ANALYST SNAPSHOT: RYANAIR

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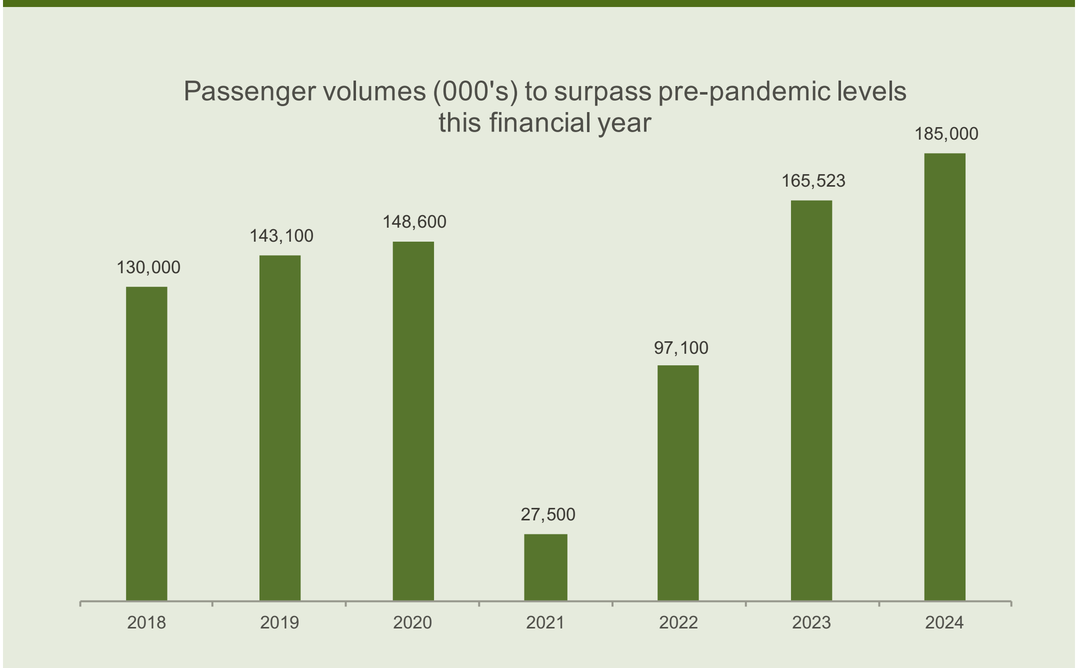
Ryanair is the leader in European low-cost air travel.

The easing of lockdown restrictions, following the successful vaccination program across Europe, coupled with increasing evidence of the lesser severity of the Omicron strain, has led to growing optimism over the outlook for the travel and leisure industry. Ryanair shares this optimism, guiding expectations that passenger volumes for summer 2022 will exceed pre-pandemic levels, with scheduled capacity currently running at 114% of summer 2019 numbers. This has led to the opening of several new routes, concentrating on airports like Dublin and Stansted where it has secured favourable deals in terms of slots and charges. In the medium-term Ryanair expects to be a winner of capacity being taken out of the market as a result of weaker competitors being impacted by the pandemic and high oil prices. This has led to the low-cost airline raising their target for passenger volumes from 200m to 225m passengers by 2026, compared to 150m in 2019. Ryanair are also taking delivery of 210 new Gamechanger 737 aircraft from Boeing over this period, which offer significant cost and energy efficiencies with 4% more seats but 16% less fuel consumption. Ryanair does not score particularly well on ESG measures, however it is improving off a low base. Whilst Ryanair has been loss-making over the past two years through the pandemic, it is expected to return to profitability for the FY ended March 2023 and enjoy strong earnings growth thereafter. Ryanair's share price has however been driven by Covid related newsflow over the past two years and given continued share price volatility investors need to be comfortable that severe travel restrictions and lockdowns are now behind us.

Ryanair announced Q1 results to the end of June on 25th July that saw the low-cost airline return to profitability after a period of loss-making quarters during the pandemic. Compared to the year-ago period revenues grew 600% to 2.6bn euros, with operating profits of 170m euro comparing to a Q1 FY 2022 loss of 273m euros. Both these metrics came in ahead of expectations, as Ryanair benefitted from the lifting of travel restrictions and well documented operational issues resulting from staffing shortages at rival airlines, which Ryanair has largely avoided. Passengers flown in Q1 increased year-on-year to 45.5m from 8.1m on load factors up from 73% to 92%. Ryanair also updated on its fuel hedging which

PASSENGER VOLUMES



Source: Bloomberg:CFI estimates

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remains at 80% for FY ended March 2023 and has now increased to 30% for FY 2024, again comparing favourably to rival airlines. Net debt as at 30th June fell to 0.4bn euros from 1.45bn euros at 31st March and is expected to fall to net zero in next two years, despite continued investment in the Boeing 737 "Gamechanger" aircraft which offer greater fuel efficiency. Whilst these results indicate strong operational performance, particularly ex-fuel cost control, there was little in the way of guidance for the remainder of the year, although Ryanair did indicate they expect fares to rise and some level of airport disruption to continue.

Earnings revisions have been trending higher for Ryanair and it now stands on a PE for the current year of under 12X falling to around 8X for FY to March 2025. This represents a significant discount to the 14X rating that Ryanair traditionally commanded prior to the pandemic. Ryanair does not pay a regular dividend but pre-pandemic had an active share buyback policy and as the debt on the balance sheet has been rapidly reduced, it's likely investors will again focus on the possibility of a renewal of share buybacks, particularly given the relatively low valuation. Clearly however visibility of earnings for the airline sector is relatively low given external factors, including the emergence of any new Covid variant which could lead to reimposition of travel restrictions.

Ryanair is emerging from the pandemic with its competitive positioning strengthened. The group has the strongest balance sheet and lowest cost operating model in the European airline industry, which together with the new fleet on delivery from Boeing, should enable it to achieve its target of carrying 225m passengers by 2026. Ryanair is also taking steps to improve its environmental performance, principally through these new, more fuel efficient aircraft, although its business model of economy class only, high load factor planes also helps. Leisure travel, to which Ryanair is predominantly exposed, is expected to recover faster than business travel, post-pandemic, although government action to discourage frequent discretionary travel on environmental grounds is a possibility. Further adverse newsflow on Omicron in the form of new variants appears the key risk, with the reimposition of travel restrictions that could ensue. Continued oil price volatility is also a risk, although near-term Ryanair is substantially hedged. The uncertain outlook for consumer discretionary spending, given sharply rising inflation and rising interest rates, may also impact passenger demand although Ryanair tends to cope well with a weaker economic backdrop given its significantly lower fare proposition. The shares are currently down some 30% year-to-date reflecting the broader market sell-off and appear to offer good value at current levels. We retain our Buy recommendation and target price target of 19.44 euro, representing a multiple of 12X FY 2025 earnings.