

THE ISSUE PROFIT WARNINGS

Ryanair announced its second profit warning of the current financial year, lowering its full-year profit guidance by 9% to €1bn-€1.1bn. This downward revision comes as a result of lower winter fares, with guidance revised down from a fall of 2% to 7%.

Management cited short-haul overcapacity in Europe putting downward pressure on fares. Chief executive Michael O'Leary anticipates further consolidation in the market as a number of less profitable airlines continue to struggle, citing Wow, Flybe and Germania, which are reportedly all up for sale.

On a more positive note, traffic numbers were revised upward to grow by 9% to 142m (previously 141m), ancillary sales are stronger, unit costs are better than expected and start-up costs for the recently acquired Laudamotion are lower than predicted. Ryanair will report its third-quarter results on February 4.

THE BOSS MICHAEL O'LEARY

Michael O'Leary was hired by airline founder Tony Ryan as his personal financial and tax adviser in 1987. With Ryanair unable to thrive in a traditional airline model, O'Leary was sent to the US to study the up-and-coming low-cost Southwest Airlines.

Having served as deputy chief executive from 1991 to 1994, he was promoted to chief executive in January 1994. He has subsequently transformed Ryanair into one of the

largest airlines in Europe with a near 15% market share. In 2017, O'Leary abandoned a long-standing policy not to recognise trade unions.

THE ANALYST DAVID FAHY, CANTOR

In the four days after the profit warning, Ryanair shares rose 9%. Focus now shifts to financial year 2020, which starts on April 1. As headwinds subside, investors should question depressed valuations in the sector. With progress made on trade unions talks and unit costs flattening, Ryanair is well-placed to capitalise on any consolidation in its sector. At its forthcoming Q3 results, the market will look for a return to double digit profit growth guidance for next year. Trading at 12.11 times estimated 2019 earnings, the stock yields 0.25%.

◆ Ryanair



Source: Bloomberg

Market cap: €12.2bn; **Share price:** €10.74; **DPS:** €0.027; **EPS:** €0.889; **Top five shareholders:** Harris Associates LP, 6.01%; FIL, 5.61%; HSBC Holdings, 4.72%; Michael O'Leary, 4.06%; Baillie Gifford & Co, 2.78%