.6	(38.0)	211.5	EV/EBITDAR (X)	7.7	9.4	8.2	8.0
Other operating cash flow	31.5	37.8	44.5	40.3	EV/EBITDA (X)	7.7	9.6	8.3	8.1
<b>Cash flow from operations</b>	<b>1,682.3</b>	<b>1,846.3</b>	<b>1,764.0</b>	<b>1,923.9</b>	EV/EBIT (X)	10.2	12.0	10.4	10.5
Capital expenditures	(788.5)	(855.4)	(685.7)	(819.3)	P/E (X)	13.0	15.1	13.1	13.7
Acquisitions	0.0	0.0	0.0	0.0	Dividend yield (%)	4.6	2.2	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0	FCF yield (%)	7.9	5.5	6.3	6.8
Others	0.0	0.0	0.0	0.0	EV/GCI (X)	1.6	2.4	2.1	1.8
<b>Cash flow from investing</b>	<b>(788.5)</b>	<b>(855.4)</b>	<b>(685.7)</b>	<b>(819.3)</b>	EV/adj. capital employed (X)	3.2	5.3	4.7	4.3
Dividends paid (common & pref)	(520.0)	(406.0)	0.0	0.0	Price/book (X)	3.8	4.5	3.8	3.3
Inc(dec) in debt	0.0	0.0	0.0	0.0					
Other financing cash flows	638.9	(850.0)	(850.0)	(750.0)					
<b>Cash flow from financing</b>	<b>118.9</b>	<b>(1,256.0)</b>	<b>(850.0)</b>	<b>(750.0)</b>					
<b>Total cash flow</b>	<b>1,554.2</b>	<b>140.9</b>	<b>228.3</b>	<b>354.7</b>					
Capex/D&A (%)	208.8	202.9	152.7	167.9					
Reinvestment rate (%)	61.8	51.4	38.1	47.8					
Cash flow cover of dividends (X)	2.5	4.1	NM	NM					
Free cash flow cover of dividends (X)	1.7	2.4	--	--					

Note: Ratios are adjusted for leases where appropriate. Only separately disclosed where significant and ongoing.

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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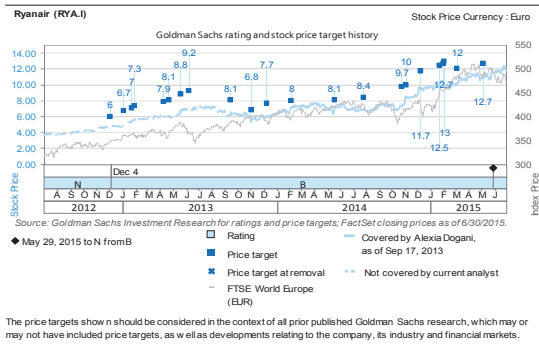
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## Price target and rating history chart(s)



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