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Jan 13, 2020

Ryanair Holdings plc (RYAAY)

$96.18 (As of 01/10/20)

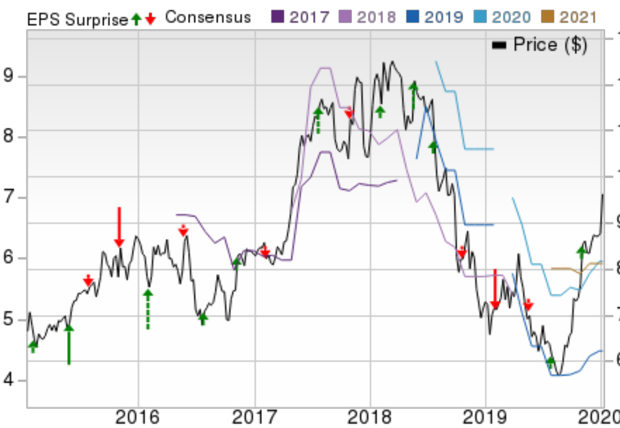
Price Target (6-12 Months): **$101.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/10/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: C | Momentum: B	

Summary

Ryanair's passenger traffic has been strong despite struggling with low capacity from the MAX groundings. Traffic rose 11% in the first half of fiscal 2020. The carrier's raised profit forecast for fiscal 2020 due to better-than-expected performance is encouraging. For fiscal 2020, Ryanair now expects traffic of 154 million (153 million expected earlier). Efforts to add shareholder value are a positive too. Shares of Ryanair have outperformed its industry in a year, primarily on these tailwinds. However, the B737 MAX groundings are taking a toll on Ryanair. Delivery delays due to the groundings are pushing up non-fuel unit costs. The company's third-quarter fiscal 2020 performance (results will be available on Feb 3) is likely to have been hit due to this headwind. Sub-par performance of the Laudamotion unit is also a worry.

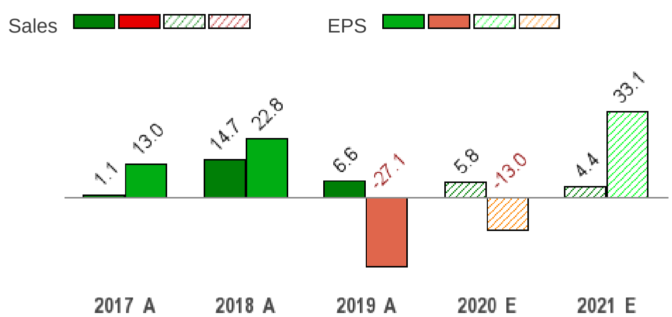
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$96.79 - $55.75**
20 Day Average Volume (sh)	**281,543**
Market Cap	**$21.6 B**
YTD Price Change	**9.8%**
Beta	**0.89**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Transportation - Airline**
Zacks Industry Rank	**Top 14% (35 out of 254)**
Last EPS Surprise	**12.8%**
Last Sales Surprise	**NA**
EPS F1 Est- 4 week change	**1.9%**
Expected Report Date	**02/03/2020**
Earnings ESP	**0.0%**
P/E TTM	**19.8**
P/E F1	**21.5**
PEG F1	**NA**
P/S TTM	**2.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,738 E	3,678 E	2,008 E	1,635 E	9,853 E
2020	2,599 A	3,422 A	1,862 E	1,522 E	9,435 E
2019	2,480 A	3,208 A	1,805 A	1,451 A	8,915 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.75 E	$5.35 E	-$0.05 E	-$0.60 E	$5.95 E
2020	$1.20 A	$4.51 A	-$0.35 E	-$0.70 E	$4.47 E
2019	$1.62 A	$4.42 A	-$0.10 A	-$0.74 A	$5.14 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/10/2020. The reports text is as of 01/13/2020.

Overview

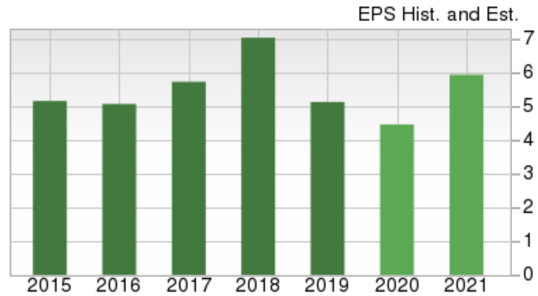
Ryanair Holdings is the parent company of Ryanair Designated Activity Company (formerly known as Ryanair Limited). Ryanair, which commenced its flight operations in 1985, is based in headquartered in Swords, Ireland.

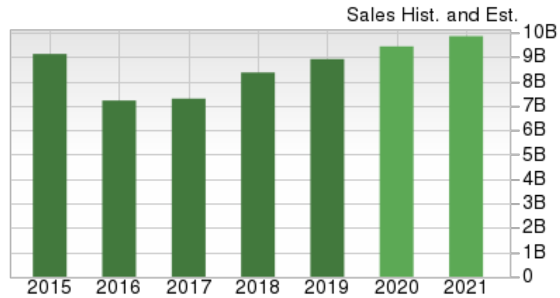
This ultra-low fare carrier offers scheduled-passenger airline service in Ireland, the UK, Continental Europe, Morocco and Israel. Also, it serves short-haul, point-to-point routes. In fact, Ryanair is growing steadily in Germany, Italy and the UK.

Ryanair's new Polish charter airline, Ryanair Sun (now rebranded as Buzz), commenced operations in April 2018. In December 2018, it purchased the remaining 25% of Austrian airline Laudamotion.

In Jun 2019, Ryanair inked a deal to purchase Malta Air — a start-up carrier — in a bid to expand its presence in Malta. The acquisition, expected to be completed by June 30, 2019, will strengthen the carrier's foothold in Malta. Also, it will allow the company to operate flights from Malta to non-EU markets (North Africa).

The company is also making constant efforts to expand its fleet size. The carrier boasts of more than 460 planes in its fleet. This apart, it has an agreement with Boeing to buy 183 new Boeing 737-800NG jets during the FY15 to FY19 period. Moreover, Ryanair has agreed to buy up to 210 (110 firm and 100 options) Boeing 737-Max-200 planes from Boeing in the FY20-FY24 timeframe





Ryanair is being aided by increase in traffic. During fiscal 2019, fiscal 2019 traffic (excluding LaudaMotion) increased 7% to 139 million, while load factor improved to 96% from 95% a year ago. Including LaudaMotion, traffic grew 9% to 142 million. Traffic is expected to increase to 154 million in fiscal 2020.

Revenues increased 7.6% to €7,697.4 million in fiscal 2019, with **scheduled revenues** accounting for bulk (68.9%) of the top line. **Ancillary revenues** accounted for the balance.

In February 2019, Ryanair announced a structural overhaul. The carrier announced that it is moving to a group structure with each group having its own CEO and management team.

Michael O'Leary is the group's CEO. Eddie Wilson is the CEO of the group's biggest airline, Ryanair DAC.

The company's fiscal year ends on Mar 31.

Reasons To Buy:

Ryanair’s raised profit forecast for fiscal 2020 is appreciative. Its efforts to add shareholder value are also noteworthy.

- Despite struggling with low capacity from the grounding of the more fuel efficient B737 MAX jets, the carrier’s passenger traffic on the whole has been consistently strong. Notably, traffic rose an impressive 11% in the first half of fiscal 2020 and led to a year-over-year improvement in revenues. Traffic increased 9% in December 2019. Further, the carrier expects fiscal 2020 traffic to increase more than 8% to 154 million.

- Ryanair’s upbeat profit guidance for fiscal 2020 on the back of strong forward bookings and a robust performance during Christmas and the New Year travel period is encouraging. The carrier now expects profit after tax to be 950-1050 million euros compared with 800-900 million euros anticipated last November. The airline anticipates reaping a profit near the mid-point of this guided range. Moreover, it expects higher average fares in the fourth quarter of fiscal 2020 on account of better-than-expected forward bookings for the January-April period.

- We are impressed by the carrier’s efforts to reward its shareholders through buybacks. Ryanair returned more than €560 million to its shareholders through this investor-friendly measure in fiscal 2019. Continuing with the trend, the carrier returned €250 million to its shareholders through buybacks in first-half fiscal 2020. Ryanair’s efforts to expand its fleet size are encouraging as well.

- The company's initiatives to expand operations are commendable too. Its acquisition of Malta Air — a start-up carrier — in 2019, is an example in this respect. The buyout has strengthened the carrier’s foothold in Malta. The acquisition also allows Ryanair to operate flights from Malta to non-EU markets (North Africa). Currently, Ryanair is responsible for transporting 3 million passengers to and from Malta. Additionally, Ryanair acquired Austrian airline, Laudamotion, in 2018. Ryanair's efforts to reduce its debt levels are also encouraging. Evidently, 70% of the company's aircraft fleet is debt free.

Reasons To Sell:

The Boeing-related uncertainty is weighing on the carrier's prospects. The Laudamotion unit's underperformance is a further setback.

- Weak airfares are a major challenge at Ryanair. Airfares dipped 6% in fiscal 2019, causing profits to decline around 29%. The downtrend persisted in the first half of fiscal 2020 with airfares falling 5%. The company is also taking a hit from the Boeing 737 MAX groundings. Due to delivery delays of the aircraft, the company now expects to receive only five MAX jets in time for summer 2020 instead of 10 as planned before. The carrier was initially supposed to receive 58 planes by summer. With persistent delay in the delivery of the MAX aircraft, the carrier slashed its expectations for the number of aircraft expected to be received in summer, four times. Moreover, the carrier fears that the MAX jets might not be available at all until October 2020. Ryanair previously expected passenger growth of 156 million for fiscal 2021 (i.e. year ended 31 Mar, 2021) compared with 157 million anticipated earlier. With the airline now expecting to receive only five aircraft during summer, its anticipation for passenger growth may further reduce. Further, the carrier plans to close two bases in Nuremberg and Stockholm Skavsta due to unavailability of this aircraft. Ryanair has given a heads-up on summer capacity cuts at a few other bases as well.

- Continued below-par performance of the carrier's Laudamotion unit is quite concerning. Despite robust traffic growth and high load factors, the unit's average fares during Christmas were weak. Consequently, the company expects Laudamotion's net loss to increase to around 90 million euros in fiscal 2020, compared with the previous estimate of below 80 million euros.

- Steep labor costs are hurting the company's performance. Notably, escalated labor costs caused 2% rise in non-fuel unit costs during the first half of fiscal 2020. Rising non-fuel unit costs are likely to have affected the company's bottom line in the third quarter of fiscal 2020. During fiscal 2020, non-fuel unit costs are projected to inch up 2% due to delivery delays of the B737 MAX aircraft and other factors. High fuel costs are also hurting Ryanair's bottom line. Fuel bill, which rose 22% in the first half fiscal of 2020, is expected to increase €450 million in fiscal 2020 from the fiscal 2019 levels.

- Although the company's CEO Michael O'Leary feels that a "hard Brexit" (Britain exiting the European Union without a deal) is highly unlikely and that Britain and the EU would retain the Open Skies aviation agreement, a Brexit-related impact on the company can't be ruled out altogether. In fact, management stated in November 2019 that the fiscal 2020 outlook might be altered in the event of any market uncertainty like a 'no deal Brexit'.

Last Earnings Report

Ryanair's Q2 Earnings Top Estimates

Quarter Ending	09/2019
Report Date	Nov 04, 2019
Sales Surprise	NA
EPS Surprise	12.75%
Quarterly EPS	4.51
Annual EPS (TTM)	4.87

Ryanair's second-quarter fiscal 2020 earnings of $4.51 per share beat the Zacks Consensus Estimate by 51 cents. Moreover, earnings per share and revenues improved 2% and 6.7%, respectively, on a year-over-year basis.

Meanwhile, profit after tax were flat year over year at €1.15 billion in the first half of fiscal 2020 with average air fares declining 5%. However, an 11% rise in traffic led to 11% growth in revenues during the first six months of fiscal 2020. Moreover, load factor was 96%. Over this period, the carrier returned €250 million to its shareholders through buybacks.

Ryanair expects fiscal 2020 traffic to increase 8% to 153 million. Fuel bill and ex-fuel unit costs for fiscal 2020 are anticipated to rise by €450m and 2%, respectively. The carrier expects fiscal 2020 profit after tax in the €800-€900 million range. Ryanair, however, remains cautious of any market uncertainty like a 'no deal Brexit'.

Even though, it has limited visibility on the fare environment for second-half fiscal 2020, the same is likely to be slightly better than that witnessed in winter last year. Moreover, the carrier stated that the delivery of its first B737-MAX-200 aircraft has been delayed yet again and now expects the jet to be delivered in Mar/Apr 2020.

Recent News

December Traffic – Jan 3, 2020

Traffic (including 0.5 million from its LaudaMotion unit in Austria) rose 9% year over year to 11.2 million. However, load factor (% of seats filled with passengers) remained unaltered at 95%. This European low-cost carrier's passenger growth, excluding traffic from LaudaMotion unit, was 7% in the month. On a rolling annual basis, total traffic increased 9% to 152.4 million.

Valuation

Ryanair's shares are up 35% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Transportation sector are up 11.3% and 11.4% respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 17.07X forward 12-month price to earnings, which compares to 9.04X for the Zacks sub-industry, 12.98X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.8X and as low as 10.29X, with a 5-year median of 14.15X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $101 price target reflects 17.94X forward 12-month earnings.

The table below shows summary valuation data for RYAAY

Valuation Multiples - RYAAY

		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	17.07	9.04	12.98	18.88
	5-Year High	18.8	12.3	16.98	19.34
	5-Year Low	10.29	6.85	10.46	15.17
	5-Year Median	14.15	9.04	13.1	17.44
EV/EBITDA TTM	Current	10.64	6.67	7.9	12.12
	5-Year High	22.07	7.36	11.1	12.86
	5-Year Low	6.38	4.32	5.98	8.48
	5-Year Median	10.08	6.06	7.42	10.67
P/S F 12M	Current	2.22	0.73	1.13	3.5
	5-Year High	3.47	0.98	1.44	3.5
	5-Year Low	1.35	0.63	1.03	2.54
	5-Year Median	2.7	0.78	1.23	3

As of 01/10/2020

Industry Analysis **Zacks Industry Rank:** Top 14% (35 out of 254)

Top Peers

Alaska Air Group, Inc. **(ALK)**	Neutral
Avianca Holdings S.A. **(AVH)**	Neutral
Delta Air Lines, Inc. **(DAL)**	Neutral
easyjet PLC **(EJTTF)**	Neutral
JetBlue Airways Corporation **(JBLU)**	Neutral
LATAM Airlines Group S.A. **(LTM)**	Neutral
Southwest Airlines Co. **(LUV)**	Neutral
Controladora Vuela Compania de Aviacion, S.A.B. de C.V. **(VLRS)**	Neutral

Industry Comparison Industry: Transportation - Airline

				Industry Peers		
	RYAAY Neutral	**X Industry**	**S&P 500**	**ALK** Neutral	**EJTTF** Neutral	**LTM** Neutral
VGM Score	B	-	-	A	A	A
Market Cap	21.65 B	5.05 B	24.03 B	8.12 B	7.30 B	5.82 B
# of Analysts	3	3.5	13	7	2	2
Dividend Yield	0.00%	0.00%	1.78%	2.12%	0.00%	0.42%
Value Score	C	-	-	A	A	B
Cash/Price	0.24	0.24	0.04	0.20	NA	0.15
EV/EBITDA	11.20	6.39	14.04	8.67	NA	7.46
PEG Ratio	NA	0.52	2.02	0.44	NA	NA
Price/Book (P/B)	3.06	1.27	3.32	1.91	NA	2.05
Price/Cash Flow (P/CF)	11.68	5.50	13.52	8.53	6.75	32.02
P/E (F1)	21.30	9.35	18.82	9.36	15.27	24.83
Price/Sales (P/S)	2.33	0.67	2.63	0.94	NA	0.58
Earnings Yield	4.65%	10.67%	5.31%	10.68%	6.58%	4.06%
Debt/Equity	0.64	0.89	0.72	0.66	NA	0.00
Cash Flow ($/share)	8.23	3.88	6.94	7.72	2.73	0.30
Growth Score	C	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	16.63%	3.40%	10.56%	-2.40%	NA	11.99%
Proj. EPS Growth (F1/F0)	-12.97%	13.11%	7.49%	10.05%	7.59%	134.35%
Curr. Cash Flow Growth	-18.07%	4.80%	14.83%	-20.33%	18.35%	17.15%
Hist. Cash Flow Growth (3-5 yrs)	10.18%	9.94%	9.00%	7.83%	NA	28.50%
Current Ratio	1.27	0.68	1.23	0.66	NA	0.59
Debt/Capital	39.01%	47.00%	42.99%	39.88%	NA	0.00%
Net Margin	10.60%	5.81%	11.08%	7.09%	NA	1.13%
Return on Equity	17.73%	14.71%	17.16%	18.06%	NA	3.45%
Sales/Assets	0.60	0.67	0.55	0.70	NA	0.51
Proj. Sales Growth (F1/F0)	5.49%	4.90%	4.20%	5.16%	37.38%	4.84%
Momentum Score	B	-	-	F	B	C
Daily Price Chg	6.87%	0.00%	-0.33%	-0.72%	0.00%	-1.84%
1 Week Price Chg	0.78%	-0.12%	-0.30%	-2.01%	-1.26%	0.89%
4 Week Price Chg	14.02%	0.00%	1.71%	-2.66%	3.86%	-13.98%
12 Week Price Chg	29.33%	3.00%	6.05%	-1.63%	27.85%	-20.00%
52 Week Price Chg	31.48%	2.95%	22.39%	3.93%	35.99%	-19.67%
20 Day Average Volume	281,543	79,345	1,580,816	1,025,506	14,353	1,239,092
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.18%	0.00%	0.00%
(F1) EPS Est 4 week change	1.90%	0.00%	0.00%	-0.22%	0.00%	-5.69%
(F1) EPS Est 12 week change	7.88%	0.91%	-0.50%	-0.02%	3.88%	-24.68%
(Q1) EPS Est Mthly Chg	12.50%	0.00%	0.00%	-14.12%	NA	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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