

COMPANY UPDATE

Ryanair (RYA.I)

Neutral

Equity Research

Faster growth and positive cash flow priced in; remain Neutral

What's changed

Ryanair increased its medium-term traffic target to 200 mn passengers by FY24 (prev. 180 mn) by increasing capacity growth to 9% pa to FY21 (prev. 7%) through the delay of aircraft disposals and its intention to exercise the 100 B737MAX options. Management also increased its medium-term ancillary revenue target to 30% of revenues by FY21 (from 20%; FY16A 24%) as it develops Ryanair Labs and customer penetration of "myryanair" increases.

Implications

We increase our FY17-19E NI by 0.1%/6.7%/6.7% reflecting our increased passenger growth estimates (11% FY17-19 pa growth vs. 9% previously) and ancillary revenue/passenger, partly offset by lower average fares (at constant FX: -6.3% pa vs. -3.4% previously). Medium term, we believe Ryanair will continue to capitalize on its strong cost position and take market share, as demonstrated by its increased capacity growth plans. Despite increasing capex, we forecast positive FCF generation over FY17-21E of on average €640 mn pa, which coupled with a strong balance sheet (FY17E adj. net debt/EBITDAR of 0.5x), will underpin share buybacks of €1 bn pa in our view.

Valuation

Ryanair trades on 12x CY17E P/E (through-cycle-average of 14x), on our below consensus estimates (9% below FY18 Bloomberg consensus EPS) given the deteriorating supply-demand imbalance we expect into CY17, partly driven by Ryanair's market share driven growth strategy. Our 12-month return on capital price target increases to €12.4 (from €11.5) on higher estimates, based on our CY18E CROCI of 21%, discounted back by 12%.

Key risks

Weaker/stronger-than-expected demand/pricing, better/worse unit cost excl. fuel control, fuel and FX volatility.

INVESTMENT LIST MEMBERSHIP

Neutral

GS SUSTAIN Focus List

Coverage View: Neutral

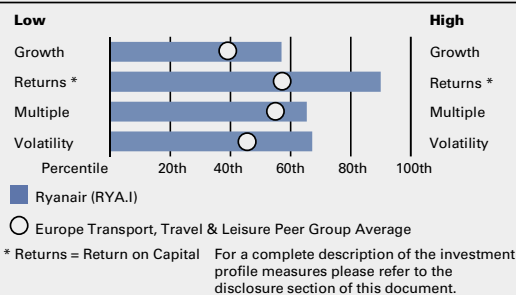
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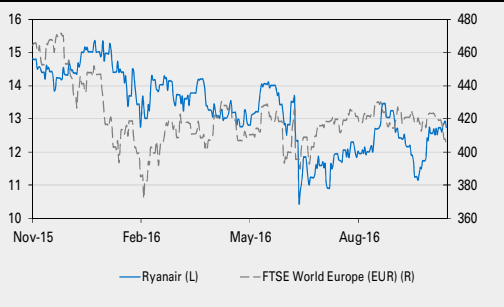
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Investment Profile



Key data	Current			
Price (€)	12.74			
12 month price target (€)	12.40			
Upside/(downside) (%)	(3)			
Market cap (€ mn)	18,357.6			
Enterprise value (€ mn)	17,438.8			
	3/16	3/17E	3/18E	3/19E
Revenue (€ mn) New	6,535.8	6,672.9	6,943.8	7,535.6
Revenue revision (%)	0.0	(0.4)	2.4	4.1
EBIT (€ mn) New	1,457.6	1,522.4	1,522.4	1,594.5
EBIT revision (%)	0.0	0.1	6.3	5.9
EPS (€) New	0.93	1.02	1.08	1.20
EPS (€) Old	0.93	1.02	1.01	1.12
EV/EBITDA (X)	9.7	8.8	8.4	7.5
P/E (X)	14.3	12.5	11.8	10.6
Dividend yield (%)	2.2	0.0	0.0	0.0
FCF yield (%)	5.8	3.5	4.3	6.6
CROCI (%)	24.7	24.2	21.5	20.2

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	8.9	(1.9)	(13.1)
Rel. to FTSE World Europe (EUR)	11.8	(1.2)	(0.3)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 11/04/2016 close.

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Ryanair: Summary Financials

Profit model (€ mn)	3/16	3/17E	3/18E	3/19E	Balance sheet (€ mn)	3/16	3/17E	3/18E	3/19E
Total revenue	6,535.8	6,672.9	6,943.8	7,535.6	Cash & equivalents	4,334.5	3,982.0	4,455.0	4,812.5
Operating costs	(4,533.3)	(4,553.6)	(4,744.9)	(5,202.9)	Accounts receivable	214.6	235.6	245.1	266.0
R&D	0.0	0.0	0.0	0.0	Inventory	3.3	3.3	3.3	3.3
Lease payments	(115.1)	(138.2)	(162.8)	(177.7)	Other current assets	269.1	269.1	269.1	269.1
Other operating profit/(expense)	(2.5)	0.0	0.0	0.0	Total current assets	4,821.5	4,490.0	4,972.5	5,350.9
EBITDA	1,884.9	1,981.1	2,036.0	2,155.0	Net PP&E	6,396.8	7,213.7	7,982.3	8,631.9
Depreciation & amortisation	(427.3)	(458.7)	(513.6)	(560.5)	Net intangibles	0.0	0.0	0.0	0.0
EBIT	1,457.6	1,522.4	1,522.4	1,594.5	Total investments	0.0	0.0	0.0	0.0
Net interest income/(expense)	(53.2)	(45.2)	(47.1)	(53.3)	Other long-term assets	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	Total assets	11,218.3	11,703.6	12,954.8	13,982.9
Profit/(loss) on disposals	0.0	0.0	0.0	0.0	Accounts payable	230.6	230.6	230.6	230.6
Others (recurring)	0.0	0.0	0.0	0.0	Short-term debt	449.9	449.9	449.9	449.9
Pretax profits	1,404.4	1,477.2	1,475.3	1,541.1	Other current liabilities	2,145.2	2,209.9	2,311.6	2,534.4
Income tax	(162.8)	(171.2)	(171.0)	(178.6)	Total current liabilities	2,825.7	2,890.4	2,992.1	3,214.9
Tax rate (%)	11.6	11.6	11.6	11.6	Long-term debt	3,573.1	3,668.8	4,477.2	4,881.5
Minorities	0.0	0.0	0.0	0.0	Other long-term liabilities	1,222.7	1,259.6	1,296.5	1,335.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	4,795.8	4,928.4	5,773.7	6,216.5
Net income (pre-exceptionals)	1,241.6	1,306.0	1,304.2	1,362.5	Total liabilities	7,621.5	7,818.8	8,765.8	9,431.4
Other non-recurring items post tax	317.5	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	1,559.1	1,306.0	1,304.2	1,362.5	Total common equity	3,596.8	3,884.8	4,189.0	4,551.5
EPS (underlying) (€)	0.93	1.02	1.08	1.20	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, reported) (€)	1.16	1.02	1.08	1.20	Total liabilities & equity	11,218.3	11,703.6	12,954.8	13,982.9
Weighted shares outstanding (mn)	1,341.0	1,282.6	1,209.4	1,137.8	Capitalised leases	805.7	967.6	1,139.7	1,243.7
Common dividends declared	398.1	0.0	0.0	0.0	Capital employed	7,619.8	8,003.5	9,116.1	9,882.9
DPS (€)	0.30	0.00	0.00	0.00	Adj for unfunded pensions & GW	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	32.1	0.0	0.0	0.0	Adj capital employed	7,619.8	8,003.5	9,116.1	9,882.9
Dividend cover (X)	3.1	NM	NM	NM	Gross cash invested	7,418.1	8,811.8	10,174.0	11,286.4
Growth & margins (%)	3/16	3/17E	3/18E	3/19E	Ratios	3/16	3/17E	3/18E	3/19E
Revenue growth	15.6	2.1	4.1	8.5	CROCI (%)	24.7	24.2	21.5	20.2
EBITDA growth	33.1	5.1	2.8	5.8	CROCI/WACC (X)	3.1	3.0	2.7	2.5
EBIT growth	40.3	4.4	0.0	4.7	ROIC (%)	15.6	16.7	15.3	14.5
Net income growth	79.9	(16.2)	(0.1)	4.5	ROIC/WACC (X)	1.9	2.1	1.9	1.8
EPS growth	44.2	10.0	5.9	11.0	ROA (%)	11.1	11.9	11.1	10.7
DPS growth	(22.9)	(100.0)	NM	NM	WACC (%)	8.1	8.1	8.0	8.0
EBITDA margin	28.8	29.7	29.3	28.6	Inventory days	0.2	0.2	0.2	0.2
EBIT margin	22.3	22.8	21.9	21.2	Asset turnover (X)	1.0	1.0	0.9	0.9
Cash flow statement (€ mn)	3/16	3/17E	3/18E	3/19E	Net debt/equity (%)	(8.7)	3.5	11.3	11.4
Net income	1,241.6	1,306.0	1,304.2	1,362.5	EBITDA interest cover (X)	35.4	43.8	43.2	40.4
D&A add-back (incl. ESO)	427.3	458.7	513.6	560.5	Valuation	3/16	3/17E	3/18E	3/19E
Minority interest add-back	0.0	0.0	0.0	0.0	EV/sales (X)	2.8	2.6	2.5	2.2
Net (inc)/dec working capital	135.6	43.8	92.1	201.8	EV/EBITDAR (X)	9.1	8.2	7.7	7.0
Other operating cash flow	37.8	36.9	36.9	38.5	EV/EBITDA (X)	9.3	8.3	7.8	7.0
Cash flow from operations	1,842.3	1,845.4	1,946.9	2,163.3	EV/EBIT (X)	11.6	10.5	10.1	9.2
Capital expenditures	(819.6)	(1,275.5)	(1,282.3)	(1,210.1)	P/E (X)	14.3	12.5	11.8	10.6
Acquisitions	0.0	0.0	0.0	0.0	Dividend yield (%)	2.2	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0	FCF yield (%)	5.8	3.5	4.3	6.6
Others	0.0	0.0	0.0	0.0	EV/GCI (X)	2.6	2.1	1.8	1.6
Cash flow from investing	(819.6)	(1,275.5)	(1,282.3)	(1,210.1)	EV/adj. capital employed (X)	5.6	4.3	3.6	3.2
Dividends paid (common & pref)	(398.1)	0.0	0.0	0.0	Price/book (X)	5.3	4.2	3.7	3.2
Inc/(dec) in debt	(408.6)	95.7	808.4	404.3	Note: Ratios are adjusted for leases where appropriate. Only separately disclosed where significant and ongoing.				
Other financing cash flows	(705.9)	(1,018.0)	(1,000.0)	(1,000.0)	Note: Last actual year may include reported and estimated data.				
Cash flow from financing	(1,512.6)	(922.3)	(191.6)	(595.7)	Source: Company data, Goldman Sachs Research estimates.				
Total cash flow	(485.1)	(352.5)	473.0	357.5					
Capex/D&A (%)	191.8	278.1	249.7	215.9					
Reinvestment rate (%)	48.0	70.8	69.1	61.7					
Cash flow cover of dividends (X)	4.3	NM	NM	NM					
Free cash flow cover of dividends (X)	2.6	--	--	--					

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Reg AC

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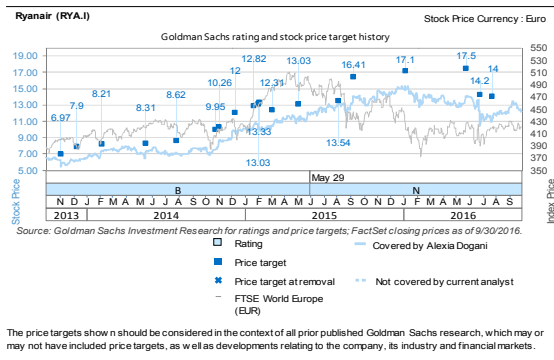
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