

Ryanair

Trimming estimates and PT on cautious fare guidance, but still see c.20% upside potential

RYA delivered a modest FY16 miss on Monday relative to both our expectations and company-collected consensus. Management also presented what it described as cautious FY17 fare guidance given ongoing industry capacity growth (spurred in part by lower fuel costs) and limited H2 visibility. This reflects management's noted uncertainty around competitor pricing behavior, but CEO O'Leary did emphasize commitment to delivering the lowest fares in the market. Net-net, we're trimming FY17 net income 2% which implies 16% y/y growth and sits 1% above the high-end of guidance (3% > mid-point). The buyback is now 80% complete (biased toward ADRs where premium contracted) with completion in September. Valuation: calendarized 2016E P/E and EV/EBITDAR of 13.1x and 8.4x, respectively.

- **FY16 €1,242m net income missed our estimate by less than -1%** or by €13m on slightly lower than projected unit revenues with average fares -7% in FQ4 vs. guidance of -6%. This reflected stronger than expected passenger growth in the quarter (+27% vs. guided +26%) and the effect of ATC strikes and to a lesser extent the Brussels terror attacks. Slightly lighter revenue was mitigated by slightly better ex fuel unit costs in FQ4. Actual FY16 EPS of €0.91 beat by 1%. Net cash at year-end was €312m.
- **Cautious FY17 net income guidance range sits below consensus** (collected by RYA). Management project net income of €1,375-1,425m (mid-point 5% < JPMe) or implied 11-15% y/y growth on the back of 9% traffic growth, flat load factors, average fares -7% (FH1e peak season -5% to -7%, FH2e -10% to -12% on limited visibility, no Easter and low fuel) with ancillary contributions stable and ex fuel unit costs -1% (-6% including fuel).
- **Forward bookings 2% ahead of last year, but at lower fares.** Compared to last year, average bookings for the months of May through September are up 2pp y/y from 94% to 96% after rising 4-5% y/y in FY15 (basis: forward bookings as a percentage of traffic targets). Management noted no perceptible shift in booking timing as indicated by

Overweight

RYA.I, RYA ID

Price: €13.14

▼ **Price Target: €16.50**
Previous: €17.50

European Transportation & Logistics

Christopher G Combe ^{AC}

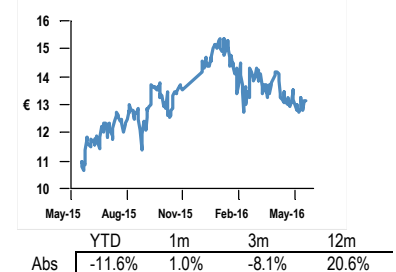
(44-20) 7134-5917

christopher.g.combe@jpmorgan.com

Bloomberg JPMA COMBE <GO>

J.P. Morgan Securities plc

Price Performance



Ryanair Holdings Plc (RYA.I;RYA ID)

FYE Mar	2015A	2016E	2017E (Prev)	2017E (Curr)	2018E
EPS FY (€)	0.62	0.92	1.14	1.12	1.28
Adjusted P/E FY	21.0	14.3	11.5	11.8	10.3
Revenue FY (€ mn)	5,654	6,536	6,815	6,764	7,087
EBITDA FY (€ mn)	1,421	1,887	2,199	2,161	2,446
EBITDA Margin FY	25.1%	28.9%	32.3%	31.9%	34.5%
EV/EBITDA (x) FY	13.3	9.9	8.3	8.7	7.5
FCFF Yield FY	5.2%	6.1%	7.5%	5.3%	6.6%
Dividend Yield FY	2.9%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Price (€)	13.14
Date Of Price	18 May 16
52-week Range (€)	15.57-10.89
Market Cap (€ mn)	17,222.60
Fiscal Year End	Mar
Shares O/S (mn)	1,311
Price Target (€)	16.50
Price Target End Date	31-Mar-17

See page 8 for analyst certification and important disclosures, including non-US analyst disclosures.

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some industry peers (i.e., purchasing tickets closer to the time of departure).

- **95% and 44% of FY17 and FY18 fuel needs now hedged** at levels implying c.30% and c.20% y/y declines in fuel costs per tonne with expected gross savings of €430m and €250m or €200m and €160m, respectively, net of volume growth. This does imply a non-price related fuel bill increase of c.12% vs. 9% projected traffic growth which appears to be largely ascribed to greater expected de-icing costs (we assume flat unit consumption).
- **Trimming FY17 net income estimate 2% and PT by 6%** (Mar-17 PT now €16.50 from €17.50 previously; see Table 3) reflective of the net variance prior key assumptions, the detailed FY17 guidance highlighted above (see Table 5) and updated capex guidance. Note RYA indicated a €20-30m headwind from a lack of Easter in FY17, 130 April flight cancellations due to ATC action, and a €10-15m uplift for every 1p of appreciation in GBP vs. EUR.

Table 1: On 16e EV/EBITDAR basis RYA trades at a 17% premium to LCC peers and a c.40% premium to the sector average

		P / E		EV / EBITDAR		EV / EBITDA		EV / EBIT		Div Yield	Adj. ND / EBITDAR*
		2016e	2017e	2016e	2017e	2016e	2017e	2016e	2017e		
AF-KLM	AF FP	3.2x	3.3x	3.9x	3.6x	2.8x	2.4x	6.4x	5.4x	0.0%	3.3x
IAG	IAG SM	6.7x	5.6x	5.0x	4.4x	4.9x	4.0x	7.1x	5.6x	4.2%	1.6x
Lufthansa	LHA GR	4.5x	4.2x	4.5x	4.2x	4.4x	4.1x	8.4x	7.8x	4.4%	3.0x
EasyJet	EZJ LN	10.1x	8.7x	6.3x	5.4x	6.1x	5.5x	7.4x	6.5x	4.0%	0.4x
Ryanair	RYA ID	13.1x	11.3x	8.4x	7.4x	8.6x	7.4x	11.1x	9.5x	0.0%	0.3x
Wizz Air	WIZZ LN	14.3x	12.5x	7.9x	7.0x	9.1x	7.5x	10.6x	8.8x	0.0%	1.5x
	Average	8.7x	7.6x	6.0x	5.3x	6.0x	5.2x	8.5x	7.2x	2.1%	1.7x

Source: J.P. Morgan estimates, Bloomberg. Priced COB May 25, 2016.

Table 2: LCC share prices underperform legacies YTD; RYA recent dip underperformed LCC peers.

	STOXX	Sector (1)	Share price performance						Performance relative to sector (2)					
			AF	IAG	LHA	EZJ	RYA	WIZZ	AF	IAG	LHA	EZJ	RYA	WIZZ
2013	18%	53%	8%	117%	8%	100%	34%	NA	---	+++	---	+++	-	
2014	5%	16%	5%	22%	-10%	10%	57%	NA	-	+	--	-	+++	
2015	0%	18%	-4%	14%	0%	-4%	44%	NA	--	-	-	--	++	
2016TD	-5%	-7%	6%	-10%	-13%	-10%	-6%	7%	+	-	-	-	+	+
Q1:15	17%	41%	15%	69%	7%	35%	51%	17%	--	++	--	-	+	+
Q2:15	-5%	-10%	-20%	-18%	-12%	-17%	8%	15%	-	-	-	-	+	++
Q3:15	-9%	16%	-1%	19%	7%	15%	11%	32%	-	+	-	-	-	+
Q4:15	5%	7%	13%	4%	17%	-2%	11%	-11%	+	-	+	-	+	-
Q1:16	-8%	-3%	19%	-9%	-2%	-13%	-5%	1%	++	-	+	-	-	+
Q2:16TD	3%	-4%	-11%	0%	-10%	3%	-1%	5%	-	+	-	+	+	+

(1) Every + and - represents +/- 20% performance difference relative to sector performance. In other words, one tick = up to a 20% difference, two ticks = 20% to up to 40%, three ticks = more than 40%. Priced at COB May 25, 2016.

Table 3: DCF-based, year-end 2017 price target falls by 6% to €16.50

	EURm	Per share (2)
NPV	9,166	7.14
L-T growth	2.0%	
Terminal value	11,741	9.15
Enterprise Value	20,907	16.29
Net (debt) / cash	312	0.24
Associates/Other	0	0.00
Minorities	0	0.00
Equity Value	21,218	16.53

(1) Rounded to nearest €0.50/share. See below key DCF assumptions.

(2) Based on projected year-end share count

Source: J.P. Morgan estimates.

Table 4: FY16 net income missed JPMe and Cons by 1% mainly on Q4 yield pressure

	Q4:16e			Actual vs		2016			Actual Vs	
	Cons	JPMe	Actual	Cons	JPMe	Cons	JPMe	Actual	Cons	JPMe
Passenger		748	740		-1%		4,976	4,967		0%
Other		435	426		-2%		1,578	1,569		-1%
Total Revenue	1,187	1,184	1,166	-2%	-1%	6,557	6,553	6,536	0%	0%
Fuel	433	411	429	-1%	4%	2,075	2,053	2,071	0%	1%
D&A		100	107		7%		420	427		2%
Operating leases		31	22		-29%		124	115		-7%
Other		557	534		-4%		2,485	2,462		-1%
OPEX		1,100	1,093		-1%		5,083	5,076		0%
EBITDAR		216	203		-6%		2,015	2,003		-1%
margin		18%	17%		-0bp		31%	31%		-10bp
EBITDA		185	181		-2%		1,891	1,887		0%
margin		16%	16%		-0bp		29%	29%		0bp
EBIT		84	74		-13%		1,471	1,460		-1%
margin		7%	6%		-0bp		22%	22%		-10bp
Net Finance		-13	-17		38%		-49	-53		10%
PRE-TAX PROFIT		72	54		-24%		1,422	1,404		-1%
Tax (paid)/received		-8	-4		-54%		-167	-163		-3%
Net Income	60	64	51	-16%	-21%	1,251	1,255	1,242	-1%	-1%
EPS, ongoing		0.05	0.04		-20%		0.91	0.92		1%
DPS		0.00	0.00				0.00	0.00		
FCF							1,020	629		-38%
Net debt							-983	-299		-70%
Operating data										
Seats (m)		25.5	25.5		0.0%		114.5	114.5		0.0%
% change		20.9%	20.9%		0bp		11.6%	11.6%		0bp
Passengers (m)		23.4	23.4		0.0%		106.3	106.4		0.1%
% change		26.7%	26.7%		0bp		17.4%	17.5%		10bp
Load Factor		91.7%	91.7%		0bp		92.9%	92.9%		5bp
change		1.3pts	1.3pts		0bp		1.5pts	1.5pts		75bp
Pax Average fare		32.0	31.7		-1.1%		46.8	46.7		-0.2%
% change		-6.0%	-7.0%		-105bp		-0.5%	-0.8%		-25bp
Total Average fare		50.6	49.9		-1.5%		61.6	61.4		-0.3%
% change		-5.1%	-6.5%		-140bp		-1.3%	-1.6%		-35bp
Total cost per Passenger		47.0	46.7		-0.6%		47.8	47.7		-0.2%
% change		-8.3%	-8.9%		-60bp		-6.1%	-6.3%		-20bp
Ex-fuel cost per Passenger		29.4	28.4		-3.6%		28.5	28.2		-0.9%
% change		-6.0%	-9.4%		-340bp		-1.5%	-2.4%		-90bp
Fuel cost per Passenger		17.6	18.4		4.4%		19.3	19.5		0.8%
change		-12.0%	-8.1%		385bp		-12.2%	-11.5%		70bp

Source: J.P. Morgan estimates, Company data.

Table 5: FY17e net income lowered 2% on lower average fare assumptions

	Old		New		Change	
	2017e	2018e	2017e	2018e	2017e	2018e
Passenger	5,129	5,382	5,070	5,271	-1%	-2%
Other	1,686	1,847	1,694	1,817	1%	-2%
Total Revenue	6,815	7,230	6,764	7,087	-1%	-2%
Fuel	1,801	1,653	1,833	1,665	2%	1%
D&A	475	521	475	521	0%	0%
Operating leases	149	160	149	160	0%	0%
Other	2,666	2,943	2,622	2,817	-2%	-4%
OPEX	5,091	5,277	5,078	5,162	0%	-2%
EBITDAR	2,348	2,634	2,309	2,606	-2%	-1%
margin	34%	36%	34%	37%	30bp	-35bp
EBITDA	2,199	2,474	2,161	2,446	-2%	-1%
margin	32%	34%	32%	35%	-30bp	30bp
EBIT	1,724	1,953	1,686	1,926	-2%	-1%
margin	25%	27%	25%	27%	-35bp	15bp
Net Finance	-50	-50	-50	-50	0%	0%
PRE-TAX PROFIT	1,674	1,903	1,636	1,876	-2%	-1%
Tax (paid)/received	-201	-228	-196	-225	-2%	-1%
Net Income	1,473	1,675	1,439	1,650	-2%	-1%
EPS, ongoing	1.14	1.30	1.12	1.28	-2%	-1%
DPS	0.00	0.00	0.00	0.00		
FCF	1,235	1,432	863	1,071	-30%	-25%
Net debt	-1,595	-3,027	-793	-1,864	-50%	-38%
Operating data						
Seats (m)	122.5	136.0	125.0	135.4	2.0%	-0.5%
% change	7.0%	11.0%	9.2%	8.3%	215bp	-270bp
Passengers (m)	114.2	126.4	116.1	125.7	1.7%	-0.5%
% change	7.4%	10.7%	9.1%	8.3%	170bp	-240bp
Load Factor	93.2%	92.9%	92.9%	92.9%	-30bp	-5bp
change	1.1pts	1.0pts	1.0pts	1.0pts		
Pax Average fare	44.9	42.6	43.7	41.9	-2.8%	-1.6%
% change	-4.0%	-5.2%	-6.4%	-4.0%	-245bp	120bp
Total Average fare	59.7	57.2	58.3	56.4	-2.4%	-1.4%
% change	-3.2%	-4.2%	-5.1%	-3.2%	-200bp	90bp
Total cost per Passenger	44.6	41.8	43.8	41.1	-1.9%	-1.7%
% change	-6.7%	-6.4%	-8.3%	-6.1%	-155bp	20bp
Ex-fuel cost per Passenger	28.8	28.7	28.0	27.8	-3.0%	-3.0%
% change	1.2%	-0.5%	-1.0%	-0.5%	-210bp	0bp
Fuel cost per Passenger	15.8	13.1	15.8	13.2	0.1%	1.2%
change	-18.3%	-17.1%	-18.9%	-16.1%	-55bp	95bp

Source: J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Ryanair (*Overweight; Price Target: €16.50*)

Investment Thesis

European Legacy airlines' restructuring efforts are not likely to diminish the voracious growth appetites of LCCs, which we expect to continue expanding and taking share to the detriment of European Legacies. As such, we recommend investors focus on LCC airlines, particularly those with low costs, superior growth prospects, and strong balance sheets. In particular, we are positive on Ryanair given the growth prospects present in its major markets and expansive order book (options to expand to 520 aircraft by 2024). The Load Factor-active, yield-passive strategy has secured record Load Factors over Summer 2015, and we remain positive on plans to incrementally introduce primary and secondary airports to its network. We remain Overweight.

Valuation

Our Ryanair March 2017 price target of €16.50 is based on a DCF model assuming a WACC of 9.3% (RFR 1.1%, ERP 7.0%, beta 1.35, CoE 10.5%) and a terminal growth rate of 2.0%.

Risks to Rating and Price Target

We believe RYA (OW) remains highly leveraged to even the slightest fluctuations in demand for air travel. Should the European economy weaken beyond its current levels, our earnings and financial projections could be negatively affected. Furthermore, results are subject to variations in energy prices and labor-related job actions and explicitly assume no airline-related acts of terrorism. In a scenario in which more capacity enters the industry than currently expected, our thesis on airlines may be negatively impacted. Similarly, should European Legacy restructuring efforts prove more successful than planned, margin and return harmonization between Legacies and LCCs could ultimately occur, which we believe would pressure the higher multiples currently commanded by LCCs. Lastly, any integration, financing, or technology challenges associated with Ryanair's recently announced aircraft order, could cause us to revisit our rating.

Ryanair: Summary of Financials

Income Statement - Annual	FY14A	FY15A	FY16E	FY17E	Income Statement - Quarterly	1Q16A	2Q16E	3Q16E	4Q16E
RPKs (M)	103,752	113,184	-	-	RPKs (M)	-	-	-	-
ASKs (M)	125,391	128,245	-	-	ASKs (M)	-	-	-	-
Load factor	82.7%	88.3%	92.9%	92.9%	Load factor	-	-	-	-
Yield	3.65	3.76	-	-	Yield	0.00	0.00	0.00	0.00
RASK	4.02	4.41	-	-	RASK	-	-	-	-
CASK	-	-	-	-	CASK	-	-	-	-
CASK ex-fuel	-	-	-	-	CASK ex-fuel	-	-	-	-
Fuel cost/gal	-	-	-	-	Fuel cost/gal	-	-	-	-
Total revenues	5,037	5,654	6,536	6,764	Total revenues	1,653	2,387	1,330	1,166
Operating income	659	1,043	1,460	1,686	Operating income	288	972	126	74
Net income	523	867	1,242	1,439	Net income	245	1,161	103	51
EBITDA	1,010	1,421	1,887	2,161	EBITDA	395	1,081	231	181
EBITDAR	1,112	1,530	2,003	2,309	EBITDAR	431	1,116	253	203
EPS	0.37	0.62	0.92	1.12	EPS	0.18	0.85	0.08	0.04
Balance Sheet and Cash Flow Data	FY14A	FY15A	FY16E	FY17E	Ratio Analysis	FY14A	FY15A	FY16E	FY17E
Total debt	3,084	4,432	4,023	4,023	RPK growth	7.7%	9.1%	-	-
Cash and cash equivalents	1,730	1,185	1,259	1,741	ASK growth	7.0%	2.3%	-	-
Net debt	1,354	3,247	2,764	2,282	Yield growth	(7.9%)	3.1%	-	-
Minority interest	0	0	0	0	RASK growth	(3.6%)	9.8%	-	-
Preferred stock	-	-	-	-	CASK growth	-	-	-	-
Enterprise value	18,969	18,860	18,648	18,707	CASK ex-fuel growth	-	-	-	-
Book value	3,286	4,035	3,597	4,654	Total Revenue growth	3.1%	12.3%	15.6%	3.5%
Capex	(506)	(789)	(1,218)	(1,100)	EBIT margin	13.1%	18.4%	22.3%	24.9%
Free cash flow	598	951	1,074	907	EV/revenue	3.8	3.3	2.9	2.8
Free cash flow yield	3.2%	5.2%	6.1%	5.3%	EV/EBITDAR	17.1	12.3	9.3	8.1
					EV/EBITDA	18.8	13.3	9.9	8.7
					BV/share	2.31	2.91	2.68	3.63
					Debt/capital	48.4%	52.3%	52.8%	46.4%

Source: Company reports and J.P. Morgan estimates.

Note: € in millions (except per-share data). Fiscal year ends Mar

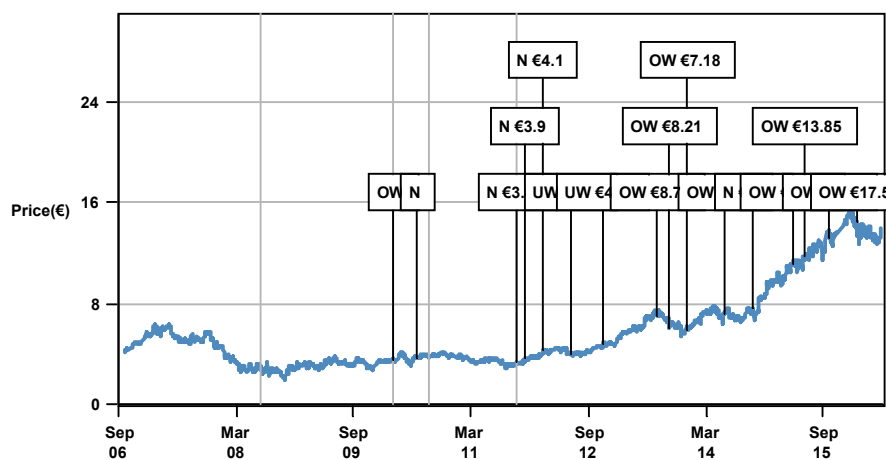
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Ryanair (RYA.I, RYA ID) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage Mar 01, 2010 - Jun 22, 2010.

Date	Rating	Share Price (€)	Price Target (€)
03-Mar-05	OW	4.22	7.18
01-Mar-10	OW	3.49	--
22-Jun-10	N	3.67	--
29-Sep-11	N	3.28	3.69
09-Nov-11	N	3.60	3.90
02-Feb-12	N	4.26	4.10
06-Jun-12	UW	4.05	4.36
06-Nov-12	UW	4.82	4.87
17-Jul-13	OW	6.95	8.72
04-Sep-13	OW	6.00	8.21
26-Nov-13	OW	5.85	7.18
27-May-14	OW	7.20	8.36
06-Oct-14	N	7.60	8.72
07-Apr-15	OW	11.06	13.33
05-Jun-15	OW	11.76	13.85
24-Sep-15	OW	13.24	16.50
02-Feb-16	OW	14.48	17.50

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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