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Equity Research

Industrials | European Transportation

12 January 2016

TOP PICK Ryanair

The Revenue Revolution

Ryanair's strategic transformation may have already doubled its profitability and share price, but we believe the best is yet to come. In this in-depth report, we aim to rigorously quantify the opportunity for Europe's most powerful airline under a structural margin expansion story that remains in its early years. In our base case, we see Ryanair delivering 20% CAGR EPS growth FY16-20 and free cash flow stepping up to €1.5-€2bn (30% CAGR EPS / €2-€3bn FCF in bull case scenario). As it sets new standards for global airline financial performance, Ryanair is likely to attract a wider range of investors and, ultimately, justify a higher multiple. We raise our PT to €20, and make Ryanair our Top Pick in European Transportation, replacing IAG (which we also continue to like).

Quantifying the opportunity. Through changes to its network, soft product and digital platform, Ryanair is proving that it can improve revenue while preserving its industry-leading cost discipline. **We believe this is a story which has only just begun**: using our like-for-like benchmarking analysis, we show that Ryanair's 'net revenue' production continues to heavily lag peers, even after we allow for different LCC models by netting revenues with product-related costs. The size of this gap (35%) suggests there is still major scope for margin expansion ahead, complementing the strong volume growth prospects (capacity 8% CAGR) for a company with the lowest cost base in Europe, but only 14% market share. Ancillary revenues are a particular medium-term opportunity.

FY2017: particular upside. Next year, Ryanair's effective fuel price will fall by 20-25% as its hedge rates collapse. To be conservative, we have assumed in our base case that this is partially offset with average fares –3.5% (consensus appears to discount –10%). However, assuming further progress from the strategic transformation, and a robust demand environment, we think there is a strong probability that fares actually *rise* as load factor gains top out and revenue growth shifts into underlying ticket prices. Simply holding fares flat in FY17 gives estimated net income of €1.9bn, 30% above consensus.

An engine of cash. As its profitability continues to step up, we believe Ryanair remains capital disciplined, and we do not expect material changes to an 8-10% CAGR growth rate, either organically or via M&A. We therefore anticipate significant increases in free cash flow (€1.5-€2bn per year by FY18). We see this split between shareholder returns of up to €1bn, and the remainder paying off debt, rendering Ryanair entirely debt-free by the early 2020s. We expect a buyback announcement of at least €750m in February.

Valuation. Ryanair is trading on 12.2x 12-month forward P/E. Against a wider sector derating, we expect it to hold its multiple, with shares driven by earnings momentum.

RYA.I: Financial and Valuation Metrics EPS EUR

FY Mar	2014	2015	2016	2017	2018
EPS	0.37A	0.62A	0.96E	1.29E	1.69E
Previous EPS	0.37A	0.62A	0.96E	1.29E	1.53E
P/E	40.6	23.9	15.7	11.6	8.9

Source: Barclays Research.

Stock Rating	OVERWEIGHT Unchanged
Industry View	POSITIVE Unchanged
Price Target	EUR 20.00 raised 19% from EUR 16.80

Price (08-Jan-2016)	EUR 14.97
Potential Upside/Downside	+33.6%
Tickers	RYA ID / RYA.I

Market Cap (EUR mn)	19744
Shares Outstanding (mn)	1319.32
Free Float (%)	95.53
52 Wk Avg Daily Volume (mn)	1.8
52 Wk Avg Daily Value (EUR mn)	21.97
Dividend Yield (%)	N/A
Return on Equity TTM (%)	33.75
Current BVPS (EUR)	3.35

Source: Thomson Reuters

Price Performance	Exchange-ISE
52 Week range	EUR 15.38-9.07

Link to Barclays Live for interactive charting

European Transportation

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European Transportation | **Industry View: POSITIVE**

Ryanair (RYA.I)

Stock Rating: OVERWEIGHT

Income statement (€mn)	2015A	2016E	2017E	2018E	CAGR
Revenue	5,654	6,595	7,046	7,978	12.2%
EBITDAR	1,530	2,065	2,605	3,260	28.7%
EBIT	1,043	1,517	2,002	2,594	35.5%
EBIT (lease adjusted) (mn)	1,079	1,560	2,044	2,639	34.7%
Pre-tax income (adj)	982	1,467	1,947	2,547	37.4%
Net income (adj)	867	1,289	1,713	2,242	37.3%
EPS (adj) (€)	0.62	0.96	1.29	1.69	39.3%
Diluted shares (mn)	1,388	1,349	1,329	1,329	-1.4%
DPS (€)	0.37	0.00	0.00	0.00	-100.0%

Margins and returns					Average
EBITDAR margin (%)	27.1	31.3	37.0	40.9	34.1
EBIT margin (%)	18.4	23.0	28.4	32.5	25.6
EBIT margin (lease-adjusted) (%)	19.1	23.7	29.0	33.1	26.2
Pre-tax (adj) margin (%)	17.4	22.2	27.6	31.9	24.8
ROIC (lease-adjusted) (%)	19.7	26.6	34.1	40.4	30.2
ROCE (lease-adjusted) (%)	23.0	31.0	39.2	45.8	34.7
ROA (%)	8.3	10.7	14.0	17.2	12.5
ROE (%)	23.7	31.8	38.6	41.4	33.9

Balance sheet and cash flow (€mn)					CAGR
Tangible fixed assets	5,471	6,201	6,898	7,650	11.8%
Intangible fixed assets	47	47	47	47	0.0%
Cash and equivalents	4,789	4,795	4,700	4,857	0.5%
Total assets	12,185	11,926	12,550	13,483	3.4%
Short and long-term debt	4,432	4,221	3,821	3,221	-10.1%
Other long-term liabilities	772	684	684	684	-4.0%
Total liabilities	8,150	7,843	7,754	7,446	-3.0%
Net debt/(funds)	-358	-574	-880	-1,636	N/A
Shareholders' equity	4,035	4,082	4,796	6,037	14.4%
Cash flow from operations	1,689	1,885	2,481	3,038	21.6%
Capital expenditure	-789	-1,150	-1,176	-1,281	N/A
Free cash flow	901	735	1,306	1,757	24.9%

Valuation and leverage metrics					Average
P/E (adj) (x)	24.0	15.7	11.6	8.9	15.1
EV/EBITDAR (lease-adjusted) (x)	13.18	9.72	7.69	6.17	9.19
EV/EBIT (lease-adjusted) (x)	18.68	12.86	9.80	7.63	12.24
EV/sales (x)	3.6	3.0	2.8	2.5	3.0
EV/IC (x)	2.4	3.9	3.8	3.5	3.4
Dividend yield (%)	2.5	0.0	0.0	0.0	0.6
Equity FCF yield (%)	N/A	N/A	N/A	N/A	N/A
Gearing (lease adjusted) (%)	9.2	7.3	-0.3	-12.6	0.9

Key operating assumptions				
Revenue per passenger (%)	1.4	0.1	-2.5	2.0
Ex-fuel unit costs (%)	-0.1	-1.2	0.4	0.8
Capacity (seats) (%)	3.6	11.6	9.0	11.0
Traffic (passengers) (%)	10.9	17.1	9.6	11.0
Spot crude price ($)	85.9	50.6	50.0	51.3
Hedge price ($)	950.0	892.2	488.6	498.5
Hedged proportion (%)	90.0	92.3	95.0	0.0

Source: Company data, Barclays Research
Note: FY End Mar

Price (08-Jan-2016)	EUR 14.97
Price Target	EUR 20.00

Why Overweight? Ryanair's strategic transformation may have already doubled its profitability and share price, but we believe the best is yet to come. In our base case, we see Ryanair delivering 20% CAGR EPS growth FY16-20 and free cash flow stepping up to €1.5-€2bn. In our bull case, this becomes 30% CAGR EPS and €2-€3bn free cash flow.

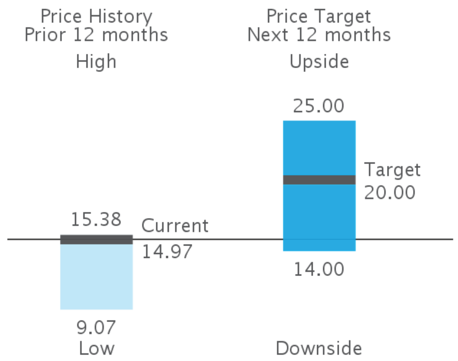
Upside case EUR 25.00

Our upside scenario assumes Ryanair fully closes the 'net revenue' gap with hybrid peers over five years, with total fares rising 4% CAGR, while fuel benefits flow through to the bottom line with no pricing passback.

Downside case EUR 14.00

Our downside scenario assumes all of Ryanair's fuel benefits are immediately offset in lower fares. There is no discernible impact from the strategic transformation, even in the longer term, and Ryanair's earnings grow in line with capacity (~10% CAGR), with flat margins.

Upside/Downside scenarios



INVESTMENT SUMMARY

The Revenue Revolution

Thanks to its industry-leading cost base and balance sheet, Ryanair has long been regarded as one of the key structural winners in the shorthaul Europe air travel market. With low-cost carriers representing only 35% market share in 2015, many routes still solely in the hands of weak legacy airlines, and an order book stretching out to 2024 (8% CAGR volume growth), Ryanair's long term growth prospects look as secure today as ever.

However, we think the core attraction of the Ryanair investment case lies in a strategic transformation which began two years ago. We believe the traditional Ryanair 'ultra low-cost' model - operating very thin routes to secondary airports, funded by volume incentives, with very minimal product - had reached saturation point in Europe. Furthermore, on some measures of return on capital, Ryanair had been overtaken by rival 'hybrid' LCCs, such as easyJet and Vueling, whose business models had a greater focus on asset turn and revenue.

Ryanair's new strategy is a clear attempt to copy the revenue-generating features of the hybrid model, while preserving its industry-leading cost discipline. There are two key areas:

- **Network.** Ryanair is actively growing in primary, central airports while shrinking in many secondaries. It is launching new, thicker routes, driving up its average frequency.
- **Soft product and digital.** Significant customer service improvements include a major focus on the digital platform to drive booking conversions and ancillary revenues.

Two years in, the strategy has proved extremely successful. We estimate net profit margin in FY16 will be double that of FY14, and Ryanair has regained its crown as Europe's best performing airline on virtually every measure of margin, ROIC and cash generation. Unit revenues have grown ~5% CAGR, driven mainly by a 10ppt increase in load factor. Crucially, while there has been some inflation in areas such as airport fees and marketing, Ryanair has maintained excellent cost control.

Our benchmarking suggests the story has only just begun

In this report, we argue the story has only just begun. Using our proprietary benchmarking analysis, we show there remains a 30% 'net revenue' gap between Ryanair and peer LCCs. If the company were to maintain its current revenue momentum, it could easily close this gap over the next five years. We estimate this could deliver 20-25% CAGR 'underlying' EPS growth – even allowing for primary airport inflation, and before considering fuel savings.

In reality, Ryanair's effective fuel price will fall dramatically in FY17: potentially a further substantial boost to earnings. Although we assume in our base case that half of the fuel savings are offset in lower fares, we think there is a strong argument for the momentum of the strategic transformation to drive fares *upwards*, especially as load factor gains top out. Simply assuming flat fares would imply estimated 30% upside to consensus FY17 EPS.

With its capex and growth rate largely locked in, the earnings profile we have outlined should see Ryanair generating €1.5-€2bn FCF per year from FY18. We expect this to be split between €1bn in annual shareholder returns, and the remainder to pay down debt, rendering the company entirely debt-free by the early 2020s. Our €20 12-month price target is based on Ryanair's current ~12.5x P/E multiple. But in the longer term, as Ryanair resets the benchmark for global airline financial performance, we believe the argument for it to command a higher premium will strengthen.

THE STORY IN CHARTS

FIGURE 1

Ryanair's strategic transformation is well underway…

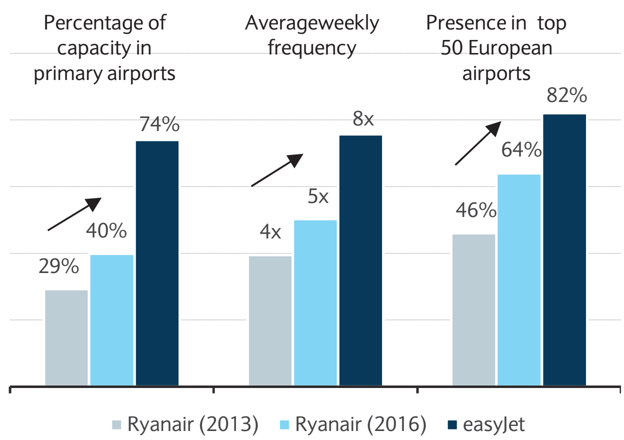


FIGURE 2

…propelling it to the top of the financial performance league

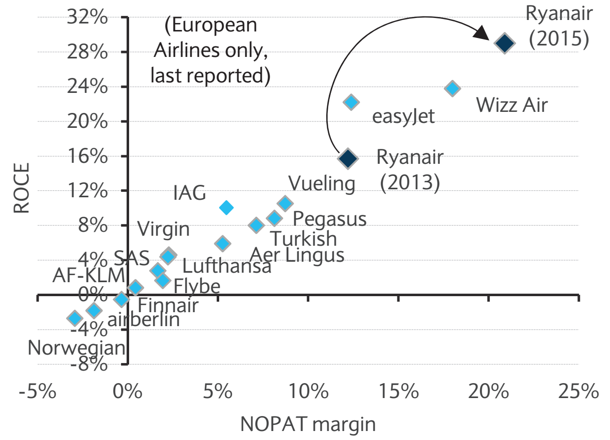


FIGURE 3

But a vast 'net revenue' gap to peers remains…

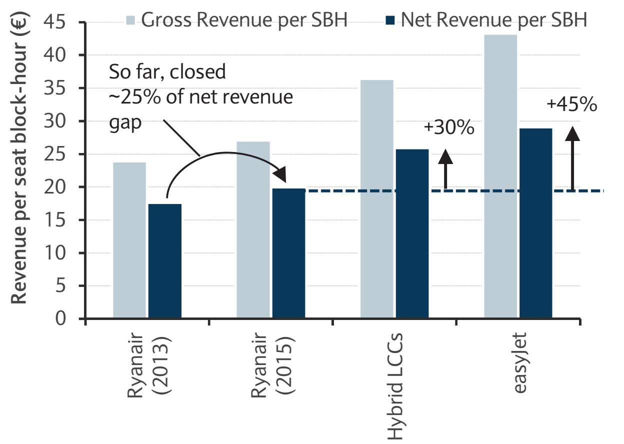


FIGURE 4

…and Ryanair will also benefit from fuel hedges rolling off

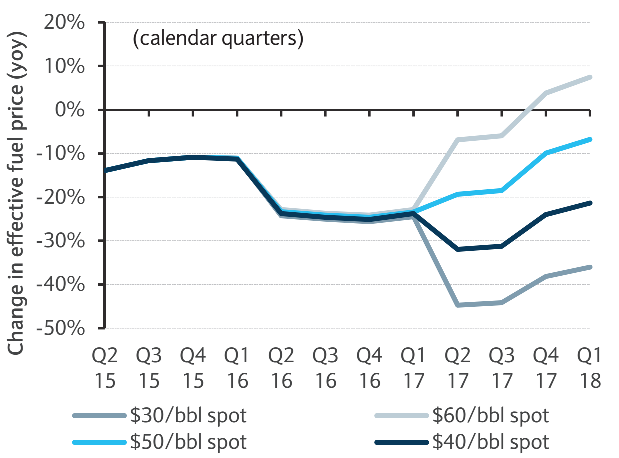
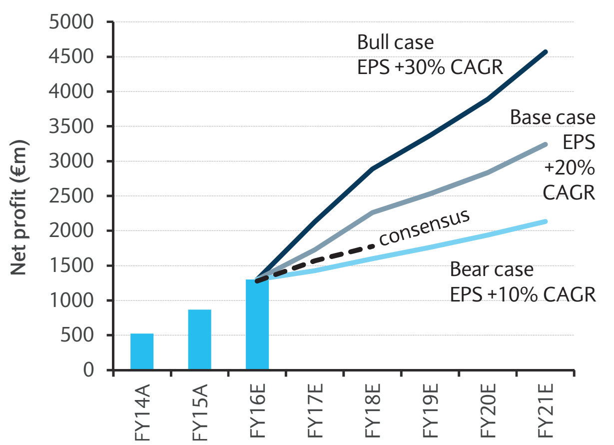


FIGURE 5

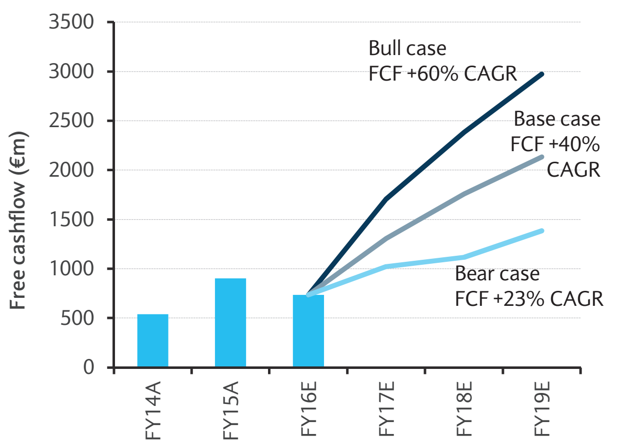
Putting it all together, we believe the best is yet to come…



Source: Barclays Research, Ryanair

FIGURE 6

…suggesting a step change in cash generation



Source: Barclays Research, Ryanair

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Quantifying the opportunity

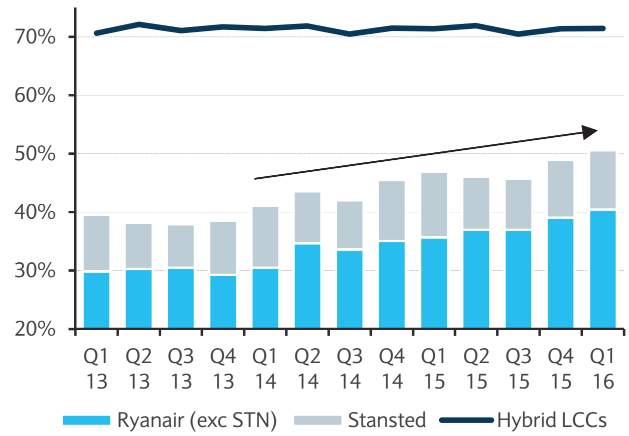
Ryanair's strategic transformation is now well underway, reflected in much improved financial performance. But how far has the business come, and what is the further opportunity? Framed by a like-for-like benchmarking analysis, we show that Ryanair has so far only closed about a quarter of the 'net revenue' gap with LCC peers. We demonstrate that, over the next five years, the strategic transformation could grow Ryanair's earnings by 20-25% CAGR, before even considering fuel savings.

Significant changes underway across network and product…

One way to measure the progress of the transformation is to examine the changes Ryanair has introduced. We summarise some of these below, and go into more detail later in the report (see the 'In-depth' sections, starting on page 18):

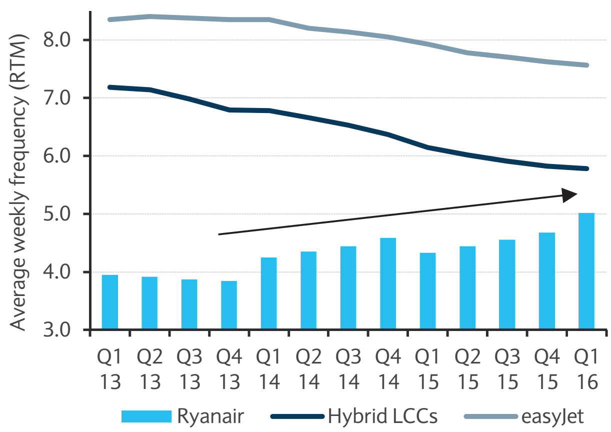
- **Primary airports.** The mix of primary airports within Ryanair's capacity has increased by ~5ppt per year over the last two years, exceeding 40% in Q1 2016. The company now has a presence in two thirds of the top 50 airports in Europe. However, it still heavily lags 'hybrid' LCCs (easyJet, Vueling, Norwegian), which average 70% of capacity in primaries.
- **Frequencies.** Ryanair's average frequency has increased by over 20% in the last two years, and is just over 5x/week in Q1 2016, matching that of Vueling and Norwegian. However, it is still about one third less than easyJet.
- **'Soft product' and digital.** The 'Always Getting Better' programme is about to enter its third year. Ryanair has introduced a range of 'soft' improvements, aimed at boosting passenger appeal and widening the customer base. The longer term focus is the digital transformation, mining customer data to drive conversions and ancillary products.

FIGURE 7
Ryanair: proportion of capacity in primary airports vs peers



Source: Barclays Research, Diio

FIGURE 8
Ryanair: average frequency vs peers



Source: Barclays Research, Diio

Extrapolating Ryanair's current progress, it would look feasible that the company could fully 'close the gap' on network, product and brand with its hybrid competitors in another 5-6 years. In reality, we think it is likely to take longer on the network side - we expect peak time congestion at primary airports may become more of an issue, especially with the low fuel price delaying legacy carrier withdrawals - but the direction is clear.

We now move on to look at financial performance.

…resulting in much improved financial performance

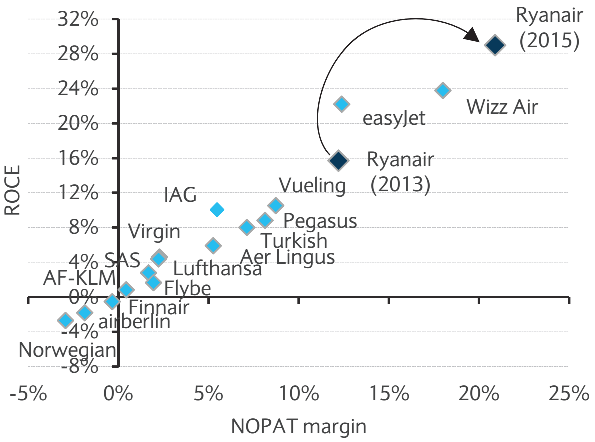
Coming from a fairly average position two years ago, Ryanair has regained its crown as Europe's best performing airline on virtually every measure of margin, return on capital and cash generation. While the company has certainly benefited from recent strong consumer demand, and is starting to see tailwinds from fuel as its hedges roll off, we believe the strength of the last two years has been mainly attributable to its strategic transformation.

- **Leading financial performance**. For FY16, we are forecasting Ryanair will generate a net margin of 20%, EBITDAR margin of 31% and ROCE of ~30%, making it the best performing airline in Europe and amongst the top 3 globally. Interestingly, Ryanair achieved higher profitability still in 2002-3, when it peaked at a net margin of 28% / EBITDAR margin of 40%, albeit with lower fuel.
- **Strong unit revenue growth…** On a constant currency basis, Ryanair's total revenue per seat has grown ~5% CAGR in FY15-16, despite capacity growth of 8% CAGR. This has been mainly driven by a very strong 10ppt increase in load factor, overtaking easyJet and positioning Ryanair as the global leader for airline load factors. Unsurprisingly, this means Ryanair has delivered the best revenue growth in the sector.
- **…with good cost control**. Ex-fuel cost per seat has grown ~3.5% CAGR at constant currency. This is led by strategic transformation costs such as primary airports and marketing and was heavily weighted towards FY15 (the first year of the transformation). Despite these investments, Ryanair's cost performance has been similar to easyJet's.

Ryanair's financial performance ranks it top 3 in the world

FIGURE 9

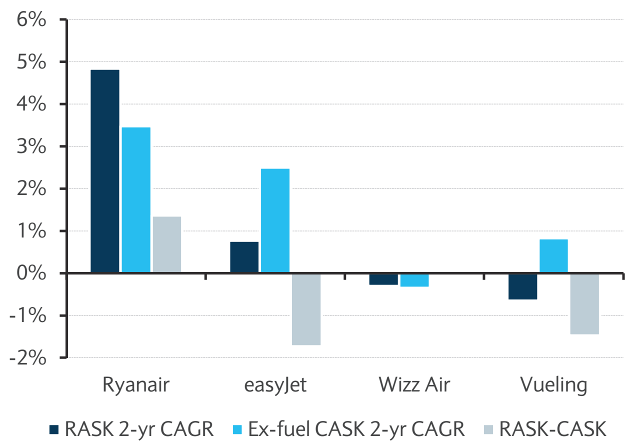
European Airline financial performance, last reported



Source: Barclays Research, company filings. Ryanair calendar years.

FIGURE 10

European LCCs: constant currency RASK and ex-fuel CASK



Source: Barclays Research, company filings

Despite the progress, a significant 'net revenue' gap remains

But what is the further opportunity under the strategic transformation? To accurately quantify this – and illustrate the drawbacks of Ryanair's 'old' secondary airport model – we benchmark unit revenue and unit costs against other European LCCs.

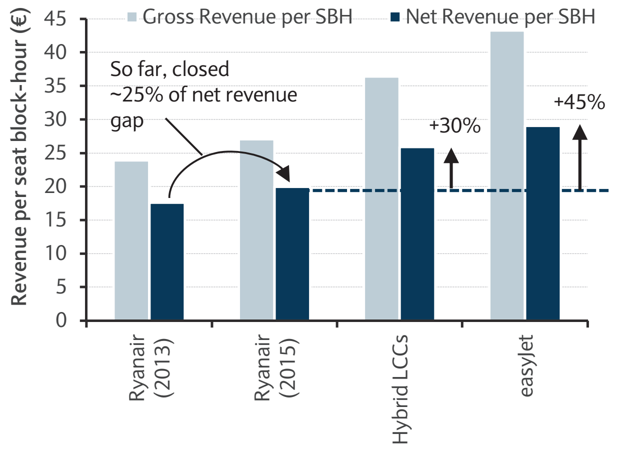
We use a 'net revenue' analysis, explained in more detail later, which subtracts product-related costs such as airports and marketing from total revenue, to enable better comparison between different LCC business models. Clearly, the aim for any airline should be to maximise its 'net revenue' while minimising 'fundamental' costs such as labour and maintenance, which are not business model dependent.

Total revenue	labour costs
- airport/ground costs	+ fuel costs
- route charges	+ maintenance
- sales & marketing	+ ownership
= Net revenues	= Fundamental operational costs

We first conducted this analysis in 2014 and concluded that, while Ryanair was a global leader for fundamental costs, its net revenue production heavily lagged peers – highlighting the inefficiencies of its traditional secondary airport model.

FIGURE 11

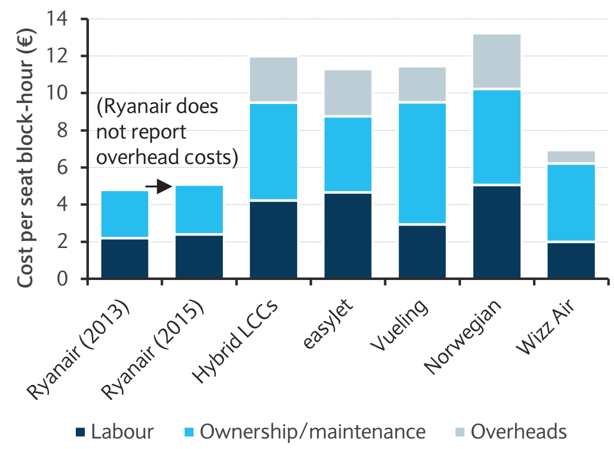
Ryanair: revenue benchmarking



Source: Barclays Research, company filings, Diio

FIGURE 12

Ryanair: fundamental operational cost benchmarking



Source: Barclays Research, company filings, Diio

Two years on, Figure 11 suggests there is still significant opportunity for Ryanair to improve its revenue generation. Under the strategic transformation, the 'net revenue' gap has narrowed by around a quarter, but hybrid LCCs are still 30% better than Ryanair and easyJet 45% above. Fundamental costs have remained broadly unchanged (some FX inflation), and are less than half that of peers. We believe that, over time, Ryanair should be able to close the vast majority of the net revenue gap, while preserving its fundamental cost advantages.

So far, Ryanair has closed 25% of the revenue gap to peers

Transformation could deliver 20-25% 'underlying' 5-year EPS CAGR, before even considering fuel savings

The scenarios below show potential earnings impact from continued improvements in net revenue. We have fixed capacity growth, held fundamental unit operating costs flat, and allowed for further inflation in product-related costs. The 'underlying' EPS growth ignores all fuel benefits, hence showing the standalone potential of the strategic transformation.

- **Scenario A** assumes Ryanair closes all of the 30% net revenue gap with hybrid LCCs over the next five years. This would require it to continue its current rate of revenue momentum (just over 4% CAGR total revenue per seat).
- **Scenario B** assumes Ryanair closes half of the 45% net revenue gap with easyJet (the best-in-class) over the next five years. This would imply a slightly slower rate of revenue momentum to what has been achieved over the last two years.

The scenarios suggest that the strategic transformation alone (without any fuel benefits, and allowing for primary airport inflation) could grow Ryanair's earnings by 20-25% CAGR.

FIGURE 13

Ryanair: 'underlying' earnings scenarios based on impact of strategic transformation (from FY2017E)

	FY2015A	FY2016E	FY2017E	FY2018E	FY2019E	FY2020E	FY2021E	5-year CAGR
Fixed assumptions								
Capacity growth	4%	12%	9%	11%	8%	4%	7%	8%
Fundamental operating costs		2%	0%	0%	0%	0%	0%	0%
Effective fuel price	-4%	-8%	-23%	-13%	6%	0%	0%	-7%
SCENARIO A: close 30% 'net revenue' gap to hybrid LCCs over five years								
Net revenue per SBH	€ 19.1	€ 19.9	€ 21.0	€ 22.1	€ 23.3	€ 24.6	€ 25.9	5%
Total revenue per seat	€ 55.1	€ 57.6	€ 60.1	€ 62.6	€ 65.3	€ 68.1	€ 71.1	
Growth	8.3%	4.6%	4.2%	4.3%	4.3%	4.3%	4.4%	4%
Net income (€m)	867	1,289	2,116	2,870	3,352	3,878	4,561	
Net margin	15%	20%	28%	33%	34%	37%	39%	
EPS growth	66%	49%	64%	36%	17%	16%	18%	29%
Underlying EPS growth (ex-fuel)	**66%**	**49%**	**28%**	**29%**	**24%**	**19%**	**20%**	**24%**
SCENARIO B: close half of gap to easyJet over five years								
Net revenue per SBH	€ 19.1	€ 19.9	€ 20.7	€ 21.5	€ 22.3	€ 23.2	€ 24.1	4%
Total revenue per seat	€ 55.1	€ 57.6	€ 59.4	€ 61.3	€ 63.2	€ 65.2	€ 67.2	
Growth	8.3%	4.6%	3.1%	3.1%	3.1%	3.1%	3.2%	3%
Net income (€m)	867	1,289	2,046	2,706	3,074	3,475	3,996	
Net margin	15%	20%	28%	32%	33%	34%	36%	
EPS growth	66%	49%	59%	32%	14%	13%	15%	25%
Underlying EPS growth (ex-fuel)	**66%**	**49%**	**23%**	**25%**	**21%**	**16%**	**17%**	**20%**

Source: Barclays Research, Ryanair, Diio

However, fuel will clearly have a very meaningful impact over the next two years, and we turn to examine this in more detail to build out our formal bull / bear / base case forecasts.

FY2017: major boost from fuel

In FY17, Ryanair's effective fuel price will fall by ~25% as its hedge rates decline. The key question for many investors is to what extent these savings get offset in pricing: consensus appears to be assuming a 10% fare decline. To be conservative, we model in our base case that avg fares fall 3.5%, but we think there is a strong argument for the strategic transformation to drive fares *upwards*, especially as load factor gains top out. Simply assuming flat fares implies 35% upside to consensus EPS, in our estimates.

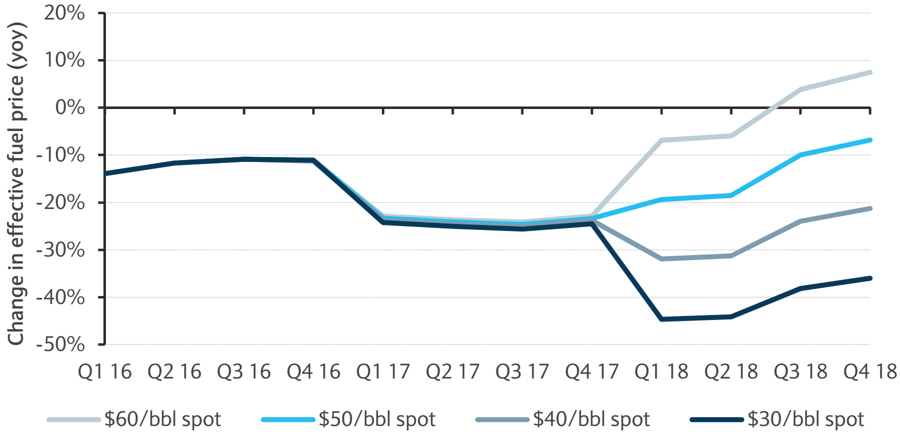
Hedge rates imply 25% saving in FY17, further in FY18

Ryanair has now locked in 95% of its fuel costs for FY17 at a rate of ~$65/bbl ($622/mt), compared to an effective rate in FY16 of close to $100/bbl. This will be partially offset by the stronger US dollar, although Ryanair is hedged at $1.19. In aggregate, Ryanair's effective euro fuel price should decline in FY17 by nearly 25%, a tailwind of more than €500m.

Ryanair tends to to confine its hedging activity to 12-18 months, so we would expect the company to be taking advantage of recent fuel weakness to hedge in H1 FY18. If we were to mark to market at $30/bbl, Ryanair's effective fuel price would decline by as much as 40% in FY18. At $50/bbl (our base case), there is a 12% decline.

FIGURE 14

Ryanair: effective fuel price by quarter (based on latest fuel and currency hedging)



Source: Barclays Research, Ryanair

Major upside to consensus if fuel savings are retained

As the bridge overleaf indicates, consensus appears to be assuming all the FY17 fuel benefit will be competed away in lower fares/ancillaries (implied 7.5% decline in total yields). This would be a dramatic slowdown compared to the current winter run-rate of flat yields, and positive load factor growth. To be conservative, we have assumed a 2.5% total fare reduction (base and ancillary), which equates to net income of €1.7bn, roughly 20% above consensus. However, we think there is a strong argument for fares to be flat or even rise:

- **Strategic transformation in its early years**. Over the last two years, the strategic transformation has driven Ryanair's unit revenues up ~5% CAGR. This has mainly been felt in higher load factors. As load factor growth tops out, this momentum should naturally shift into average fares – as assumed in Scenarios A and B.

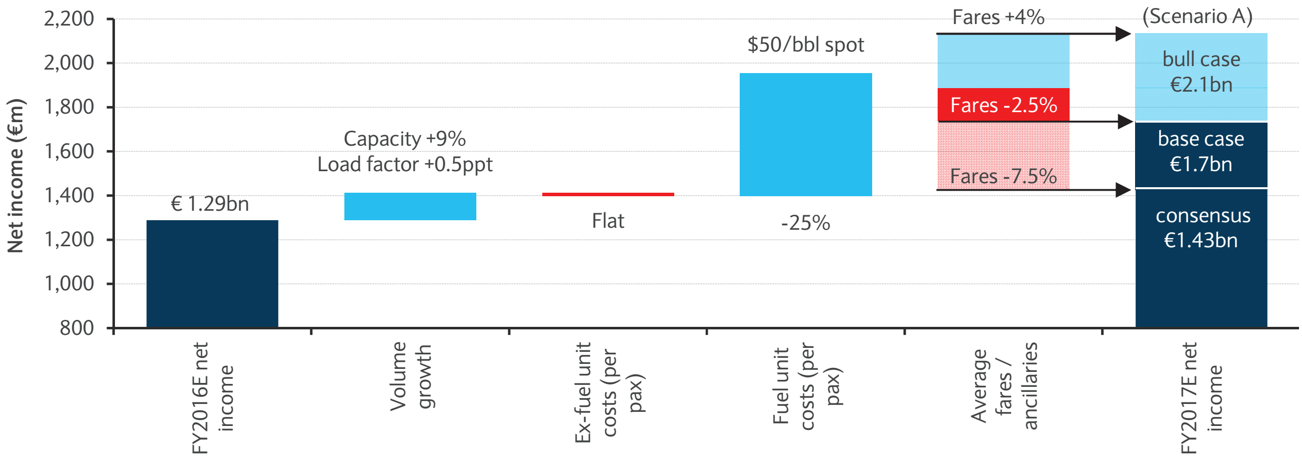
- **Capacity and traffic growth slows**. History suggests Ryanair's own traffic and capacity growth are the main driver of its yields. In FY16 Ryanair has grown seat capacity at 12%, and traffic at 17%. Capacity growth will be capped in FY17 at 10%, as Ryanair's growth rate depends on the pace of new deliveries from Boeing, and traffic growth should be similar given load factor topping out. These factors should support unit revenue.

- **Ticket prices are not directly correlated to fuel.** We strongly believe that ticket prices ultimately depend on supply and demand on a subject airline's route network, and are not directly correlated with oil. The European shorthaul environment in 2015 has provided compelling evidence of this: plenty of unhedged airlines already feeling the benefits of lower fuel, but pricing remained robust, given a strong demand environment, with capacity in balance.

Taking a bullish stance, Scenario A assumes total fares (base tickets and ancillaries) rise 4% CAGR from FY17-21. This would equate to net income of €2.1bn in FY17, 50% above consensus. Simply holding fares flat would imply 35% upside to consensus.

FIGURE 15

Ryanair: FY2017 net profit bridge



Source: Barclays Research, Ryanair. Fares = average fares and ancillaries

For FY17, every 1% difference in Ryanair's total yields (base fares and ancillaries) is worth 5% on earnings

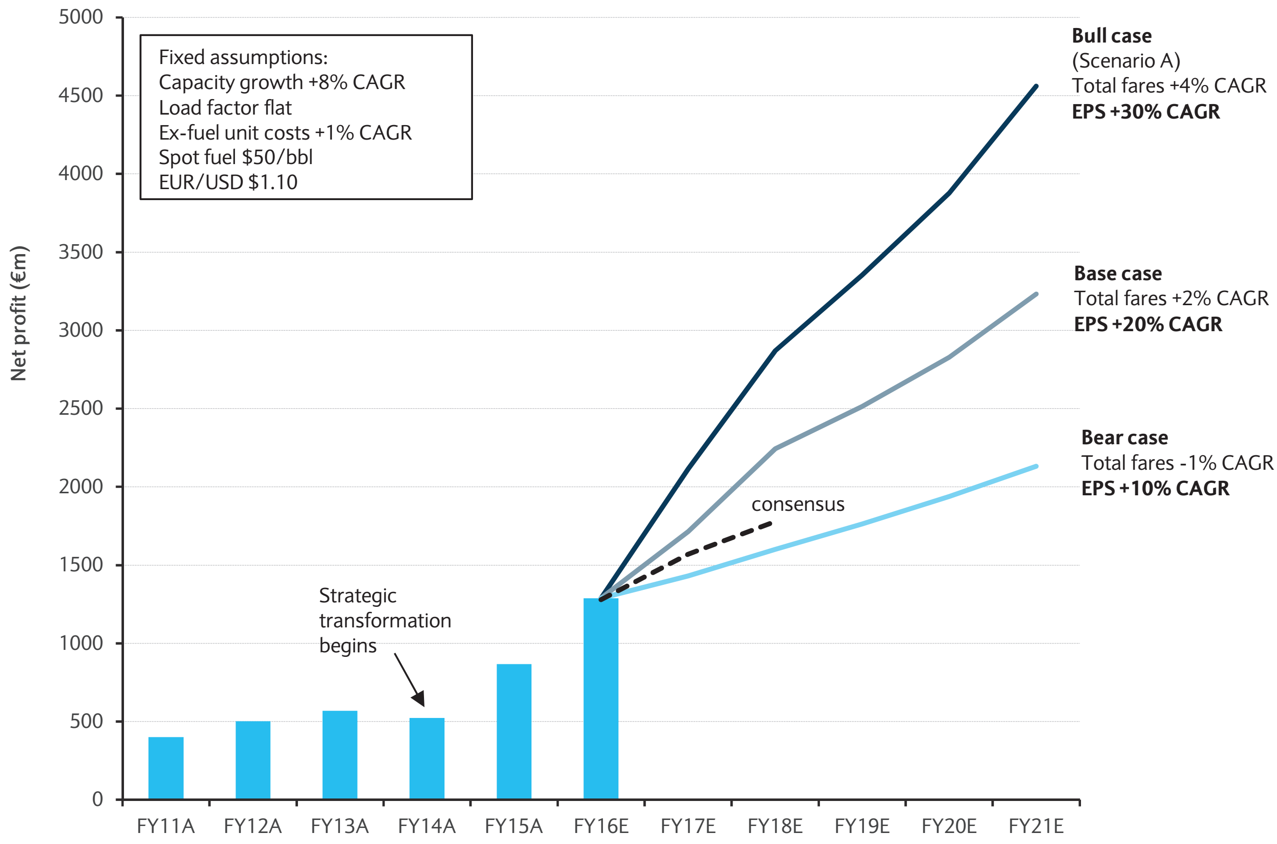
Putting it together: the best is yet to come

Combining the long term impact of the strategic transformation with the shorter term dynamics of fuel/pricing offset, we outline three 5-year earnings scenarios:

- **Bull case, 30% EPS CAGR (full strategic transformation benefits with no fuel passback).** Ryanair fully closes the 'net revenue' gap with hybrid peers over five years, with total fares rising 4% CAGR, while fuel benefits flow through to the bottom line with no pricing passback. This correlates with Scenario A, page 9.
- **Base case, 20% EPS CAGR (medium term strategic transformation benefits, but some fuel passback in FY17/18).** Just over half of the fuel benefits (€500m) are offset in lower fares, diluting the impact of the strategic transformation in FY17. In the longer term, total fares continue to rise, growing 2% CAGR.
- **Bear case, 10% EPS CAGR (no further impact from strategic transformation, full fuel passback).** All of the fuel benefits are immediately offset in lower fares. There is no discernible impact from the strategic transformation, even in the longer term, and Ryanair's earnings grow in line with capacity (~10% CAGR), with flat margins.

FIGURE 16

Ryanair: Bull/bear/base case net profit forecasts (base case is Barclays published forecast)



Source: Barclays Research, Ryanair

The cash engine

While we believe Ryanair's earnings will continue to improve under the strategic transformation, we argue that its capex and growth rate are largely locked in, leading to a potential step change in cash generation. We model Ryanair achieving €1.3bn free cash flow in FY17, and €1.8bn in FY18 (around €500m higher in bull case scenario). We expect this to be split between €1bn in annual shareholder returns, and the remainder to pay down debt - rendering Ryanair entirely debt-free by the early 2020s.

Capex and growth rate largely locked in…

Ryanair is already making returns far above its cost of capital, and the earnings profile we have outlined could make it the most profitable airline in the world. The obvious temptation for management is to reinvest some of these excess returns into faster growth. However, we do not expect material change to current guidance of €1bn capex / 8% CAGR capacity.

- **Lack of aircraft availability.** Order backlogs for narrowbodies, both Boeing and Airbus, stand at record highs, reflecting both the health of the airline industry and manufacturer attempts to smooth out production cycles. The Boeing 737, Ryanair's staple fleet type, is theoretically booked out to 2022, despite its build rate rising 25% by 2018.

  Ryanair's current backlog supports a ~8% CAGR expansion rate from 2016-24. This is based on two orders: one, placed in 2013, for current generation 737-800s, which enables growth from FY15-FY19, and another announced in late 2014 for the next-generation 737MAX, which secures expansion from FY20-FY24.

  In practice, order backlogs and delivery schedules are a little more fluid than the headlines would suggest. Ryanair has twice recently topped up its 737-800 order with relatively close-in deliveries. presumably where Boeing had a cancellation or deferral. However, we believe the company is probably the last resort for Boeing when trying to fill a spare production slot – Ryanair's current deliveries from the 2013 order are likely to be at very aggressive pricing, as they helped Boeing fill 'last off the line' production slots. We assume Ryanair would insist on the same pricing in any extra units.

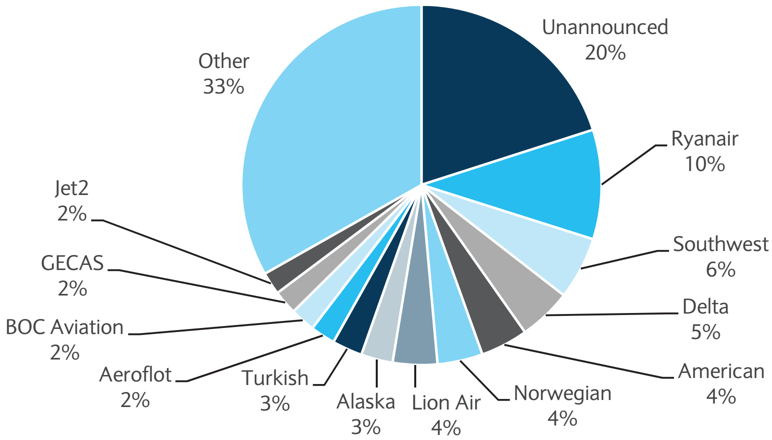
FIGURE 17
Ryanair: fleet plan

	FY15A	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
Opening fleet count	297	308	340	380	401	419	450	472	507	535
Deliveries	11	41	52	50	29	31	22	35	28	11
Implied exits (lease returns/handbacks)	0	(9)	(12)	(29)	(11)	0	0	0	0	0
Closing fleet count	308	340	380	401	419	450	472	507	535	546
Fleet growth (%)	3.7%	10.4%	11.8%	5.5%	4.5%	7.4%	4.9%	7.4%	5.5%	2.1%
Maximum growth rate	3.7%	13.3%	15.3%	13.2%	7.2%	7.4%	4.9%	7.4%	5.5%	2.1%

Source: Ryanair. Deliveries from FY15-19 are Boeing 737-800, from FY20-FY24 are Boeing 737MAX. Maximum growth rate assumes all fleet exits are cancelled.

Ryanair has placed two recent top-up orders: in April 2014 for five aircraft (four for delivery within 15 months). In March 2015 it ordered another three (for delivery in 12 months). The absence of any more recent announcements would suggest that demand within the 737 order book remains strong. Looking at the backlog between now and 2019, we suspect there is some risk of cancellation from Norwegian and Lion Air, based on their financial stability. But we think any material increase in availability would need to be triggered by a more widespread airline / economic downturn.

FIGURE 18
Boeing 737 order backlog, for delivery 2016-18



Source: Ascend

There is some flexibility for Ryanair to delay the exit of older aircraft from its fleet – either by lease extensions (at the end of FY16 Ryanair will have 40 leased aircraft) or by postponing planned sales. As shown in the table, this provides particular upside potential in FY17 and FY18.

Equally, Ryanair could lease in extra capacity (long term dry leases), but this would go against the company's plan to deleverage, and would attract higher ownership costs.

- **Management discipline.** We believe Ryanair is genuinely capacity disciplined. While it has on occasion accelerated its growth lately, especially over the two most recent winters, this has proven fully justified by the additional demand. The company has been equally quick to take supply out where it cannot fill seats (for example winter 2013/14 capacity cut). Where it has made additional top-up orders, the evidence is that Ryanair negotiated very hard on pricing.

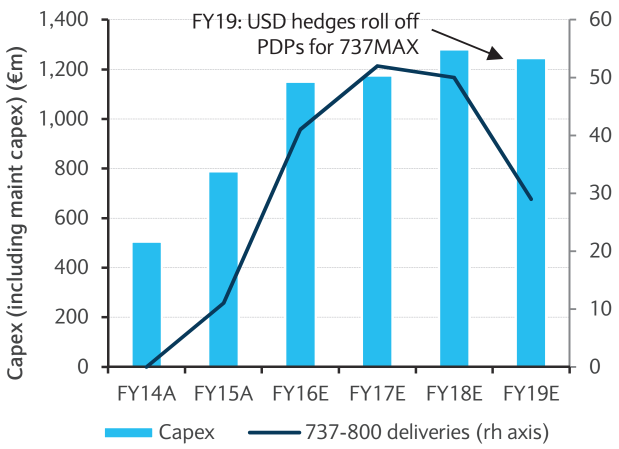
  We think there is a strong awareness within Ryanair management that the current period of profit growth may be abnormally good, and that like any airline, Ryanair remains a capital intensive business, vulnerable to significant internal and external shocks. Michael O'Leary said at H1 results that his biggest worry is trying to second guess what could go wrong. For this reason, we believe management would be wary of accelerating medium term growth beyond 10%, even if there were available aircraft. In any case, Ryanair is already adding more capacity than any other European Airline.

…meaning a step change in free cash flow

Given the arguments above, we think it is relatively safe to model Ryanair's capex inline with guidance, at ~€1.2bn per year from FY16 (including maintenance capex), slightly rising in the outer years as US dollar hedging falls away (Ryanair is fully hedged to March 2018 at $1.31). This is shown in Figure 19. Although the number of deliveries reduces in FY19, the capex stays high because of pre-delivery payments for the 737MAX.

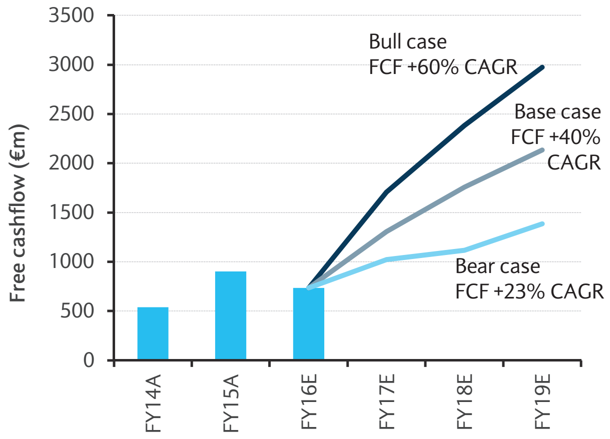
Applying this to the bull, bear and base case earnings scenarios on page 12 gives the cash generation that we show in Figure 20. Unsurprisingly, free cash flow surges under both base and bull case. It seems very plausible to us that Ryanair could be delivering €1.5-€2bn in free cash flow per year by FY18. At current valuation, this equates to a 7% free cash flow yield in FY17, and 9% in FY18. The bull case is a 9% FCF yield in FY17 and 12% in FY18.

FIGURE 19
Ryanair: capex forecasts



Source: Barclays Research, Ryanair

FIGURE 20
Ryanair: cash flow scenarios



Source: Barclays Research, Ryanair

Large scale M&A unlikely – as is Ryanair transatlantic

We think it is unlikely – although not impossible – that Ryanair spends its cashflow on large scale M&A. While we would expect the company to look at small bolt-on acquisitions for market access (for example, it came close to buying the remains of Cyprus Airways in late 2014), anything of scale would certainly dilute Ryanair's own financial performance, given it is now at the top of the European league table. It also comes with significant execution risks, at a time when management should not be distracted from the strategic transformation. In any case, there may well be regulatory barriers – despite having only 14% intra-Europe market share, we think Ryanair is perceived as becoming too powerful in Brussels and any major takeover would likely be subject to a very lengthy competition enquiry.

We believe this also applies to organic expansion into other markets, such as a transatlantic low-cost operation, which we think has been ruled out by Ryanair management for the time being, although is being attempted by a number of its competitors, such as Norwegian.

Cash split between shareholders and paying down debt

We therefore expect Ryanair to divide its cash between shareholders and debtholders:

- **Shareholder payments.** Ryanair has an unpredictable approach to shareholder payouts, never committing to any cash return beyond a six-month horizon, and shifting between special dividends and share buybacks. However, it has still returned more cash to investors since 2008 than any other European airline. Over the period FY08-FY15, it returned two thirds of cumulative net profit and 95% of free cash flow to shareholders.

  It is interesting to note that over the last two years, while the earnings growth has accelerated, shareholder returns have remained flat. In the current fiscal year, management has returned €400m of 'underlying' cash generation (we do not count the Aer Lingus cash proceeds), while guiding for a net profit of over €1.2bn. This equates to a one third payout ratio, which is perfectly respectable in the wider market, but given the likely direction of Ryanair's margins, we think can be improved.

  As free cash flow steps up to €1.5-€2bn per year (base case scenario), we expect shareholder payouts will move towards €1bn per year. This would be in the region of

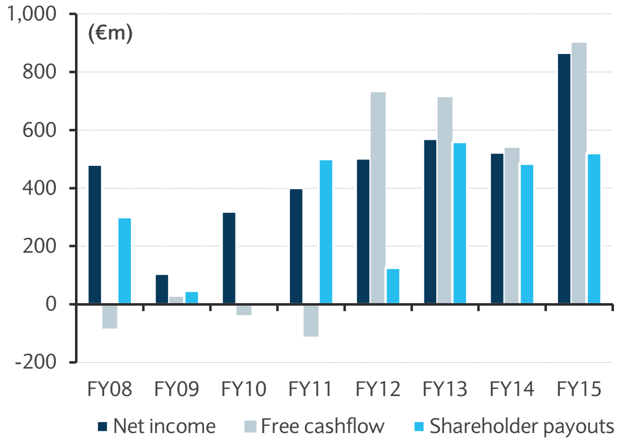
Ryanair's historical payout ratios, while keeping a lid on expectations. For the time being, we do not believe Ryanair would want to commit to anything higher than €1bn. This leaves it with only one other use of cash – paying down debt.

In the near term, we model a buyback announcement of €750m at Q3 results in February, to cover the H2 2016 / H1 2017 period. We see a possibility that the buyback is as high as €1bn.

> Over the last two years, Ryanair earnings have accelerated – but shareholder returns have remained average

FIGURE 21

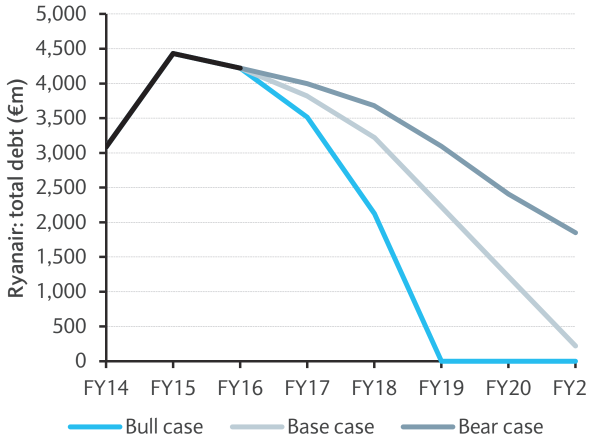
Ryanair: net income and FCF vs shareholder payouts



Source: Barclays Research, Ryanair

FIGURE 22

Ryanair: projected total debt under bull/base/bear cases



Source: Barclays Research, Ryanair

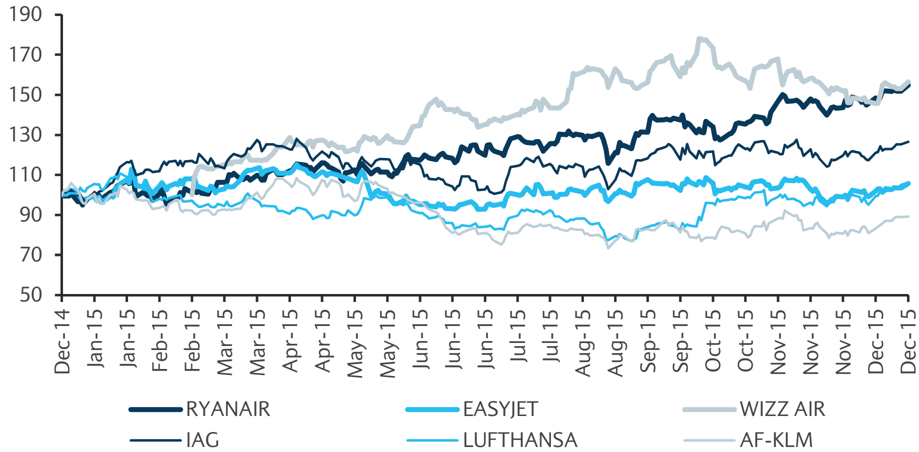
- **Debt repayments.** Ryanair has one of the strongest balance sheets in the industy: it is already comfortably net cash, and only very slightly in debt when adjusting for operating leases. Nonetheless, if cash generation has surged and it feels it is adequately compensating shareholders, then it may be hard to justify borrowing money. If there is a risk of interest rates rising, it would also make sense to be paying down debt and buying more aircraft with cash (although 70% of Ryanair's long-term debt is fixed rate).

As of H1 2016, Ryanair had total debt of €4.2bn. In our base case, we model the company paying down €400m in FY17, €600m in FY18 and €1bn from FY19. On these assumptions, Ryanair would be debt-free by the early 2020s. In the bull case scenario, it would achieve this by the end of FY19. We show this in Figure 22.

Valuation

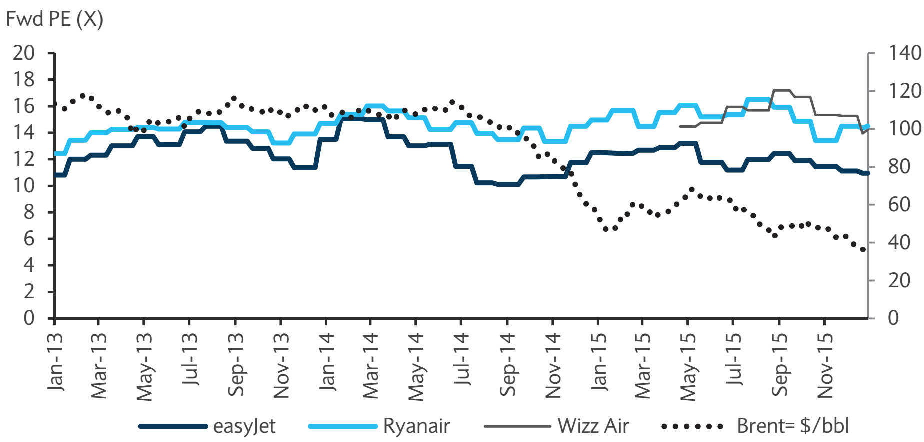
We show below share price performance charts and valuation charts for Ryanair compared to the wider European Airlines sector.

FIGURE 23
European Airlines: share price performance 2015



Source: Barclays Research, Datastream

FIGURE 24
European LCCs: 12 month forward P/E history



Source: Barclays Research, Datastream

Our €20 Ryanair 12-month price target equates to the stock trading on ~12.5x 12-month forward EPS (blended FY17 and FY18). This is roughly inline with its current multiple, and a 15% premium to easyJet, but a 15% discount to Ryanair's 2-year average. We think a premium multiple is fully deserved, given the momentum of the strategic transformation. However, we recognise the risk of wider industry derating in the low fuel environment.

In-depth: Network transformation

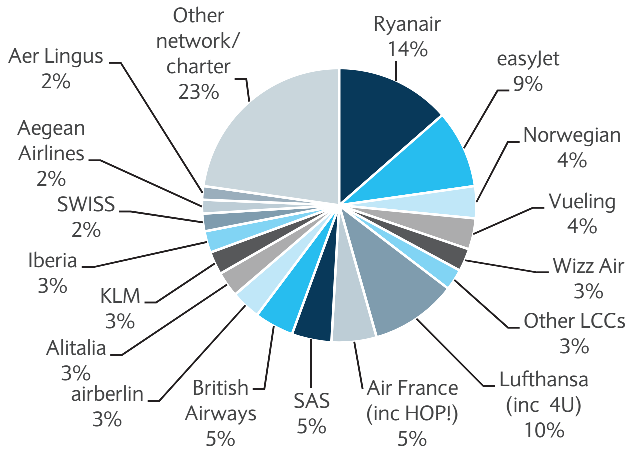
Ryanair may be the largest European shorthaul airline, but historically it has operated on thin routes, from secondary airports, with very low frequencies. We believe Ryanair's strong, established market positions across many countries give it considerable opportunity to drive net revenues as it continues to shift its network towards higher frequencies, thicker routes and more central airports.

Ryanair is the largest shorthaul airline in Europe, with a top 3 share in the five largest European countries

Today Ryanair represents 14% of shorthaul European capacity, and 38% of European LCC capacity, on our analysis. We assume it will account for around 17% of industry capacity by 2020, based on a ~8% CAGR growth rate for 2015-20, compared to the industry at 4%.

FIGURE 25

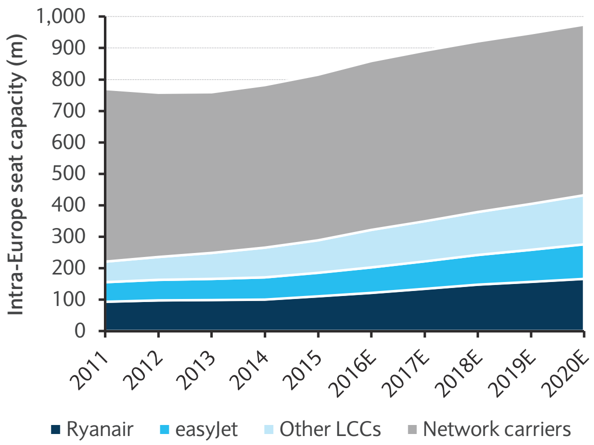
Intra-Europe seat capacity share, 2015



Source: Barclays Research, Diio

FIGURE 26

Projected intra-Europe seat capacity share, 2011-2020E



Source: Barclays Research, Diio

The company has very strong positioning and brand penetration, with top 3 share in the five largest European country markets. There are only two major markets in which it is almost entirely absent: Switzerland and Austria, where high airport charges act as a deterrent.

FIGURE 27

Ryanair positioning in top 16 shorthaul European countries by seat capacity (representing 90% of intra-Europe market)

Country	Weight	RYA rank	RYA share	Key competitors	Country	Weight	RYArank	RYA share	Key competitors
UK	15%	#3	17%	easyJet, BA	Sweden	3%	#4	5%	SAS, Norwegian
Spain	14%	#1	18%	Vueling, Iberia	Greece	3%	#2	14%	Aegean
Germany	13%	#3	5%	Lufthansa, airberlin	Portugal	3%	#2	20%	TAP, easyJet
Italy	11%	#1	27%	Alitalia, easyJet	Denmark	2%	#4	5%	SAS, Norwegian
France	9%	#3	7%	Air France, easyJet	Ireland	2%	#1	49%	Aer Lingus
Norway	5%	#4	3%	SAS, Norwegian	Poland	2%	#1	30%	Wizz Air, LOT
Netherlands	3%	#4	5%	KLM, Transavia	Belgium	2%	#1	27%	Brussels Airlines
Switzerland	3%	#23	0%	SWISS, easyJet	Austria	2%	#16	1%	Austrian, airberlin

Source: Barclays Research, Ryanair, Diio

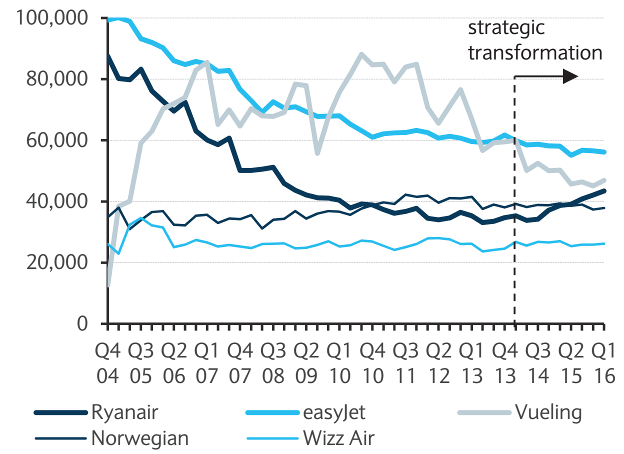
Ryanair historically operated on very thin routes, but there are clear changes underway

Ryanair's network was traditionally focused on a large number of very thin routes, which could only sustain limited capacity, and were often only viable at Ryanair's cost base. Local incentives formed a crucial component of the business model. Small, 'middle of nowhere' airports keen to get 'on the map' offered particularly attractive incentive schemes to Ryanair in return for a certain volume of passengers. This enabled Ryanair to offer exceptionally low fares, 'stimulating demand' and playing a key role in opening a whole new air travel market: backpackers, students, weekend breaks, visiting friends and relatives, etc. This market would previously have stayed at home, or used alternative forms of transport.

From 2004 to 2010, the average size of a Ryanair route actually halved (Figure 28), as the airline focused its expansion on launching a multitude of new routes/network points, in underpenetrated markets, based largely on the availability of incentives.

FIGURE 28

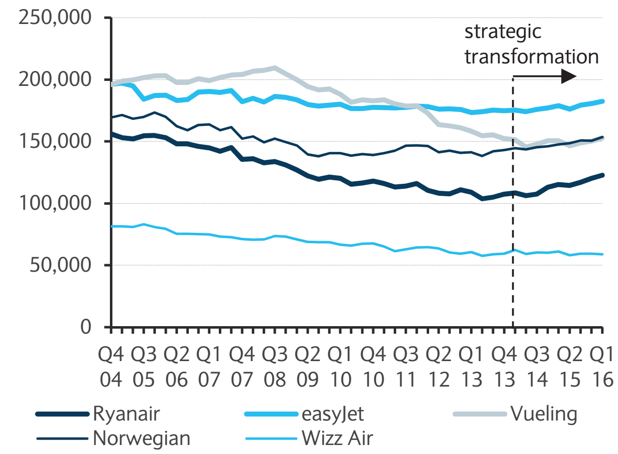
Average seat capacity of subject airline per route (RTM)



Source: Diio. Routes in city pairs, and include distinct directions.

FIGURE 29

Average seat capacity of all airlines per subject route (RTM)

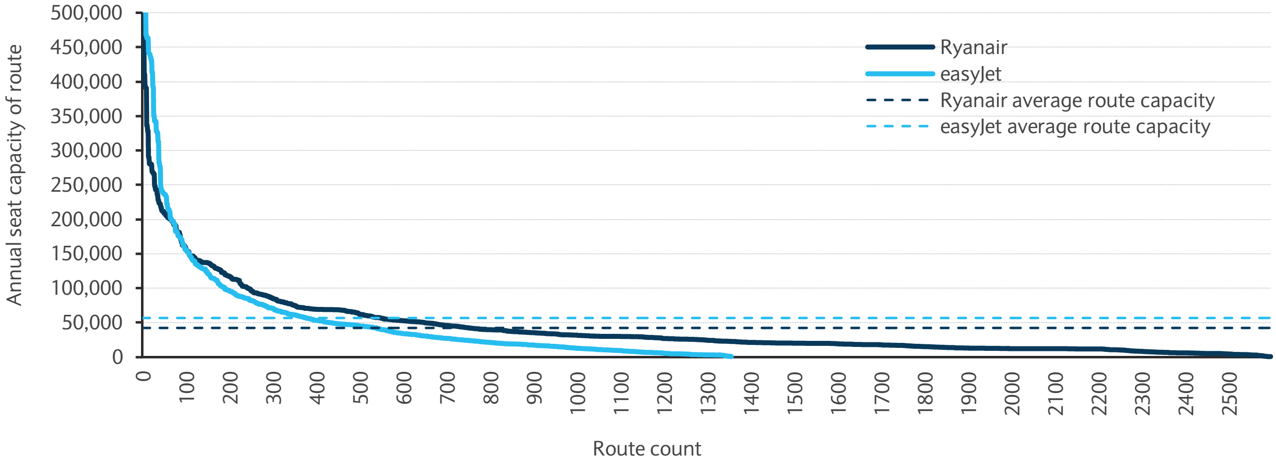


Source: Diio. Routes in city pairs, and include distinct directions.

Since the strategic transformation began in winter 2013, there has been a notable shift towards larger density routes. The annual capacity of an average Ryanair route has risen by 25% over the last two years and is now greater than Norwegian, and virtually the same as Vueling. However, it is still 25% behind easyJet. While there are some very large markets (for example, Ryanair's biggest route, London-Dublin, has more capacity than easyJet's biggest route, London-Amsterdam), there remains a long tail of thin routes (Figure 30). In terms of capacity and fleet size, Ryanair is roughly 40% bigger than easyJet, but operates virtually double the number of easyJet routes. As shown in Figure 29, easyJet's average markets remain ~50% larger than Ryanair's today.

Within Europe, the LCC with the notably thinner network is Wizz Air, which has a focus on the less mature Central and Eastern European market (much lower propensity to air travel).

FIGURE 30
Ryanair vs easyJet route distribution by annual seat capacity



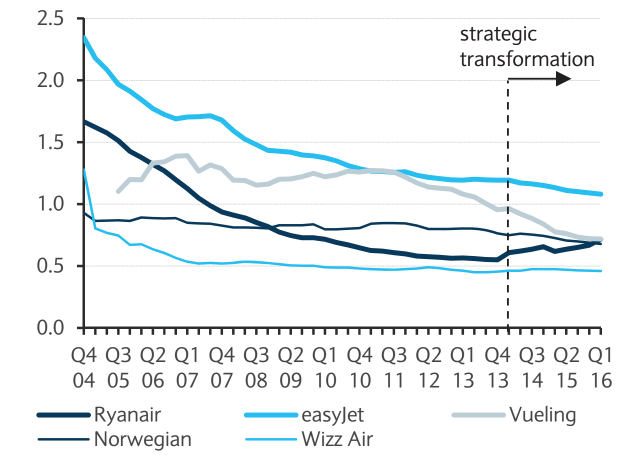
Source: Barclays Research, Diio. Routes in city pairs, and include distinct directions.

Average frequency also increasing

Another way of measuring route density is to look at average frequencies (flights per route per day). Ryanair's average frequency has increased by over 20% in the last two years, and is just over 5x/week for Q1 2016 (rolling 12 months), matching that of Vueling and Norwegian. However, it is still about one third less than easyJet. Interestingly, most LCCs have seen their average route frequency falling over time, including easyJet. This implies the bulk of capacity growth across the LCC industry has been focused on opening additional routes. It is certainly true that LCCs have driven a massive expansion in the availability of point-to-point services across Europe.

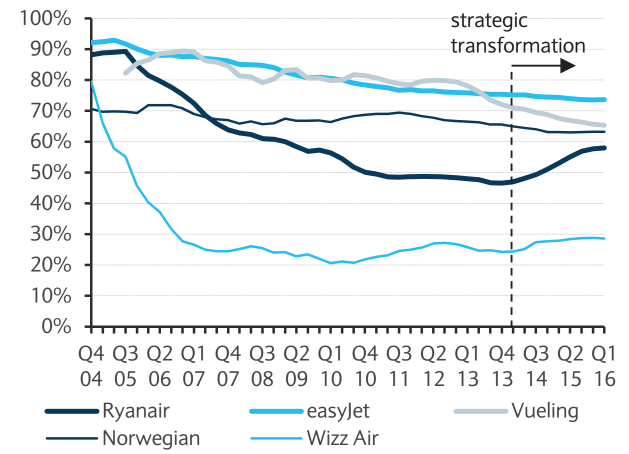
Today, nearly 60% of Ryanair's capacity is dedicated to routes with at least daily frequency, compared to ~45% before the strategic transformation launched. The other hybrids average 65-75% of their capacity on at least daily routes, but Wizz Air manages just 30%.

FIGURE 31
Average daily frequency of European LCCs (RTM)



Source: Diio. Routes in city pairs, and include distinct directions.

FIGURE 32
Proportion of capacity on at least daily frequencies (RTM)



Source: Diio. Routes in city pairs, and include distinct directions.

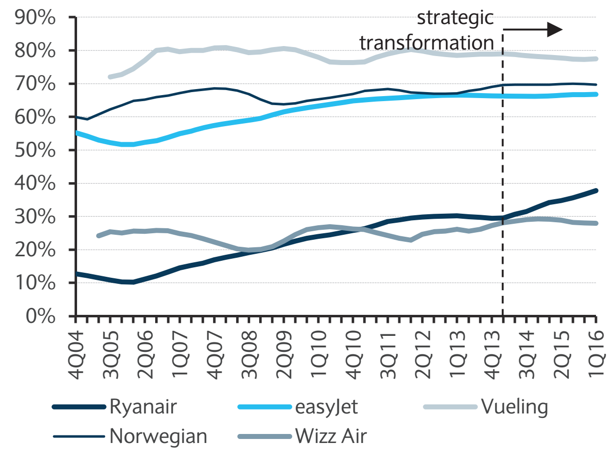
Increased mix of capacity in primary airports

Ryanair traditionally had a clear bias towards small, remote airports with a high availability of incentives. The definition of 'primary' vs 'secondary' airport can be rather subjective, but on our analysis, prior to the strategic transformation, about 30% of Ryanair's capacity was in primary airports (Figure 33), compared to the hybrids at 65-80%. However, Ryanair's mix has increased by ~5ppt per year over the last two years, exceeding 40% in Q1 2016.

We define a primary airport to be any airport with more than 5m passengers which is not a clear 'secondary' option for a city. For example, Malaga meets our definition of a primary airport, but London Stansted does not.

FIGURE 33

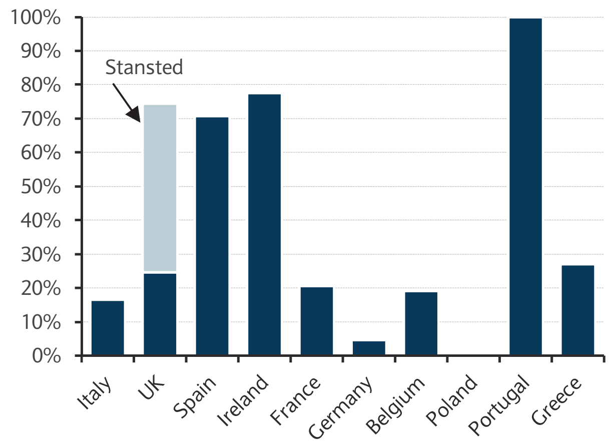
European LCCs: proportion of capacity in primary airports



Source: Barclays Research, Diio

FIGURE 34

Ryanair primary airport capacity split by country (2015)



Source: Barclays Research, Diio

Figure 34 shows Ryanair's primary/secondary airport mix across key European countries. Historically, where the company served large cities, it was generally via a substitute airport (Frankfurt Hahn, Milan Bergamo, Rome Ciampino, Paris Beauvais, Brussels Charleroi, Stockholm Skavsta/Vasteras, Oslo Torp/Rygge, Dusseldorf Weeze,). Its single largest base, at London Stansted, remains arguably the least attractive of the five main London airports, with the lowest yielding immediate catchment area.

For many years, Ryanair had a gradually increasing presence in some, mainly leisure-focused, primary airports including Palma, Dublin, Barcelona, Madrid, Malaga, Alicante, Faro, Manchester and Edinburgh. In some cities, we believe Ryanair found that, as competitive hybrid LCCs gained positions in the primary airport, they started to cannibalise its secondary airport business – potentially forcing it to move over.

However, over the last two years, the network shift has been formalised under the strategic transformation, and the pace has clearly accelerated (see Figure 36):

- New bases include Rome Fiumicino, Brussels Zaventem, Lisbon, Milan Malpensa, Berlin Schonefeld, Glasgow Int, Lisbon, Athens and Cologne. Other primary airports where Ryanair has been building a presence without a base include Copenhagen, Hamburg, Amsterdam Schiphol and Prague.
- The company has expanded significantly in its two largest bases, Stansted (+28%) and Dublin (+30%), where it is known to have very good pricing deals.
- The heaviest pullbacks have been in secondary airports, including Barcelona Girona, Stockholm Skavsta, Dusseldorf Weeze and Glasgow Prestwick.

Ryanair is now in two thirds of Europe's Top 50 airports

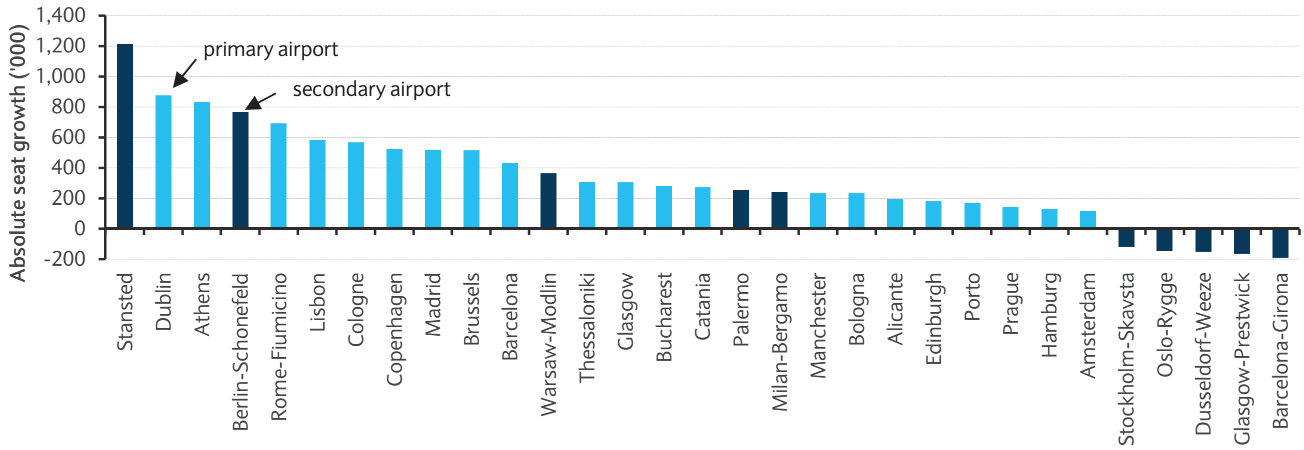
FIGURE 35

European LCCs: Presence in Top 50 Busiest European Airports

Airport	Ryanair (S13)	Ryanair (W15)	easyJet	Norwegian	Vueling	Wizz Air	Airport	Ryanair (S13)	Ryanair (W15)	easyJet	Norwegian	Vueling	Wizz Air
LHR					✓		ATH		✓	✓	✓	✓	
CDG			✓		✓		GVA			✓	✓	✓	✓
FRA					✓		HAM		✓	✓	✓	✓	
AMS		✓	✓	✓	✓		AGP	✓	✓	✓	✓	✓	✓
MAD	✓	✓	✓	✓	✓	✓	NCE	✓	✓	✓	✓	✓	✓
MUC			✓	✓	✓		PRG		✓	✓	✓	✓	✓
FCO		✓	✓	✓	✓	✓	WAW	(✓)			✓	✓	✓
LGW	✓	✓	✓	✓	✓		LTN	✓	✓	✓		✓	✓
BCN	✓	✓	✓	✓	✓	✓	LPA	✓	✓	✓	✓	✓	
ORY			✓	✓	✓		EDI	✓	✓	✓	✓	✓	
CPH		✓	✓	✓	✓		ALC	✓	✓	✓	✓	✓	✓
ZRH			✓		✓		STR		✓	✓		✓	
OSL				✓	✓		BHX	✓	✓	✓	✓	✓	✓
PMI	✓	✓	✓	✓	✓	✓	CGN	✓	✓	✓	✓		✓
VIE			✓	✓	✓		TFS	✓	✓	✓	✓	✓	✓
ARN			✓	✓	✓		BUD	✓	✓	✓	✓	✓	✓
MAN	✓	✓	✓	✓	✓		LIN			✓			
BRU		✓	✓		✓		BGY	✓	✓				✓
DUS			✓		✓		VCE			✓	✓	✓	
DUB	✓	✓		✓	✓		LYS			✓		✓	
TXL					✓		OTP		✓			✓	✓
STN	✓	✓	✓				MRS	✓	✓	✓		✓	
MXP		✓	✓	✓	✓	✓	GLA		✓	✓			✓
LIS		✓	✓	✓	✓	✓	TLS			✓		✓	
HEL				✓	✓		CTA	✓	✓	✓	✓	✓	✓

FIGURE 36

Ryanair: Capacity changes Winter 2015/16 vs Winter 2013/14 by key airports



Source: Barclays Research, Diio

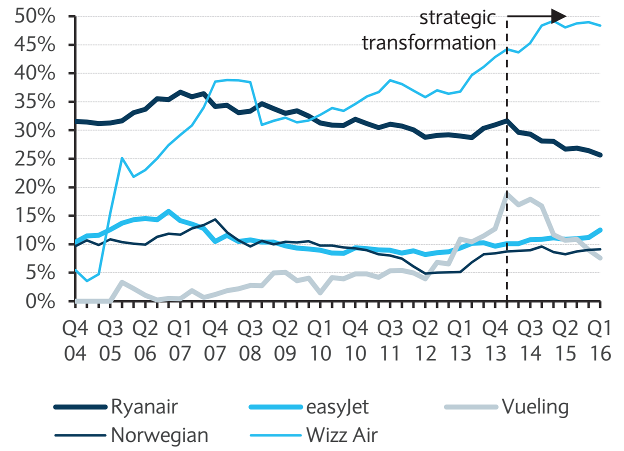
Increase in competition as Ryanair moves into larger markets

From 2004-13, approximately 30-35% of Ryanair's capacity had no competition. This compares to an average of 10-15% for the hybrid LCCs, but 50% for Wizz (Wizz's business model is based on stimulating demand on brand new, very thin routes in Central and Eastern Europe, which are probably not viable for more than one airline). When measured purely in terms of number of city-pair routes, 50% of Ryanair routes, and over 60% of Wizz routes, were monopolies, although this obviously includes some very thin markets.

There has been a notable increase in competition on Ryanair's network since 2013. The proportion of single-carrier capacity has fallen to 25%, and the proportion of single-carrier routes has dropped to 45%. This is understandable, given Ryanair is deliberately moving into larger, more competitive markets. The rest of Ryanair's capacity is split between that with competition from only LCCs (11%), only legacy/charter (22%), and both types of airlines.

FIGURE 37

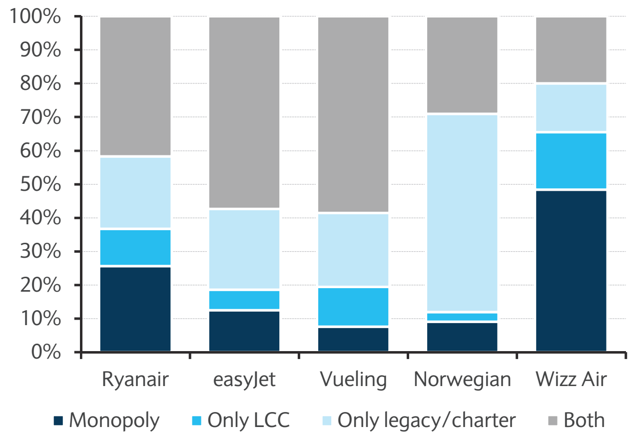
Proportion of capacity on single-carrier routes (city pairs)



Source: Barclays Research, Diio

FIGURE 38

Ryanair network by capacity overlap vs peers



Source: Barclays Research, Diio

'Churn rate' reducing suggests more stable network

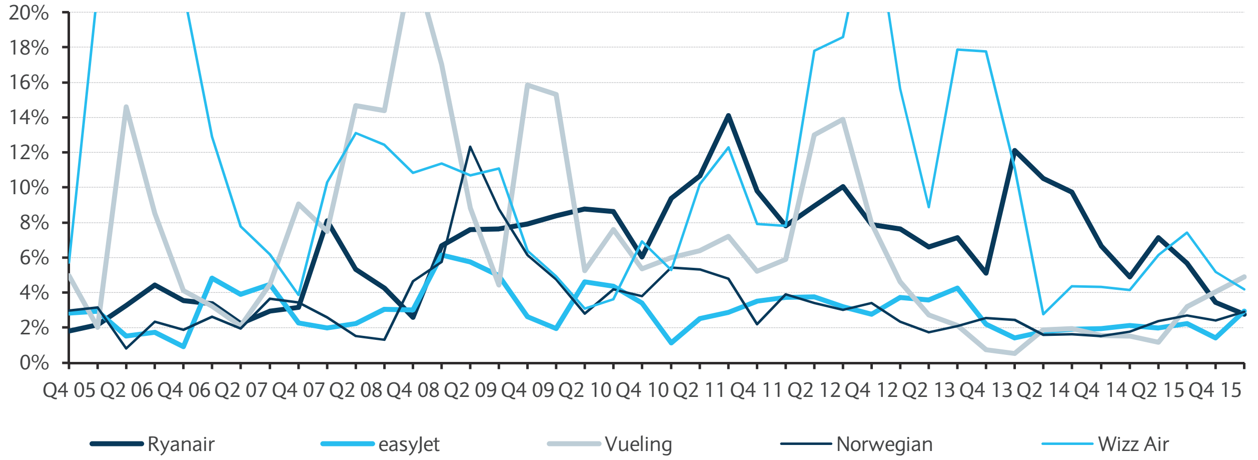
Another feature of Ryanair's historical business model was aggressive network management. The airline is able to flexibly shift capacity between markets according to changes in airport cost structures, government taxes, local demand, etc. This was often cited for the purpose of 'disciplining' airports and governments. It was also probably necessary to sustain margins, as demand for very low base fares is particularly elastic, and it would be harder for Ryanair to pass on a tax increase, for example, than a hybrid or legacy.

We show European LCC churn rates (routes dropped as percentage of prior year's quarterly capacity) in Figure 39. Less mature airlines with smaller networks naturally start out with higher churn rates because they are more exposed to competitors and have less brand presence, so need to experiment with their networks. However, there is a clear trend that, for its size, Ryanair had a consistently high churn rate up until 2014. From 2008-14, Ryanair cut an average of 5-10% of prior year route capacity, vs easyJet's churn averaging 2-3%.

Churn stayed high through 2014 and early 2015, as Ryanair rearranged its network towards more primary airports with major cuts in secondaries. However, in winter 2015/16, churn has fallen to its lowest level in seven years, and is inline with easyJet. Meanwhile, capacity growth is evenly split between new routes and building frequencies. We think this is real evidence that Ryanair's new network focus is more stable than the historical model.

FIGURE 39

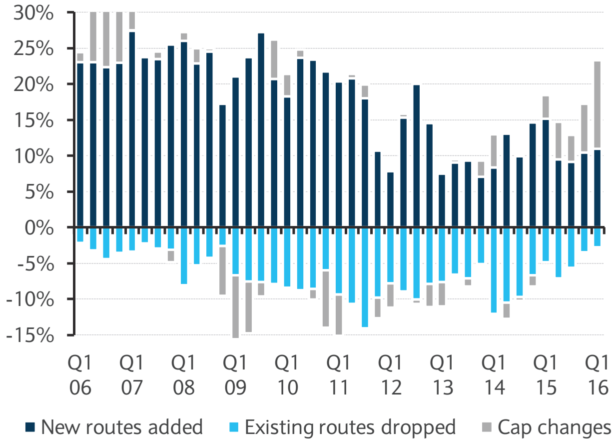
European LCCs: route churn (routes dropped as percentage of prior year's quarterly seat capacity)



Source: Barclays Research, Diio

FIGURE 40

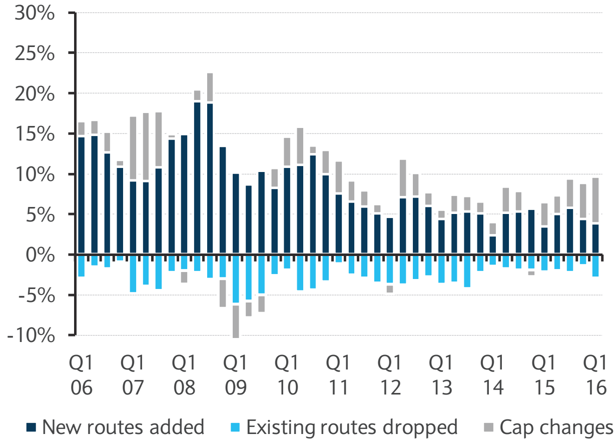
Ryanair capacity growth: route adds/drops/freq change



Source: Barclays Research, Diio

FIGURE 41

easyJet capacity growth: route adds/drops/freq change



Source: Barclays Research, Diio

Growth prospects by country

We outline in the table overleaf our expectations for Ryanair's longer-term growth prospects in the key European country markets.

FIGURE 42

Ryanair expansion prospects by country (2015 growth rate in brackets)

Country	Commentary
UK (+9%)	We expect growth to be focused on London Stansted, with which Ryanair has a long term, incentive-based deal which will see the airline expand at 5% CAGR from 13m passengers in 2012, to 18m by 2018, and nearly 21m by 2023. This represents nearly 25% of all planned growth over the next five years. We expect Ryanair's presence at London Luton to be maintained. Away from London, Ryanair has a good representation across most major UK airports including Manchester, Birmingham, Edinburgh, Bristol, Liverpool and Glasgow. We think the airline's presence at Glasgow Prestwick will continue to decline over time in favour of growth at Glasgow International and Edinburgh. Ryanair was successful in bidding for the IAG/Aer Lingus Gatwick slot remedies, and announced in January that it was launching a base at Belfast International, flying multi-daily to Gatwick, competing head-to-head with easyJet. We suspect easyJet will probably remain the largest airline for UK shorthaul, but with Ryanair not far behind.
Germany (+19%)	Ryanair has publicly stated a desire to grow from 5% to 15-20% market share in Germany by 2020. We expect the company to continue growing its recently launched Cologne and Berlin bases, and we think Munich remains a possibility. However, we would not anticipate any immediate expansion into Dusseldorf (main airport) or Stuttgart. Primary airport fees in Germany are high, with only modest discounts available for new routes. There are also high state security taxes as well as the German APD. Nonetheless, we think further capacity cuts by airberlin, and perhaps at some stage Lufthansa, could present some opportunities. Meanwhile, we think Ryanair will flatline or scale back its presence in secondary airports such as Frankfurt Hahn and Dusseldorf Weeze.
Spain (+4%)	Ryanair returned to growth in Spain in 2015, having slightly reduced its presence in recent years in response to significant price increases from AENA, the Spanish airports operator. However, AENA is now committed to at least freezing fees in nominal terms to 2025, and the economy is clearly in recovery mode. Ryanair's growth enables it to maintain its #1 position in the country. We think growth will continue to be focused on international services from primary airports (Madrid and Barcelona have seen major expansion this year), with secondary points such as Girona and Reus shrinking. High speed rail continues to take share in the domestic market. Legacy cutbacks in Spain have finished, as Iberia has now returned to growth, and Air Europa continues to expand.
Italy (+7%)	In 2015, Ryanair's growth in Italy has focused on building out its Rome Fiumicino network. There has also been significant expansion at Palermo, Catania, Bologna and Milan Bergamo. Assuming Alitalia's shorthaul services start to shrink (Etihad has stated a potential 13% capacity cut, although nothing has materialised in 2015), we see opportunity for Ryanair to further grow its domestic offering, with a clear focus on Southern Italy, as high speed rail is an ever growing threat in the North. In Milan, we believe the withdrawal of airberlin from Malpensa was the key catalyst for Ryanair to get a deal with the airport. We think some additional Italian primary airports such as Naples could be of interest.
France (-1%)	France remains one of the most challenging European markets for airport and labour expenses, explaining the lack of Ryanair bases in the country. We think Ryanair's French focus will continue to be on its large array of very small secondary airports. We do not anticipate moves into the main Paris airports (CDG and Orly), which are expensive and congested, nor do we expect a Ryanair presence in Lyon or Toulouse. We think Paris Beauvais and Marseilles will remain the key airports for Ryanair in France, although without significant growth. We think it is impressive that Ryanair manages to sustain a good #3 position in France with very few based aircraft.
Scandinavia (-2%)	Ryanair is currently expanding in Denmark, but shrinking in Norway and Sweden. In summer 2015, the company was forced to close its new base in Copenhagen due to a union dispute (non Ryanair staff), but is still growing aggressively, having moved its based aircraft to Kaunas (and also closing its Billund base). We expect Ryanair to adopt a 'wait and see' approach to primary airport expansion in Norway and Sweden (such as Oslo Gardermoen and Stockholm Arlanda), looking for an opportunity when one of the incumbents scales back. In the meantime, we expect secondary presence such as Stockholm Skavsta and Oslo Rygge to continue to fall. The Norwegian government is proposing a travel tax from April 2016, which may result in Ryanair exiting Rygge.
Greece (+40%)	Greece has been a significant growth market for Ryanair over the last two years, as the company has entered domestic routes following the merger of Aegean Airlines and Olympic Air (the historical flag carrier). Greece is generally underpenetrated by LCCs, and there are many attractions: close to developing markets, a lot of island/overwater routes, popular destination. We see strong growth opportunities for Ryanair to take more share, off both legacy and charter airlines. We believe airports such as Athens have been co-operative.

Country	Commentary
Ireland (+13%)	We expect Ryanair's Irish growth to mature in 2016, but with expansion in Dublin, taking additional market share from Aer Lingus. The abolition of the Irish travel tax, along with the economic recovery, has certainly helped.
Belgium (+11%)	Ryanair entered Brussels Zaventem very rapidly in 2014 in response to Vueling launching a base. We believe the situation in Brussels has turned out better than expected, with less cannibalization in Charleroi, the secondary airport, than anticipated – although we do not see Charleroi being a long term growth market. Ryanair has been continuing to expand its Zaventem base in 2015, and we sense the airport is becoming more co-operative as the legacy carrier, Brussels Airlines, has been relatively unscathed, despite a significant build-up of LCC capacity.
Poland (+23%)	We expect Poland to be a major growth market for Ryanair. The country has a lower propensity to air travel than most of Western Europe, and there are strong growth prospects with rising disposable income/GDP per capita. Ryanair moved back to Warsaw Modlin Airport in 2014, following runway refurbishing and the signing of a new agreement, which we believe is highly competitive. Modlin is also only 25 miles north of Warsaw city centre. We expect Ryanair to continue growing its positions in Warsaw, Gdansk and Krakov.

Source: Barclays Research

In-depth: Product and digital transformation

Under the 'Always Getting Better' (AGB) programme, Ryanair has introduced a compelling range of soft product improvements, aimed at boosting passenger appeal and widening the customer base. These changes add little to the cost base, but are clearly helping drive demand, and we believe Ryanair is slowly but steadily closing the brand perception gap with other LCCs. The longer term focus is on the digital transformation, mining customer data to drive conversions and ancillaries.

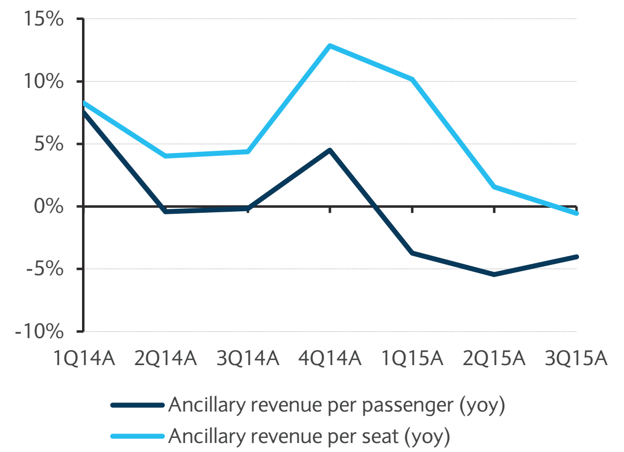
In a Which? customer service survey of the UK's 100 biggest brands in September 2013, Ryanair came bottom, with an overall score of 54%, vs easyJet at 69% and British Airways at 75%. This was echoed in a YouGov BrandIndex poll that saw Ryanair's 'overall brand health' at -41, 40 points behind easyJet. While Ryanair was certainly better perceived in Southern Europe, the company had historically shown little regard for its brand, and the double profit warning may have been a glimmer that this was starting to become visible in demand.

To tackle these issues, Ryanair has introduced a range of 'soft product' improvements, designed to improve demand without adding excessive cost. A lot of the focus is on IT spend, which tends to be a fixed cost area that declines in unit terms as the airline grows.

The improvements are clearly translating into an improved brand. Ryanair has seen consistent gains in its YouGov 'Value-for-Money' and 'Consideration' scores through 2015; in fact its Consideration score is much higher than the airline sector average. It also delivered one of the most improved 'Buzz' scores in mid-2015, which ranks consumer brand perceptions. However, its score was still negative (i.e. more negative perceptions amongst consumers than positive), ranking it some distance behind easyJet. We believe it will take at least another 3-5 years for Ryanair to fully close the brand gap – and competitors will not be standing still.

FIGURE 43

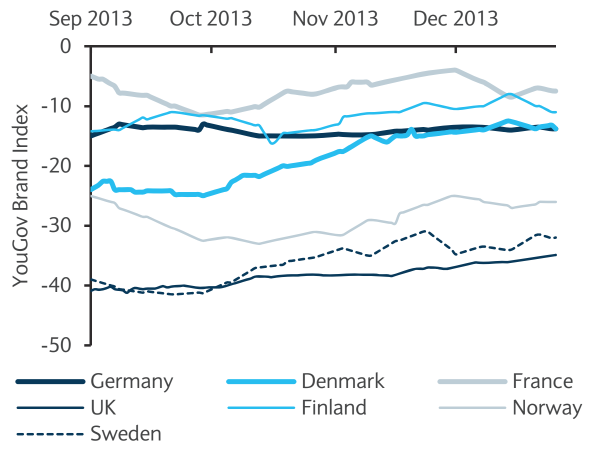
Ryanair ancillary revenue trends (calendar quarters)



Source: Barclays Research

FIGURE 44

Ryanair brand index vs peers



Source: YouGov

We list the 'Always Getting Better' initiatives below. Most of the improvements are designed simply to help Ryanair appeal to a wider audience, thereby growing conversions/volumes:

- **Digital transformation.** Dramatic improvements to Ryanair's digital offering have been one of the hallmarks of AGB. This has been led by the 'Ryanair Labs' team, a 'digital and innovation hub' set up in late 2014, under the oversight of a new Chief Technology Officer, John Hurley. The website has been through several reiterations, culminating in a brand new version, launched in October 2015, that allows Ryanair.com to become a genuine travel retailer, fully personalised by market, customer segments and product types. The mobile app, first released in 2014, has also seen several upgrades and offers many new website features, including personalisation through MyRyanair. Social media has been another area of attention.

Going forward, we expect much of the focus of Labs to be around driving conversions and ancillary revenues through customer data mining – tailoring offers to specific customers, and upselling various add-on products. Ryanair's eventual aim is to become a digital travel disruptor, with ryanair.com being the go-to point for all stages of consumer travel rather than just the flight booking, displacing online travel agencies.

Ryanair's aim is to become a digital travel disruptor

- **Increasing customer appeal.** Ryanair has rapidly removed some of the more unattractive parts of its customer proposition. This includes reducing penalty/airport check-in/sports equipment fees, allowing a second small carry-on bag for free, and introducing a 24-hour 'grace' period to amend booking errors without charge. The landing bugle and insurance opt-out policy on the website have also been scrapped. One of the largest changes was the introduction of fully allocated seating in February 2014, bringing it inline with 'hybrid' competitors such as easyJet and Vueling.

  In March 2015, as Always Getting Better entered its second year, Ryanair launched a 'Customer Charter', emphasising its new customer service ethos. As well as the digital improvements described above, initiatives for 2016 include new aircraft interiors, seating, and uniforms and a revamped inflight menu.

  So far, the effect on ancillaries from all the changes has been broadly neutral (for example, allocated seating offsetting reduction in bag fees). Ancillary revenue per passenger has been negative in the first three quarters of calendar 2015 (Figure 43), but this is partly due to a timing effect of credit card fees, which should have fully annualised from calendar Q4 2015. In addition, load factor has been growing strongly – so ancillary revenue per seat has remained broadly positive.

- **Widening customer base/distribution.** As Ryanair continues to expand, it is important to appeal to a wider customer base, and take share more directly off other airlines, to provide demand to support its growth. Two new products have been introduced. Family Extra (June 2014) offers discounts for families on allocated seating, travel insurance and priority boarding, a reduced infant fee and better baggage allowance. Business Plus (August 2014) provides flexible tickets, a 20kg baggage allowance, fast track security, priority boarding and a choice of extra leg room seat. Ryanair has also increased its distribution channels, with new group/corporate booking facilities, availability in Google Flight Search, and agreements signed with all three major GDS providers (Travelport, Amadeus and Sabre) by May 2015.

- **Marketing and advertising.** In FY15, Ryanair doubled its overall advertising budget (from €12m to €25m), although this still represents less than 1% of operating costs. The company has used TV, online and print versions of its advertising campaigns, alongside airport rebranding.

FIGURE 45

Ryanair customer service improvements, shown by date introduced

Date	Digital transformation	Increasing customer appeal	Widening customer base/distribution	Marketing
Q4 2013	New website #1 'My Ryanair' customer registration	24 hour 'grace period' to amend booking errors 'Quiet flights' Free small 2nd carry-on bag		
Q1 2014		Penalty fees reduced Fully allocated seating Portable electric device usage	Group/corporate service Google Flight Search	'Always Getting Better' officially launched
Q2 2014	New website #2 Mobile app #1		GDS deal #1 (Travelport) Family Extra product	Ad campaign #1 Airport rebrand
H2 2014	Mobile app #2	Paypal partnership	Business Plus product GDS deal #2 (Amadeus)	Ad campaign #2
H1 2015	New US website Mobile app #3 (personalised)	Customer Charter Reduced sports fees Reduced check-in/missed departure fees	GDS deal #3 (Sabre) Enhanced Group travel service	'Always Getting Better' Year 2 launched
H2 2015	New personalised website 'Hold the fare' feature Destination content, with customer reviews	Dropped bugle and insurance opt-out New car hire partnership (CarTrawler)		
H1 2016		New cabin interiors (Boeing Sky interior) New crew uniforms New inflight menus Defibrillators fitted to all aircraft		'Always Getting Better' Year 3

Source: Ryanair, Barclays Research

In-depth: Benchmarking Ryanair

In this section, we compare Ryanair's cost and revenue performance with its European and global low-cost carrier counterparts. We conclude that Ryanair's operational cost base is outstanding, and will likely remain so as the airline continues to grow. Yet when we benchmark revenues, netting off 'product related costs' such as airports and marketing, a striking performance gap remains.

Introducing a new benchmarking format

Traditionally, unit revenues and unit costs have been compared in terms of RASK and CASK, with available seat kilometres considered a good 'base unit' of product from which to assess an airline's ability to manage cost, and generate revenue.

While this method provides a decent proxy, there are several challenges in getting a truly 'like-for-like' comparison:

- **Accounting.** Airline P&Ls are subject to significant accounting variations, particularly regarding airports and passenger taxes, which can be hard to adjust for.
- **Cost curve requires sector length adjustment.** An airline's cost structure consists of fixed and variable components. With increasing route length, fixed costs are spread over more units of distance/time, so total unit costs (and hence total unit revenues) appear lower for an airline with longer routes. This requires adjustment.
- **Distance** is not actually the best choice of base unit, because virtually no part of an airline's cost structure depends on it. A better alternative is block hours (see below).

Splitting the P&L into net revenues and operational costs

Our new benchmarking format breaks up the airline's P&L into two distinct categories.

Total revenue	labour costs
- airport/ground costs	+ fuel costs
- route charges	+ maintenance
- sales & marketing	+ ownership
= Net revenues	= Fundamental operational costs

- **Net revenues: measuring the airline's 'commercial power'.** We take the airline's total reported revenue (base fares and ancillaries), and net off *product-specific expenses*: marketing, distribution, airport charges, ground handling and navigation fees. This is a much purer form of revenue generation to analyse, because, in theory, it strips out the differences between contrasting LCC business models (ULCC/hybrid). It also eliminates a lot of potential accounting differences associated with airport/ passenger taxes.
- **Fundamental operational costs.** The remaining costs which have not been netted against revenue are pure operational items: fuel, labour, maintenance and ownership. Theoretically, these items should not be dependent on the type of business model and

we can directly compare different LCCs (although there may still be accounting issues, such as maintenance depreciation).

In this way, we have effectively removed all the distance-independent cost components (netting them against revenue) – and so the two categories we have created should vary linearly with distance/time, with no curve to worry about. We choose **available seat block-hours** as our base unit, as most of the operational costs depend directly on hours more than they do on distance.

Conclusion: Ryanair is a global leader for operational costs

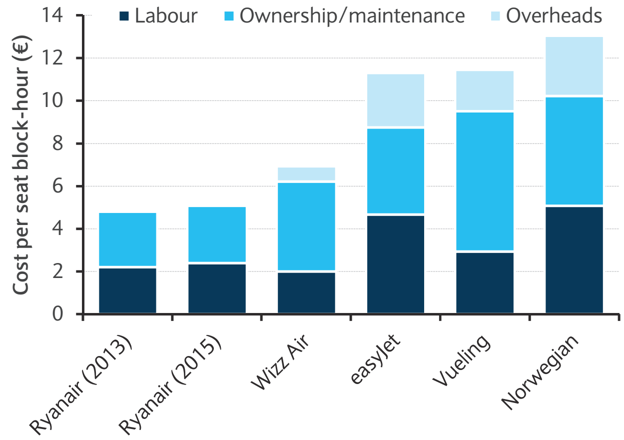
Our analysis indicates that, unsurprisingly, Ryanair is no 1 in Europe (and among the top 3 globally) for operational costs. Some of these advantages are due to pure economies of scale: a homogeneous fleet of 340 aircraft at maximum 189-seat density provides a major competitive edge. But most importantly, in our view, is a forensic approach to cost discipline, throughout the organisation, that is rivalled by few airlines globally.

- **Labour costs** are second best in Europe after Wizz Air, which benefits from crew based entirely in Central and Eastern Europe. Indeed, Ryanair's unit labour expenses are ~20% better than Vueling and half those of easyJet. Part of Ryanair's advantage stems from its decision to avoid basing crews in more expensive countries such as France. Norwegian is at the top end of the scale due to bases in high cost Scandinavia.

- Ryanair's combined **ownership and maintenance costs** are at least 30% better than any other European airline (we combine the two line items here to allow for depreciation of capitalised maintenance assets). While maintenance may be subject to a degree of accounting creativity, ownership costs are unrivalled, and likely to continue improving with the recent issue of two €850m Eurobonds, at 1.875% and 1.125% coupon rates.

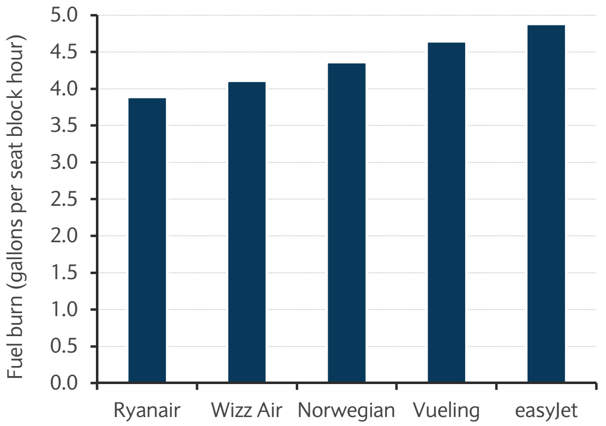
- **Fuel efficiency** is also the best in Europe. Here, Ryanair benefits from its standardised fleet of 189-seat 737-800s, giving it the highest average seat density of the European LCCs. Ryanair also has a longer average sector length than easyJet or Vueling, and aircraft are generally more efficient in cruise. The poor performance of easyJet on this chart is due to the high number of smaller Airbus A319s in its fleet, resulting in an average seat count of 162.

FIGURE 46
Fundamental operational costs



Source: Company filings, Barclays Research. Calendar years

FIGURE 47
Fuel efficiency (gallons per seat block-hour)



Source: Company filings, Barclays Research

Conclusion: Ryanair's net revenue generation remains poor

We show below our calculations for net revenue production (methodology as explained).

FIGURE 48

European LCCs: net revenue benchmarking

	easyJet	Ryanair	Norwegian	Wizz Air	Vueling
	YE Sep 15	RTM Sep 15	FY2014	RTM Sep 15	FY2014
Total Revenue (€m)	6,326	6,157	2,341	1,336	1,697
Less: airports, ground, navigation	(1,937)	(1,356)	(549)	(321)	(425)
Less: marketing and distribution	(138)	(259)	(56)	(20)	(28)
Net Revenue (€m)	**4,251**	**4,542**	**1,736**	**996**	**1,244**
Seat block-hours (m)	146	227	76	47	48
Net Revenue per SBH	**€29.1**	**€20.0**	**€22.9**	**€21.2**	**€25.7**

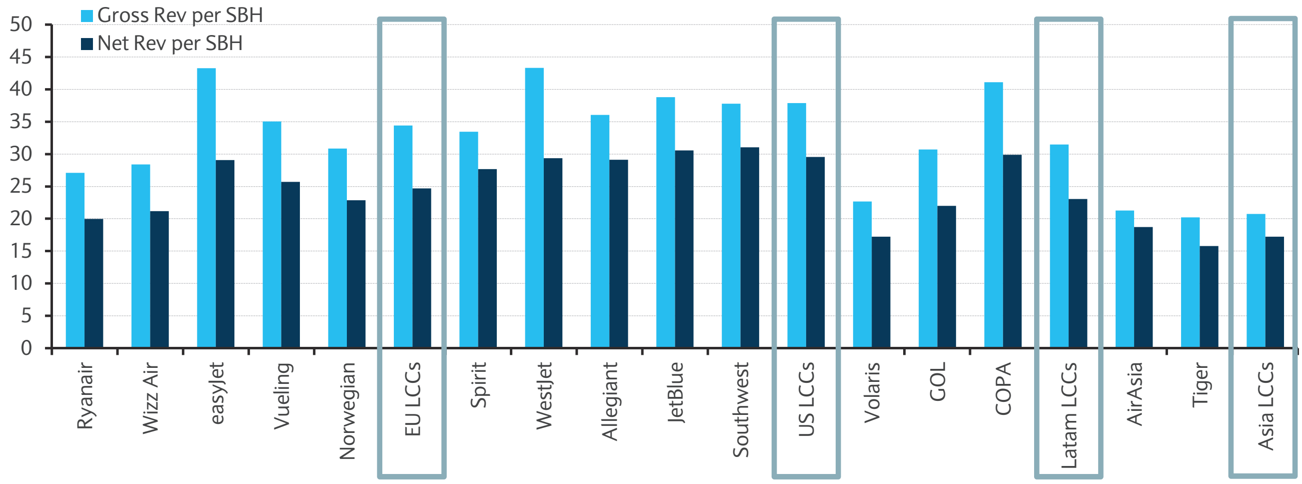
Source: Company filings, Barclays Research

There remains a striking gap between the revenue performance of Ryanair and other European LCCs. The average net revenue of the 'hybrid' LCCs is 30% better than Ryanair, and easyJet is 45% above. Ryanair also lags Wizz, which has a naturally thinner market.

> Even allowing for Ryanair's focus on thin routes that can only support low fares, the company appears to be fundamentally inefficient at generating revenue

FIGURE 49

'Net revenue' generation compared across global low-cost carriers



Source: Company filings, Barclays Research. Uses last reported financial data.

Comparing with a range of global LCCs, the same pattern is evident (although we would caution that differing geographies have their own particular revenue characteristics). It is only the Asian market that appears to be starkly less revenue productive, although we only have two LCCs from our sample set there.

Appendix: Full financial statements

Fuel and yield sensitivities

We show below sensitivity tables to average fares and fuel price.

FIGURE 50

Ryanair: FY2016 net income sensitivity to average fares and fuel price

Q4FY16 fuel price ($)		Q4FY16 revenue per passenger				
Jet fuel (mt)	Crude (bbl)	-7.0%	-5.0%	-3.0%	-1.0%	1.0%
370	35.0	1259	1275	1291	1306	1322
410	40.0	1258	1274	1290	1305	1321
449	45.0	1257	1273	1289	1304	1320
489	50.0	1256	1272	1288	1303	1319
528	55.0	1255	1271	1287	1302	1318

Source: Barclays Research. Constant crack spread assumed.

FIGURE 51

Ryanair: FY2016 net income sensitivity to average fares and fuel price (vs Barclays)

Q4FY16 fuel price ($)		Q4FY16 revenue per passenger				
Jet fuel (mt)	Crude (bbl)	-7.0%	-5.0%	-3.0%	-1.0%	1.0%
370	35.0	-2.3%	-1.1%	0.2%	1.4%	2.6%
410	40.0	-2.4%	-1.1%	0.1%	1.3%	2.5%
449	45.0	-2.4%	-1.2%	0.0%	1.2%	2.4%
489	50.0	-2.5%	-1.3%	-0.1%	1.1%	2.4%
528	55.0	-2.6%	-1.4%	-0.2%	1.1%	2.3%

Source: Barclays Research. Constant crack spread assumed.

FIGURE 52

Ryanair: FY2017 net income sensitivity to total revenue per passenger and fuel price

Unhedged fuel price ($)		FY2017 Total revenue per passenger				
Jet fuel (mt)	Crude (bbl)	-6.5%	-4.5%	-2.5%	-0.5%	1.5%
331	30.0	1446	1591	1735	1880	2024
410	40.0	1435	1580	1724	1869	2013
489	50.0	1424	1569	1713	1858	2002
567	60.0	1413	1558	1702	1847	1992
646	70.0	1402	1547	1691	1836	1981

Source: Barclays Research. Constant crack spread assumed.

FIGURE 53

Ryanair: FY2017 net income sensitivity to total revenue per passenger and fuel price (vs Barclays)

Unhedged fuel price ($)		FY2017 Total revenue per passenger				
Jet fuel (mt)	Crude (bbl)	-6.5%	-4.5%	-2.5%	-0.5%	1.5%
331	30.0	-15.6%	-7.2%	1.3%	9.7%	18.2%
410	40.0	-16.2%	-7.8%	0.6%	9.1%	17.5%
489	50.0	-16.9%	-8.4%	0.0%	8.4%	16.9%
567	60.0	-17.5%	-9.1%	-0.6%	7.8%	16.2%
646	70.0	-18.1%	-9.7%	-1.3%	7.2%	15.6%

Source: Barclays Research. Constant crack spread assumed.

FIGURE 54

Ryanair: Key changes to Barclays forecasts

	FY2016			FY2017		
	Barclays (New)	Barclays (Old)	Change (%)	Barclays (New)	Barclays (Old)	Change (%)
Key Operating Metrics						
Revenue per passenger (average fare)	47.09	47.37		45.91	45.95	
Change yoy	*0.1%*	*0.7%*	-0.6%	*-2.5%*	*-3.0%*	0.5%
Ex-fuel unit costs	28.59	28.66		28.71	28.76	
Change yoy	*-1.2%*	*-0.9%*	-0.3%	*0.4%*	*0.3%*	0.1%
Capacity (seats m)	114.40	114.59		124.70	124.90	
Change yoy	*11.6%*	*11.7%*	-0.2%	*9.0%*	*9.0%*	0.0%
Traffic (passengers m)	106.06	105.75		116.23	115.90	
Change yoy	*17.1%*	*16.8%*	0.3%	*9.6%*	*9.6%*	0.0%
Brent Crude (USD per bbl)	50.6	53.4	-5.1%	50.0	55.0	-9.1%
Effective Fuel Price (USD per MT)	887.4	888.6	-0.1%	613.5	616.2	-0.4%
P&L						
Scheduled Revenues	4,994	5,010	-0.3%	5,336	5,325	0.2%
Ancillary Revenues	1,601	1,596	0.3%	1,710	1,714	-0.2%
Total Revenue	**6,595**	**6,606**	**-0.2%**	**7,046**	**7,040**	**0.1%**
Staff Costs	587	588	-0.2%	650	654	-0.6%
Depreciation	420	419	0.3%	479	464	3.2%
Fuel & Oil	2,046	2,052	-0.3%	1,707	1,717	-0.6%
Maintenance & Repair	145	145	-0.2%	158	158	-0.2%
Aircraft Rentals	128	128	-0.2%	124	124	-0.2%
Route Charges	623	624	-0.2%	690	694	-0.6%
Airport & Handling	846	844	0.3%	941	943	-0.2%
Marketing, Distribution & Other	282	282	-0.2%	295	295	0.0%
Total Expenses	**5,078**	**5,083**	**-0.1%**	**5,044**	**5,050**	**-0.1%**
EBITDAR	2,065	2,070	-0.2%	2,605	2,578	1.1%
EBITDAR margin	*31.3%*	*31.3%*	*0.0%*	*37.0%*	*36.6%*	*0.4%*
Operating Profit (Loss)	**1,517**	**1,523**	**-0.4%**	**2,002**	**1,989**	**0.7%**
Operating margin	*23.0%*	*23.1%*	**0.0%**	*28.4%*	*28.3%*	**0.2%**
Profit before Tax	**1,467**	**1,473**	-0.4%	**1,947**	**1,942**	0.3%
PBT margin	*29.4%*	*29.4%*	*0.0%*	*36.5%*	*36.5%*	*0.0%*
Net Income	**1289**	**1294**	**-0.4%**	**1713**	**1709**	**0.3%**
Diluted Continuing EPS	**0.96**	**0.96**	**-0.4%**	**1.29**	**1.29**	**0.3%**

Source: Barclays Research

FIGURE 55

Ryanair; Key Model Assumptions

	FY2014	FY2015	FY2016					FY2017					FY2018
	2014A	2015A	1Q16A	2Q16A	3Q16E	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E
Operating Assumptions													
Seats flown capacity (millions)	99.0	102.6	30.4	31.8	26.8	25.4	114.4	33.2	34.6	29.2	27.6	124.7	138.4
change yoy %	*2.6%*	*3.6%*	*7.5%*	*7.3%*	*14.2%*	*20.0%*	*11.6%*	*9.0%*	*9.0%*	*9.0%*	*9.0%*	*9.0%*	*11.0%*
Passengers (millions)	81.7	90.5	28.0	30.1	24.9	23.1	106.1	30.7	33.0	27.3	25.3	116.2	129.0
change yoy %	*3.1%*	*10.9%*	*15.4%*	*11.2%*	*19.8%*	*25.1%*	*17.1%*	*9.6%*	*9.6%*	*9.6%*	*9.6%*	*9.6%*	*11.0%*
Load factor (%)	82.5%	88.3%	92.0%	94.7%	92.8%	91.0%	92.7%	92.5%	95.2%	93.3%	91.5%	93.2%	93.2%
Revenue Assumptions													
Total Revenue Per Passenger	€ 61.67	€ 62.45	€ 59.03	€ 79.34	€ 54.11	€ 52.33	€ 62.18	€ 57.55	€ 77.36	€ 52.76	€ 51.03	€ 60.62	€ 61.84
change yoy %	*0.1%*	*1.3%*	*-4.3%*	*5.1%*	*-0.7%*	*-1.9%*	*-0.4%*	*-2.5%*	*-2.5%*	*-2.5%*	*-2.5%*	*-2.5%*	*2.0%*
Revenue Per Passenger (Average Fare)	€ 46.40	€ 47.06	€ 44.58	€ 66.20	€ 39.84	€ 33.03	€ 47.09	€ 43.46	€ 64.54	€ 38.85	€ 32.21	€ 45.91	€ 46.83
change yoy % (at constsnt currency)	*-2.7%*	*-0.2%*	*-6.6%*	*4.6%*	*-3.2%*	*-3.8%*	*-2.1%*	*-2.6%*	*-2.4%*	*-2.5%*	*-2.5%*	*-2.5%*	*2.0%*
change yoy %	*-3.7%*	*1.4%*	*-3.9%*	*7.2%*	*-1.0%*	*-3.0%*	*0.1%*	*-2.5%*	*-2.5%*	*-2.5%*	*-2.5%*	*-2.5%*	*2.0%*
Ancillary Revenue Per Passenger	€ 15.27	€ 15.39	€ 14.45	€ 13.14	€ 14.27	€ 19.30	€ 15.09	€ 14.09	€ 12.82	€ 13.91	€ 18.82	€ 14.71	€ 15.01
change yoy %	*13.7%*	*0.8%*	*-5.4%*	*-4.0%*	*0.0%*	*0.0%*	*-2.0%*	*-2.5%*	*-2.5%*	*-2.5%*	*-2.5%*	*-2.5%*	*2.0%*
Total Revenue Per Seat	€ 50.89	€ 55.13	€ 54.31	€ 75.12	€ 50.20	€ 47.62	€ 57.64	€ 53.24	€ 73.63	€ 49.21	€ 46.69	€ 56.51	€ 57.64
change yoy % (at constsnt currency)	*1.6%*	*6.6%*	*-0.1%*	*6.3%*	*1.9%*	*1.4%*	*2.3%*	*-2.0%*	*-1.9%*	*-2.0%*	*-2.0%*	*-2.0%*	*2.0%*
change yoy %	*0.5%*	*8.3%*	*2.8%*	*9.0%*	*4.2%*	*2.2%*	*4.6%*	*-2.0%*	*-2.0%*	*-2.0%*	*-2.0%*	*-2.0%*	*2.0%*
Fuel Assumptions													
Jet Fuel Spot (USD per MT)	$977	$814	$603	$502	$434	$449	$497	$489	$489	$489	$489	$489	$498
Hedge Percentage (%)	95%	90%	90%	90%	95%	95%	92%	95%	95%	95%	95%	95%	0%
Effective Fuel Price (USD per MT)	$974	$935	$934	$935	$854	$809	$887	$650	$644	$585	$563	$614	$497
Fuel Cost Per Passenger	€ 24.65	€ 22.00	€ 20.00	€ 19.84	€ 19.23	€ 17.77	€ 19.29	€ 15.34	€ 15.05	€ 14.50	€ 13.61	€ 14.69	€ 12.79
change yoy %	*3.6%*	*-10.7%*	*-14.0%*	*-11.7%*	*-11.6%*	*-11.1%*	*-12.3%*	*-23.3%*	*-24.1%*	*-24.6%*	*-23.4%*	*-23.9%*	*-12.9%*
Cost Assumptions													
Ex-Fuel Cost Per Passenger	€ 28.96	€ 28.93	€ 28.73	€ 27.20	€ 28.49	€ 30.34	€ 28.59	€ 28.55	€ 27.34	€ 28.80	€ 30.60	€ 28.71	€ 28.94
change yoy % (at constsnt currency)	*1.2%*	*-1.4%*	*-2.7%*	*-1.4%*	*-4.5%*	*-3.7%*	*-2.8%*	*-0.6%*	*0.5%*	*1.1%*	*0.9%*	*0.4%*	*0.8%*
change yoy %	*0.6%*	*-0.1%*	*-0.5%*	*0.5%*	*-2.8%*	*-3.1%*	*-1.2%*	*-0.6%*	*0.5%*	*1.1%*	*0.9%*	*0.4%*	*0.8%*
Ex-Fuel Cost Per Seat	€ 23.89	€ 25.54	€ 26.43	€ 25.75	€ 26.43	€ 27.61	€ 26.50	€ 26.41	€ 26.02	€ 26.86	€ 28.00	€ 26.76	€ 26.97
change yoy % (at constsnt currency)	*1.6%*	*5.6%*	*4.7%*	*2.3%*	*0.3%*	*0.4%*	*2.2%*	*-0.1%*	*1.1%*	*1.6%*	*1.4%*	*1.0%*	*0.8%*
change yoy %	*1.1%*	*6.9%*	*6.9%*	*4.1%*	*2.0%*	*1.0%*	*3.8%*	*-0.1%*	*1.1%*	*1.6%*	*1.4%*	*1.0%*	*0.8%*

Source: Barclays Research

FIGURE 56

Ryanair; Income Statement

(EUR million)	FY2014	FY2015	FY2016					FY2017					FY2018
	2014A	2015A	1Q16A	2Q16A	3Q16E	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E
Scheduled Revenues	3,790	4,260	1,248	1,992	992	762	4,994	1,334	2,128	1,060	815	5,336	6,041
Ancillary Revenues	1,247	1,394	405	396	355	445	1,601	432	423	379	476	1,710	1,936
Total Operating Revenue	**5,037**	**5,654**	**1,653**	**2,387**	**1,347**	**1,208**	**6,595**	**1,766**	**2,551**	**1,439**	**1,291**	**7,046**	**7,978**
Staff Costs	464	503	152	154	133	148	587	168	170	148	164	650	732
Fuel & Oil	2,013	1,992	560	597	479	410	2,046	471	496	395	344	1,707	1,650
Maintenance & Repair	116	135	32	31	35	47	145	35	34	38	51	158	175
Route Charges	522	547	172	178	142	132	623	190	196	157	146	690	773
Airport & Handling	617	713	232	238	201	176	846	258	265	223	196	941	1,061
Marketing, Distribution & Other	193	234	75	74	67	66	282	74	79	72	70	295	326
Total Operating Expense	**4,378**	**4,611**	**1,364**	**1,415**	**1,188**	**1,110**	**5,078**	**1,347**	**1,398**	**1,181**	**1,118**	**5,044**	**5,384**
Operating Profit (Loss)	**659**	**1,043**	**288**	**972**	**159**	**97**	**1,517**	**419**	**1,153**	**258**	**172**	**2,002**	**2,594**
Operating margin	*13.1%*	*18.4%*	*17.5%*	*40.7%*	*11.8%*	*8.1%*	*23.0%*	*23.7%*	*45.2%*	*17.9%*	*13.4%*	*28.4%*	*32.5%*
Depreciation	352	378	106	109	103	102	420	120	127	117	115	479	529
Aircraft Rentals	102	109	36	35	28	29	128	31	30	30	32	124	137
EBITDAR	**1,112**	**1,530**	**431**	**1,116**	**290**	**228**	**2,065**	**571**	**1,310**	**406**	**319**	**2,605**	**3,260**
EBITDAR margin	*22.1%*	*27.1%*	*26.1%*	*46.7%*	*21.5%*	*18.9%*	*31.3%*	*32.3%*	*51.4%*	*28.2%*	*24.7%*	*37.0%*	*40.9%*
Total Other income/(Expense)	**-67**	**-61**	**-11**	**-11**	**-14**	**-15**	**-50**	**-14**	**-13**	**-14**	**-14**	**-55**	**-46**
Profit before Tax - pre exceptional	**591**	**982**	**278**	**961**	**145**	**82**	**1,467**	**405**	**1,140**	**244**	**158**	**1,947**	**2,547**
Pre-Tax margin	*15.6%*	*23.1%*	*22.3%*	*48.3%*	*14.7%*	*10.8%*	*29.4%*	*30.4%*	*53.6%*	*23.1%*	*19.4%*	*36.5%*	*42.2%*
Tax expense/(benefit)	**69**	**116**	**33**	**118**	**17**	**10**	**178**	**49**	**137**	**29**	**19**	**234**	**306**
Effective tax rate	*11.6%*	*11.8%*	*11.8%*	*9.2%*	*12.0%*	*12.0%*	*12.1%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*
Net Income - pre exceptional	**523**	**867**	**245**	**843**	**128**	**73**	**1,289**	**357**	**1,003**	**215**	**139**	**1,713**	**2,242**
Net margin	*10.4%*	*15.3%*	*14.8%*	*35.3%*	*9.5%*	*6.0%*	*19.5%*	*20.2%*	*39.3%*	*14.9%*	*10.8%*	*24.3%*	*28.1%*
Continuing EPS	**€ 0.37**	**€ 0.62**	**€ 0.18**	**€ 0.62**	**€ 0.10**	**€ 0.05**	**€ 0.96**	**€ 0.27**	**€ 0.75**	**€ 0.16**	**€ 0.10**	**€ 1.29**	**€ 1.69**

Source: Barclays Research

FIGURE 57

Ryanair; Balance Sheet

(EUR million)	FY2014	FY2015			FY2016					FY2017			FY2018
	2014A	2015A	1Q16A	2Q16A	3Q16E	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E
Cash	1,730	1,185	1,185	1,375	769	977	977	1,130	901	475	882	882	1,039
Short-term investments	1,512	3,611	3,696	3,822	3,822	3,822	3,822	3,822	3,822	3,822	3,822	3,822	3,822
Trade and other receivables	58	60	60	60	74	81	81	73	72	76	86	86	95
Derivative financial instruments	17	744	535	435	435	435	435	435	435	435	435	435	435
Other current assets	128	142	162	161	110	142	142	128	129	116	159	159	175
Total Current Assets	**3,444**	**5,742**	**5,639**	**5,852**	**5,211**	**5,457**	**5,457**	**5,587**	**5,359**	**4,924**	**5,384**	**5,384**	**5,566**
Net PP&E	5,060	5,471	5,689	5,738	5,969	6,201	6,201	6,375	6,542	6,718	6,898	6,898	7,650
Intangibles	47	47	47	47	47	47	47	47	47	47	47	47	47
Other Long-term Assets	261	926	681	221	221	221	221	221	221	221	221	221	221
Total Assets	**8,812**	**12,185**	**12,055**	**11,858**	**11,447**	**11,926**	**11,926**	**12,229**	**12,168**	**11,910**	**12,550**	**12,550**	**13,483**
Trade and other payables	1,711	2,135	2,465	1,739	1,638	2,352	2,352	2,634	1,858	1,750	2,663	2,663	2,955
Borrowings	468	400	396	397	397	397	397	397	397	397	397	397	397
Derivative financial instruments	95	812	524	586	586	586	586	586	586	586	586	586	586
Other current liabilities	0	0	27	98	58	0	0	16	78	61	0	0	0
Total Current Liabilities	**2,275**	**3,346**	**3,413**	**2,819**	**2,679**	**3,335**	**3,335**	**3,632**	**2,918**	**2,795**	**3,646**	**3,646**	**3,938**
Long term debt and leases	2,616	4,032	3,931	3,824	3,824	3,824	3,824	3,724	3,624	3,524	3,424	3,424	2,824
Other long term liabilities	636	772	716	684	684	684	684	684	684	684	684	684	684
Total Liabilities	**5,526**	**8,150**	**8,060**	**7,328**	**7,188**	**7,843**	**7,843**	**8,041**	**7,227**	**7,003**	**7,754**	**7,754**	**7,446**
Common Shareholders' Equity	3,286	4,035	3,995	4,530	4,260	4,082	4,082	4,189	4,942	4,907	4,796	4,796	6,037
Total Liabilities and Shareholder Equity	**8,812**	**12,185**	**12,055**	**11,858**	**11,447**	**11,926**	**11,926**	**12,229**	**12,168**	**11,910**	**12,550**	**12,550**	**13,483**
Net Debt (exc. restricted cash)	-145	-358	-544	-972	-366	-574	-574	-827	-698	-372	-880	-880	-1,636
Gearing (adjusted net debt / capital)	14.7%	9.2%	10.4%	0.2%	8.9%	5.7%	7.3%	1.0%	3.0%	8.9%	0.3%	-0.3%	-12.6%
Adjusted Net Debt / EBITDAR	0.5x	0.2x	0.2x	0.0x	0.2x	0.1x	0.1x	0.0x	0.0x	0.2x	0.0x	0.0x	-0.2x
Liquidity / 12 month trailing revenue	64.1%	84.7%	83.8%	84.3%	72.0%	72.7%	72.7%	73.8%	68.7%	61.6%	66.7%	66.7%	60.9%

Source: Barclays Research

FIGURE 58

Ryanair; Cash Flow Statement

(EUR million)	FY2014	FY2015			FY2016					FY2017			FY2018
	2014A	2015A	1Q16A	2Q16A	3Q16E	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E
Net Income	**523**	**867**	**245**	**843**	**128**	**73**	**1,289**	**357**	**1,003**	**215**	**139**	**1,713**	**2,242**
Depreciation	352	378	106	109	103	102	420	120	127	117	115	479	529
Gross Cash Generation	**875**	**1,244**	**351**	**952**	**231**	**174**	**1,709**	**477**	**1,130**	**332**	**253**	**2,193**	**2,770**
Deferred Tax / Working Capital	170	445	341	-677	-105	617	177	320	-714	-115	798	289	267
Cash from Operations	**1,045**	**1,689**	**692**	**275**	**126**	**792**	**1,885**	**797**	**416**	**218**	**1,051**	**2,481**	**3,038**
Capex (inc. PDPs)	-506	-789	-324	-159	-334	-334	-1,150	-294	-294	-294	-294	-1,176	-1,281
Other Investing Activities	807	-2,100	-85	272	0	0	187	0	0	0	0	0	0
Cash from Investing	**301**	**-2,888**	**-408**	**114**	**-334**	**-334**	**-963**	**-294**	**-294**	**-294**	**-294**	**-1,176**	**-1,281**
Free Cash Flow	**539**	**901**	**369**	**117**	**-207**	**458**	**735**	**503**	**122**	**-76**	**757**	**1,306**	**1,757**
Per share	**€ 0.38**	**€ 0.65**					**€ 0.55**					**€ 0.98**	**€ 1.32**
Repayment of Borrowings	-391	-420	-89	-105	0	0	-194	-100	-100	-100	-100	-400	-600
Share Buybacks	-465	-98	-194	-94	-398	-250	-936	-250	-250	-250	-250	-1,000	-1,000
Dividends	0	-520	0	0	0	0	0	0	0	0	0	0	0
Borrowings	0	1,691	0	0	0	0	0	0	0	0	0	0	0
Other	0	-0	0	0	0	0	0	0	0	0	0	0	0
Cash from Financing	**-856**	**653**	**-283**	**-199**	**-398**	**-250**	**-1,130**	**-350**	**-350**	**-350**	**-350**	**-1,400**	**-1,600**
Starting Cash Balance	1,241	1,730	1,185	1,185	1,375	769	1,185	977	1,130	901	475	977	882
Change in Cash	489	-546	1	189	-606	208	-208	153	-228	-426	407	-94	157
Ending Cash Balance	**1,730**	**1,185**	**1,185**	**1,375**	**769**	**977**	**977**	**1,130**	**901**	**475**	**882**	**882**	**1,039**

Source: Barclays Research

FIGURE 59
Global Airlines Valuation sheet

	BARCLAYS				CONSENSUS					BARCLAYS				CONSENSUS										
	Ryanair	easyJet	Wizz Air	Pegasus	Ryanair	easyJet	Norwegian	Wizz Air	European LCCs	IAG	Lufthansa	AF-KLM	Turkish	IAG	Lufthansa	AF-KLM	Finnair	Turkish	European FSCs	North America LCCs	North America FSCs	Central & South America LCCs	Asia LCCs	Asia FSCs
Price	14.97	17.13	18.30	16.81	14.97	17.13	302.90	18.30		590.50	14.92	7.68	7.22	590.50	14.92	7.68	5.50	7.22						
Market Cap.	19,744	6,801	2,315	1,719	19,744	6,801	10,832	2,315		12,047	6,884	2,272	9,964	12,047	6,884	2,272	705	9,964						
Currency	EUR	GBP	GBP	TRY	EUR	GBP	NOK	GBP		GBp	EUR	EUR	TRY	GBp	EUR	EUR	EUR	TRY						
12-MONTH FORWARD																								
EV / EBITDAR	8.1x	6.7x	8.4x	4.6x	9.0x	6.8x	7.3x	8.4x	7.7x	4.0x	4.8x	3.9x	5.6x	4.5x	4.5x	4.3x	4.0x	4.9x	4.4x	4.5x	3.7x	6.2x	8.4x	5.1x
P / E	12.2x	10.6x	13.4x	5.4x	14.0x	11.1x	10.7x	14.0x	11.9x	6.5x	6.8x	3.6x	5.0x	7.6x	5.6x	6.4x	9.9x	5.5x	7.0x	9.2x	5.1x	24.6x	15.9x	9.1x
EV / EBIT (adj)	10.3x	8.6x	12.9x	8.2x	11.9x	8.8x	15.1x	13.3x	11.9x	6.2x	9.9x	10.2x	11.2x	7.4x	8.6x	12.8x	9.9x	12.7x	10.3x	6.3x	5.5x	17.8x	18.4x	10.6x
EV / Sales	2.9x	1.4x	2.6x	1.0x	3.0x	1.4x	1.5x	2.5x	2.0x	1.0x	0.5x	0.6x	1.0x	1.0x	0.5x	0.6x	0.5x	0.9x	0.7x	1.4x	0.8x	1.4x	2.6x	1.2x
EV / EBITDA	8.5x	7.6x	14.8x	6.9x	9.5x	7.5x	12.5x	14.7x	9.8x	4.7x	4.9x	5.4x	7.0x	5.5x	4.6x	6.0x	5.9x	5.6x	5.5x	5.0x	4.2x	11.2x	16.5x	6.2x
Dividend yield	0.0%	3.8%	0.0%	0.0%	0.0%	4.0%	0.0%	0.6%	1.1%	3.6%	4.1%	0.0%	3.2%	2.9%	4.3%	0.3%	1.2%	0.4%	1.8%	1.0%	0.8%	2.0%	1.2%	2.6%
FCF yield	5.9%	4.6%	5.3%	22.5%	5.0%	4.6%	-65.7%	14.3%	-2.5%	10.1%	8.5%	-3.3%	2.7%	10.8%	15.4%	2.9%	NA	-60.4%	-7.8%	2.7%	-3.0%	0.5%		3.7%
CALENDAR 2016																								
EV / EBITDAR	8.1x	6.7x	8.4x	4.6x	9.0x	6.8x	7.3x	8.4x	7.3x	4.1x	4.9x	3.9x	5.6x	4.5x	4.5x	4.3x	4.0x	4.9x	4.4x	4.5x	3.7x	6.2x	8.4x	5.1x
P / E	12.3x	10.6x	13.5x	5.4x	14.1x	11.1x	10.8x	14.0x	11.1x	6.5x	6.8x	3.6x	4.9x	7.7x	5.6x	6.5x	9.9x	5.5x	7.0x	9.1x	5.1x	25.4x	16.2x	9.1x
EV / EBIT (adj)	10.4x	8.6x	13.0x	8.2x	12.0x	8.8x	15.2x	13.3x	10.9x	6.2x	9.9x	10.2x	11.1x	7.4x	8.6x	12.8x	9.9x	12.7x	10.3x	6.3x	5.5x	17.9x	18.5x	10.6x
EV / Sales	2.9x	1.4x	2.6x	1.0x	3.0x	1.4x	1.5x	2.5x	2.0x	1.0x	0.5x	0.6x	1.0x	1.0x	0.5x	0.6x	0.5x	0.9x	0.7x	1.4x	0.8x	1.4x	2.6x	1.2x
EV / EBITDA	8.5x	7.6x	14.8x	7.0x	9.5x	7.6x	12.6x	14.8x	9.7x	4.7x	4.9x	5.4x	7.1x	5.5x	4.6x	6.0x	5.9x	5.6x	5.5x	5.0x	4.2x	11.3x	16.5x	6.2x
Dividend yield	0.0%	3.8%	0.0%	0.0%	0.0%	3.9%	0.0%	0.7%	1.1%	3.6%	4.1%	0.0%	3.3%	2.9%	4.3%	0.3%	1.2%	0.3%	1.8%	1.0%	0.8%	2.1%	1.2%	2.6%
FCF yield	5.8%	4.7%	5.2%	22.6%	5.1%	4.6%	-64.3%	14.2%	-2.3%	10.0%	8.5%	-3.2%	2.7%	10.8%	15.5%	2.7%	NA	-61.1%	-8.0%	2.6%	-3.3%	0.5%		3.6%
CALENDAR 2017																								
EV / EBITDAR	6.5x	6.3x	7.7x	4.2x	8.3x	6.2x	6.3x	7.4x	6.5x	3.6x	4.8x	4.0x	4.8x	4.2x	4.2x	4.0x	3.9x	4.8x	4.2x	4.5x	4.2x	5.7x	7.9x	4.8x
P / E	9.4x	10.0x	11.8x	4.9x	12.9x	10.0x	7.9x	11.7x	9.5x	5.6x	7.0x	4.2x	5.8x	7.1x	5.1x	5.0x	9.4x	6.2x	6.6x	9.4x	6.3x	13.5x	12.4x	8.4x
EV / EBIT (adj)	8.1x	8.2x	11.9x	7.7x	11.0x	8.0x	12.9x	11.7x	9.7x	5.5x	10.0x	11.3x	12.5x	6.9x	7.9x	11.5x	8.9x	12.3x	9.5x	6.4x	6.2x	14.2x	17.0x	10.4x
EV / Sales	2.6x	1.4x	2.4x	0.9x	2.8x	1.4x	1.4x	2.3x	1.8x	0.9x	0.5x	0.6x	0.9x	1.0x	0.5x	0.6x	0.5x	0.9x	0.7x	1.2x	0.8x	1.3x	2.5x	1.2x
EV / EBITDA	6.8x	7.2x	13.6x	6.1x	8.7x	6.8x	10.1x	12.6x	8.5x	4.1x	4.8x	5.5x	5.7x	5.1x	4.3x	5.5x	5.6x	5.9x	5.3x	4.9x	4.8x	9.7x	15.1x	5.9x
Dividend yield	0.0%	4.0%	0.0%	0.0%	0.1%	4.5%	0.2%	0.0%	1.2%	4.2%	4.1%	0.0%	3.0%	3.5%	4.8%	0.9%	1.6%	1.4%	2.5%	1.2%	1.3%	1.6%	1.6%	2.8%
FCF yield	8.3%	1.7%	6.9%	21.7%	7.3%	4.5%	-115.0%	16.1%	-9.2%	14.8%	9.6%	-4.8%	2.7%	11.2%	12.6%	9.6%	NA	-36.4%	-0.8%	4.6%	5.7%	0.5%		6.4%

Source: Barclays Research. Priced as of market close on 08 January, 2016.

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Primary Stocks (Ticker, Date, Price)

Ryanair (RYA.I, 08-Jan-2016, EUR 14.97), Overweight/Positive, C/D/J/K/L/M/N

Materially Mentioned Stocks (Ticker, Date, Price)

International Airlines Group (ICAG.L, 08-Jan-2016, GBp 590.5), Overweight/Positive, A/D/E/J/K/L/M/N/Q

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Stock Rating

Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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European Transportation		
ADP (ADP.PA)	AENA (AENA.MC)	Air France-KLM (AIRF.PA)
AP Moller Maersk (MAERSKb.CO)	Austrian Post (POST.VI)	Bpost (BPOST.BR)
CTT (CTT.LS)	Deutsche Lufthansa AG (LHAG.DE)	Deutsche Post AG (DPWGn.DE)
DSV A/S (DSV.CO)	easyJet (EZJ.L)	FirstGroup (FGP.L)
Fraport (FRAG.DE)	Go-Ahead Group (GOG.L)	International Airlines Group (ICAG.L)
Kuehne & Nagel International AG (KNIN.VX)	National Express (NEX.L)	Panalpina (PWTN.S)
PostNL NV (PTNL.AS)	Royal Mail Group (RMG.L)	Ryanair (RYA.I)
Stagecoach (SGC.L)	TNT (TNTE.AS)	Wizz Air (WIZZ.L)

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IMPORTANT DISCLOSURES CONTINUED

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IMPORTANT DISCLOSURES CONTINUED

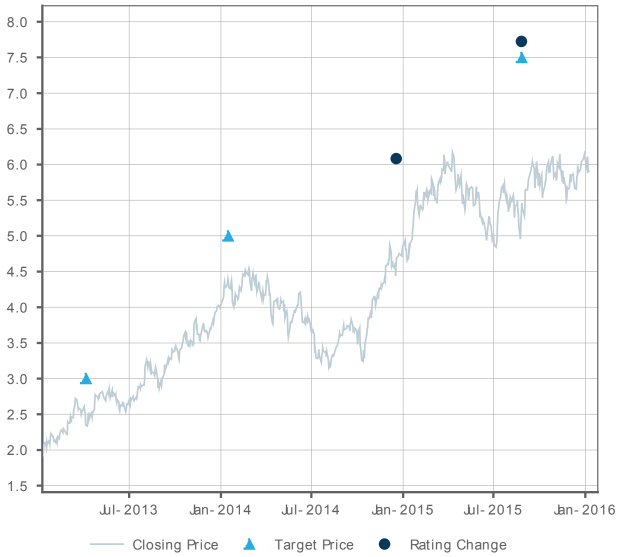
International Airlines Group (IAG LN / ICAG.L)

GBp 590.5 (08-Jan-2016)

Stock Rating: **OVERWEIGHT**

Industry View: **POSITIVE**

Rating and Price Target Chart - GBP (as of 08-Jan-2016)



Source: IDC, Barclays Research

Currency=GBP

Date	Closing Price	Rating	Adjusted Price Target
26-Aug-2015	5.32	Overweight	7.50
18-Dec-2014	4.64	Rating Suspended	
15-Jan-2014	4.39		5.00
05-Apr-2013	2.35		3.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Link to Barclays Live for interactive charting

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Valuation Methodology: We value IAG on a Sum of the Parts basis. We apply 12-month forward multiples to our EBITDAR forecasts for two years' time (a blend of FY2016 and FY2017), to produce a 12-month valuation. We apply a 5.5x EV/EBITDAR multiple for British Airways, 5x for Iberia and Aer Lingus, and 7x for Vueling.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Investing in IAG, and airlines in general, is risky. Our outlook is predicated on historical trading patterns and our current profit expectations. Those expectations are highly sensitive to our assumptions about demand, industry and company capacity decisions, various competitive forces, labour issues, geopolitical events, commodity prices and environmental events among other things. We may be forced to make substantial and frequent changes to our profit expectations, targets and ratings.

IMPORTANT DISCLOSURES CONTINUED

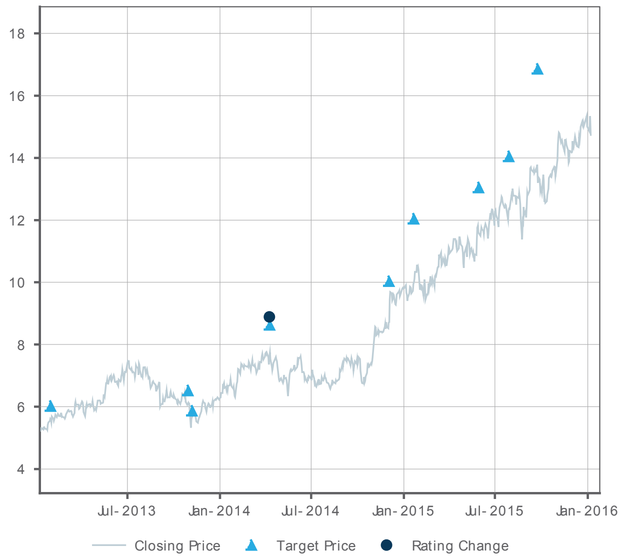
Ryanair (RYA ID / RYA.I)

EUR 14.97 (08-Jan-2016)

Stock Rating **OVERWEIGHT**

Industry View **POSITIVE**

Rating and Price Target Chart - EUR (as of 08-Jan-2016)



Source: IDC, Barclays Research

Currency=EUR

Date	Closing Price	Rating	Adjusted Price Target
23-Sep-2015	13.83		16.86
28-Jul-2015	12.36		14.05
29-May-2015	11.64		13.05
20-Jan-2015	9.98		12.04
02-Dec-2014	8.73		10.04
09-Apr-2014	7.63	Overweight	8.63
06-Nov-2013	5.71		5.87
29-Oct-2013	6.10		6.52
29-Jan-2013	5.64		6.02

Source: Thomson Reuters, Barclays Research

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Valuation Methodology: Our €20 Ryanair 12-month price target equates to the stock trading on 12.5x 12-month forward EPS (blended FY17 and FY18). This is roughly inline with its current multiple, and a 15% premium to easyJet, but a 15% discount to Ryanair's 2-year average. We think a premium multiple is deserved, given the current revenue momentum in the business, as well as our expectation that Ryanair could surprise on cash returns. However, we recognise the risk of wider industry derating in the low fuel environment.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Investing in Ryanair, and airlines in general, is risky. Our outlook is predicated on historical trading patterns and our current profit expectations. Those expectations are highly sensitive to our assumptions about demand, industry and company capacity decisions, various competitive forces, labour issues, geopolitical events, commodity prices and environmental events among other things. We may be forced to make substantial and frequent changes to our profit expectations, targets and ratings.

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