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Security Analysis

Ryanair Holdings Plc.

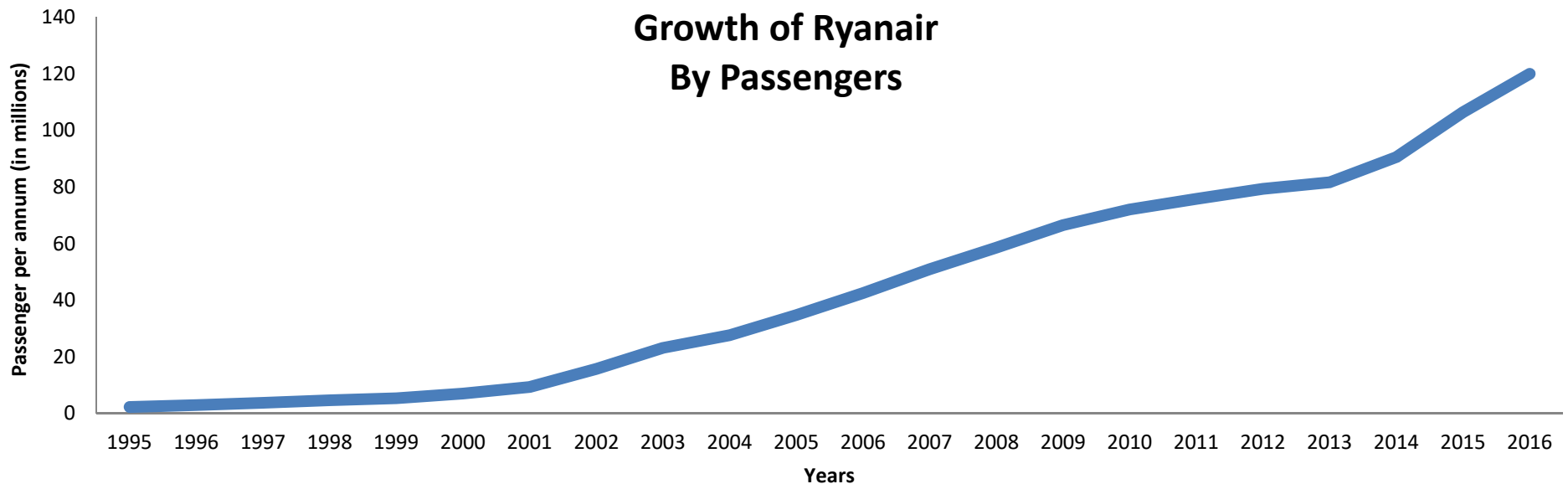


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Quick Facts

- Ryanair are the first European airline to have carried over 1 billion customers.
- In 2016 they carried nearly 120 million customers on more than 2000 daily flights.
- They have 87 bases, connecting over 205 destinations in 33 countries.
- Ryanair has a team of more than 13,000 highly skilled aviation professionals.
- Their sole focus is Airlines Business and they have a large fleet of 430 Boeing 737 aircrafts, with a further 240 Boeing 737's on order.
- According to Ryanair, this will enable them to lower fares and grow traffic to 200 million customers per annum by 2024.

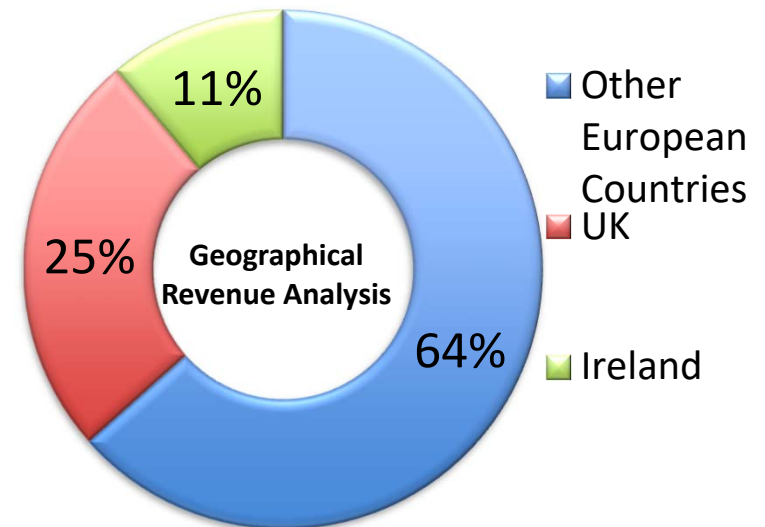


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- Ryanair have an average fair which is 24% cheaper than there nearest competitor and 232% cheaper than the industry average.
- They have a European market share of 15% making them Europe's leading airline.
- Their website - ryanair.com is also the world’s largest airline website with 94% direct visits.
- With Brexit on the horizon, some companies face an uncertain future. However Ryanair get 75% of their revenue from countries outside of the UK.
- 86% of their bases are also outside of the UK.
- Although the impact of Brexit remains uncertain, it is comforting to us as investors to know that Ryanair has bases all over Europe and does not rely to heavily on revenue from the UK.

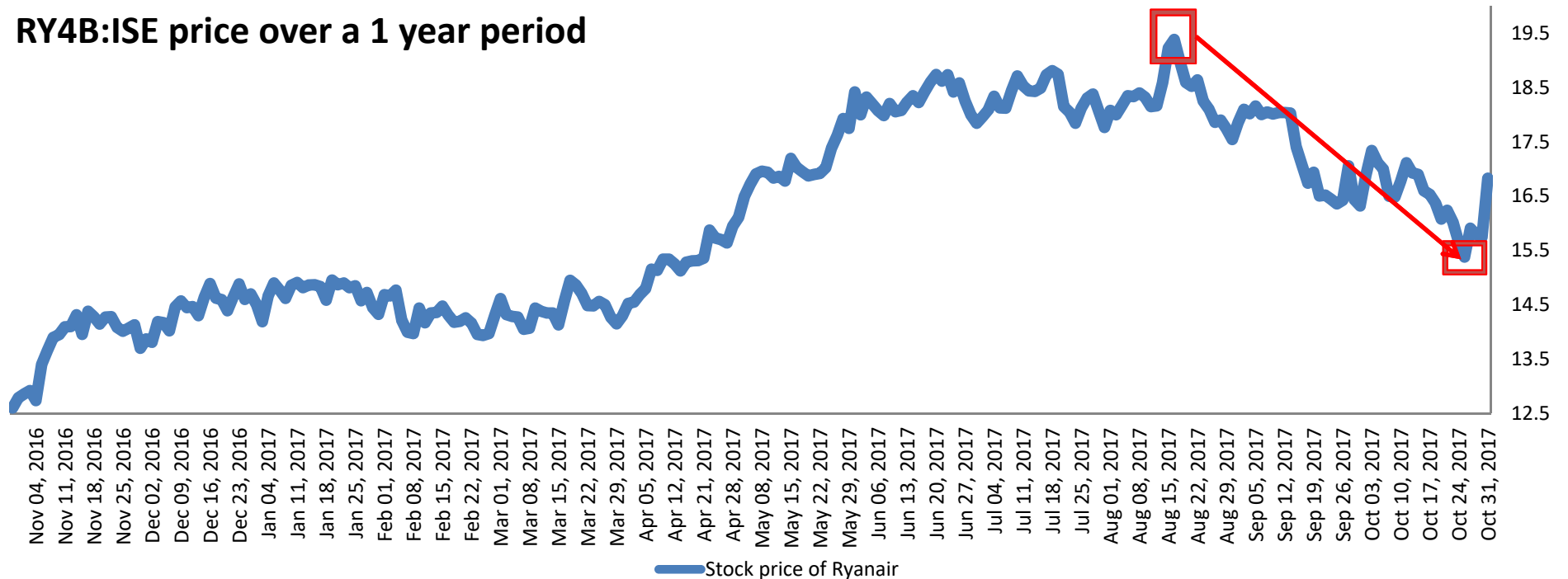
Airlines	Average Fare
Ryanair	€ 41
Wizz	€ 51
EasyJet	€ 77
Norwegian	€ 78
Air France/KLM	€ 215
Lufthansa	€ 218
Average Competitor Fare	€ 136



Ryanair Stock Price

- Ryanair had been exhibiting a positive, relatively constant growth until August 2017.
- On the August 16th 2017, Ryanair's stock price hit a record high of €19.785 before plummeting to as low as €15.38 on October 25th 2017 - a 22% decline in the space of just over 2 months.
- This sudden decline in the stock price intrigued us and we wanted to find out more about why this had happened and see if Ryanair could get back to a stock price of €19.785 and go on and break the €20 barrier.

RY4B:ISE price over a 1 year period





What Went Wrong?

- There were 3 main reasons for this rapid stock price decline:
 1. On September 14th the EU court ruled against Ryanair in a dispute to keep Irish law for Ryanair crew working abroad. Ryanair had sought to continue forcing cabin crew based outside Ireland to take their disputes to Irish courts. However, employees of the airline took the company to the ECJ and the ruling proved unfavorable towards the low cost airline.
 2. On September 19th Ryanair pilots sought to re-negotiate their contracts as they believed they were over-worked and under-paid. They threatened 'mass sick days' if their requests were not met. Ryanair admitted it had made a 'mess up' on the pilot holiday rosters.
 3. That incident led to cancelation of nearly 500 flights to reduce the backlog of holidays for staff and improve punctuality. This incident effected between 300,000 – 400,000 customers. Ryanair took full responsibility for the incident and admitted it was 'clearly a mess'.



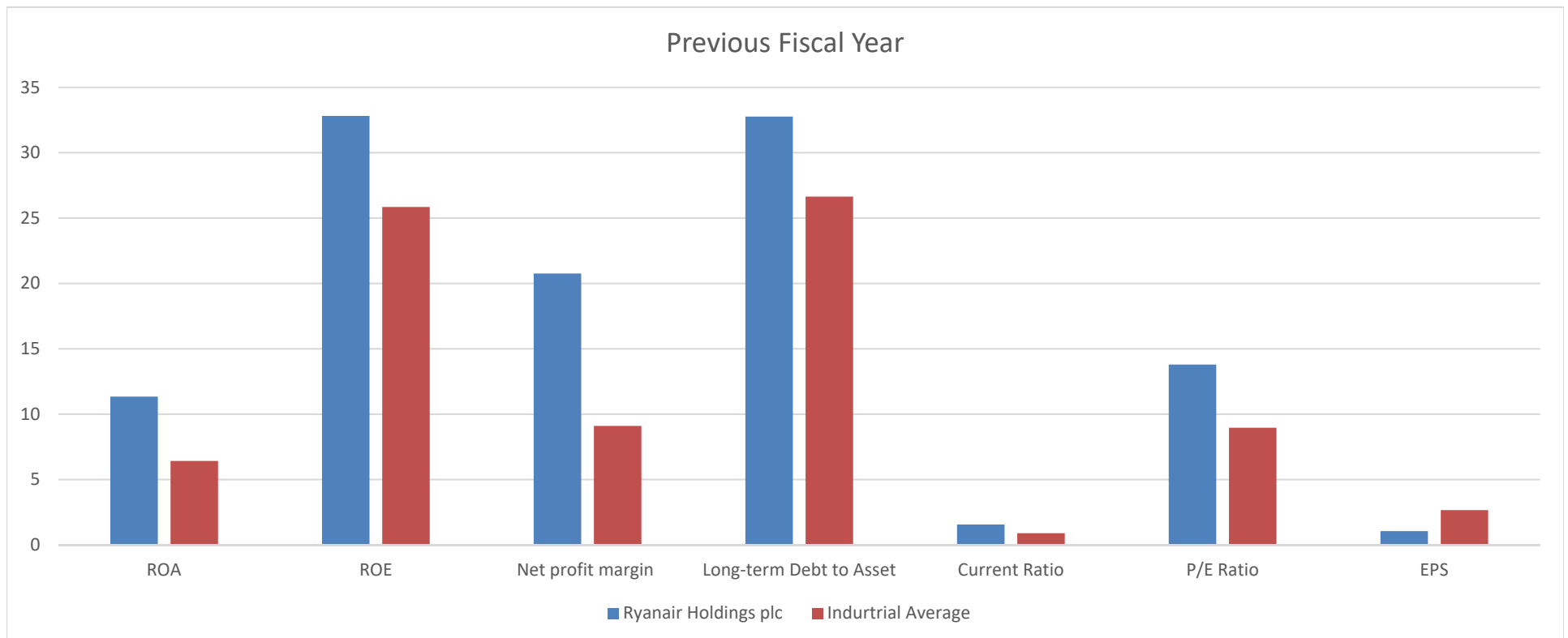
Will The Share Price Rebound?

- We believe there are many reasons why the stock price decline of Ryanair and all the problems they had which led to that decline are only temporary issues and they will be easily overcome to rebound the share price back to its former glory. They are as follows:
 1. On September 26th 2017, savvy business man and CEO of Ryanair, Michael O’Leary, concluded a €600 million share buyback. He concluded it after the share price plummeted, proving that he was not concerned about the low share price and he was confident that this was a good time to buyback shares at the new low share price. That gave us great confidence as investors in the stock.
 2. On the October 2nd 2017, Monarch airlines ceased its operations and on October 27th 2017, Air Berlin followed suit. These would have been two major competitors to Ryanair as they were both European-based airlines. This has piqued investor interest in Ryanair with the potential of the firm increasing its market share.
 3. Not only does the bankruptcy of Monarch Airlines and Air Berlin mean decreased competition but it also means there are lots of unemployed pilots. These pilots will now be on the job market and this will greatly help Ryanair solve current disputes with their pilots due to the increase in supply of unemployed pilots.
 4. On October 17th 2017, Ryanair broke a major piece of news as they announced the hiring of Peter Bellew as COO to help improve pilot relations. Peter Bellew is renowned in the aviation industry for helping turn around the fortunes of Malaysian Airlines.
- For these reasons we see no reason why Ryanair’s share price can not rebound.



Ryanair vs. the Industry

- As Europe's biggest airline, Ryanair have an industry leading financial performance:
 - Operating Revenue increased by 2% to €6.6 billion.
 - Adjusted profit after tax was up 6% to €1.3 billion.
- The main financial ratios of Ryanair are shown shown in the chart below. We have compared the key ratios to the industry average to give a better impression





Ratio Analysis

- **Profitability Analysis**

- Both of ROA and ROE declined by 14.86% and 19.68% respectively. However, they still outperformed the industry average, which meant the company could obtain a relative high profit per unit of assets and shareholders' wealth.
- Average fares fell to €41. Ryanair.com is the world's biggest airline website, the revenue generated from the website grew by 12.7%. In addition, unit costs were cut by 11%. Those factors might explain why the net profit margin of Ryanair was significant higher than the average.

- **Liquidity Analysis**

- Over the past number of years, long-term debt to asset ratio was stable (around 33). Although it was slightly higher than the industry level, it wouldn't affect the company's operations or have any material liquidity issues.
- Current ratio had been improved since fiscal year 2016 and is closer to 2:1 than the industry average. The 5-year growth rate on cash from operations was 13.56%.

- **Investor Ratio Analysis**

- In terms of investor ratios, the company has underperformed in recent periods. EPS fell by 9.48% in 2017 in comparison with the prior year and was lower than that of its industry peers.
- Ryanair has a relatively high P/E ratio of 14.39. However, we do not believe this means that the stock price of its company is overvalued as it is the market leader and we still believe it is a sound investment.



Valuation

Recommendation: BUY

Price Target per DCF: €20.63

Market Price: €16.83

- To estimate the total value of the firm we used a discounted cash flow model (DCF). This gave us a total present value for Ryanair of €24.399 billion. Thus the implied share price at 31 October is €20.63 vs the market price of €16.83.

Future Projections					
	2018	2019	2020	2021	2022
Revenue	€ 6,469mm	€ 6,718mm	€ 6,953mm	€ 7,174mm	€ 7,383mm
Fleet Size	427	448	481	516	540
Fuel Costs	€ 2,144mm	€ 2,306mm	€ 2,532mm	€ 2,785mm	€ 2,983mm
Cost of Oil (p/b)	\$60.00	\$61.50	\$62.90	\$64.50	\$66.00



Conclusion

- In summary, we feel Ryanair's stock price is strongly poised to increase in value in the short term for the following reasons:
 - Micheal O'Leary's faith in the stock exhibited by the recent €600m share buyback.
 - The cessation of both Monarch Airlines and Air Berlin reducing industry competition and increasing the supply of pilots seeking employment.
 - The appointment of Peter Bellew as COO.
 - Strong financial performance vs. industry peers.
 - A share price we believe is undervalued by 18.42% based on DCF analysis.

