Creditreform Corporate Issuer / Issue Rating

Ryanair Holdings plc (Group)

Creditreform Rating
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Rating object	Rating information	
Ryanair Holdings plc	Corporate Issuer Rating: **BBB+ / stable**	Type: Initial rating unsolicited
Creditreform ID: 400975733 Incorporation: 1996 (Main) Industry: Airline CEO: Michael O'Leary	Senior unsecured issues, LC: **BBB+**	Other: **n.r.**
List of rating objects: Long-term Corporate Issuer Rating: Ryanair Holdings plc Long-term Corporate Issuer Rating: Ryanair DAC Long-term Local Currency (LC) senior unsecured issues	Rating Date: 21 September 2018 Monitoring until: withdrawal of the rating Publication: 28 September 2018 Rating methodology: CRA "Corporate Issuer Ratings" CRA "Corporate Issue Ratings" Rating history: www.creditreform-rating.de	

Content

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Abstract

Company

Ryanair DAC, an Irish-based airline that offers low-fare passenger flights across Europe (including to and from Morocco), was incorporated on November 28, 1984 and is headquartered in Dublin, Ireland. Before Ryanair was registered as a DAC, it was incorporated as a public limited company. On August 23, 1996, it established a holding company, Ryanair Holdings plc. This holding company acquired the total issued share capital of Ryanair DAC. Ryanair DAC has since been wholly owned and consolidated by Ryanair Holdings. This report shall therefore use the term "company", "Ryanair" or "Group" for the holding and its subsidiaries. Michael O'Leary was appointed CEO in 1994. He has been responsible for turning a small Irish airline into the leading low-fare airline in Europe. Based on the business model of Southwest Airlines, the company started to cut out all unnecessary "frills" and concentrated on offering direct, point-to point flights on short-haul routes with the object of reducing cost. Today, Ryanair claims to offer the lowest average fares in Europe. Ryanair and Lufthansa are generally seen as the most successful airlines in Europe.

In the fiscal year 2018 that ended on the March 31, the company employed a workforce of 14,583 employees (2017: 13,026 employees), transported 130.3 million passengers with an average booked passenger fare of EUR 39.40 (2017: EUR 40.58) and obtained a load factor of 95% (2017: 94%). In the current business year, Ryanair managed to generate revenues of EUR 7,151.0 million (2017: EUR 6,647.8 million) and an annual profit of EUR 1,450.2 million (2016: EUR 1,315.9 million). As per March 2018, the (aircraft) fleet consisted of 440 Boeings 737, 31 of them leased.

Thanks to the high load factor, which results from decreasing fares, the expansion strategy and the strict cost-saving policy in conjunction with a conservative risk management, Ryanair could improve its performance in the fiscal year 2018, despite strong competition on the low-fare market, the fluctuation of oil prices and currency exchange rates and the consequences of the strikes in September 2017.

Rating result

The unsolicited Corporate Issuer Rating of BBB+ attests Ryanair a highly satisfactory level of financial strength (creditworthiness) and a low-to-medium default risk. Relevant rating factors include the company's strong financial performance, its efficient and optimized business model including its risk management provisions and its well-established position as Europe's market leader in the low-cost airline sector. Risk factors include an elevated capex in the following years by new aircraft investments. Other risk factors include higher costs caused by the strikes since the summer of 2018, pending court decisions with regard to supposed state aid at certain airports, the uncertain impact of a hard Brexit in March 2019, the unpredictable results of the investment in LaudaMotion and in

general the acceptance of the newly offered routes. The rising oil price and the volatility of currency exchange rates generally also represent risk factors for the entire airline industry. But for Ryanair this could be a competitive advantage. An increasing fuel price could open up opportunities for new consolidations in the wake of business failures of other airlines. Based on the first quarterly report of the fiscal year 2019, the company has significantly reduced its exposure in comparison to its competitors through a range of conservative and effective hedging activities. These contingencies and especially the expected impact of higher costs in 2019 are reflected by our rating, as are other potentially negative effects such as the intense price pressures within the low-cost airline industry, the danger of creating overcapacities in the wake of unsuccessful expansions and uncertainties in the global economy (possible conflicts, geopolitical developments).

Outlook

The one-year outlook of the rating is stable. The stable outlook represents the expectation that Ryanair will - in the long term – be able to control the aforementioned uncertainties and cost risks, delivering another good operating performance which is based on annually improving financial ratios and a robustly increasing cash flow. This outlook is based on the underlying assumption that the political and regulatory framework of their destination airports stays stable and that the demand for flights can still grow from its current level. Temporarily lower margins may be expected, but the operating performance of the consolidated group should not be diluted significantly despite a (possibly) upcoming hard Brexit, new acquisitions of aircraft and increased expenses.

Relevant rating factors

Excerpts from the financial ratios analysis 2018

- \+ Decreasing ratio of net debt / EBITDA
- \+ Equity ratio increased
- \+ High profitability
- \+ Positive liquidity situation

Table 1: Financials of Ryanair Holdings plc I Source: Ryanair Holdings plc annual report 2018, standardized by CRA

Ryanair Holdings plc. Financial ratios' extract Basis: consolidated annual statement per 31.12 (IFRS)	Standardized balance sheet[1]	
	2017	2018
Turnover	EUR 6,647.8 million	EUR 7,151.0 million
EBITDA	EUR 2,030.8 million	EUR 2,230.4 million
EBIT	EUR 1,533.3 million	EUR 1,699.4 million
EAT	EUR 1,315.9 million	EUR 1,450.2 million
Total assets	EUR 11,466.60 million	EUR 12,488.10 million
Equity ratio	38.14%	39.96%
Overall profitability	12.03%	12.08%
Net profit ratio	19.79%	20.28%
Net Debt / EBITDA adj.	1.71	1.29
Ratio of interest expenses to debt	0.95%	0.80%

General rating factors

<u>Suggestion:</u>

General Rating Factors summarize the key issues that – in the view of the analysts as per the date of the rating – have a significant or long-term impact on the rating, positive (+) as well as negative (-).

Current Rating Factors are the key factors that have, in addition to the Underlying Rating Factors, an impact on the current rating.

- \+ Market leader as Europe's foremost low-cost carrier
- \+ One of the lowest average fares
- \+ Disruptive, robust business model
- \+ Low-cost strategy/optimized cost degression curve
- \+ Additional ancillary revenues
- \+ High equity ratio
- \+ Conservative and efficient risk management policies
- \+ Restrictive dividend policy
- \+ High safety record

[1] For analytical purposes, CRA adjusted the original values in the financial statements in the context of the financial ratio analysis.

Prospective Rating Factors are factors and possible events that – in the view of the analysts as per the date of the rating – would most likely have a stabilizing or positive effect (+) and a weakening or negative effect (-) on future ratings, if they occurred. This is not a full list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

\+ Use of market niche: use of airports with lower charges and fewer slot barriers

− Highly competitive environment
− Capital-intensive business
− High dependence on fuel price
− Volatility of the oil price and currency exchange rates
− Increased vulnerability to sources of disruption such as terrorism, war etc

Current factors (rating 2018)

\+ Satisfactory level of overall profitability and cash flow generation: Higher revenues and generally lower costs
\+ Redemption of debt through strong cash flows
\+ Effective jet fuel hedging activities
\+ New routes
\+ Very high load factor of 97%

− Higher staff and marketing costs due to staff shortages and strikes in 2017

Prospective rating factors

\+ Cost savings by operating more efficient aircraft
\+ Continuously high growth potential in the European market and high demand for flights
\+ Possible opportunities for further acquisitions following business failures within the industry
\+ Continuously stable performance

− High capex in the upcoming years and higher debt due to the acquisition of new aircraft in the next few years and IRFS 16
− Risk of excessive investments to total assets (primaly due to the new aircrafts)
− Additional costs following the acquisition of LaudaMotion
− Sharp rises in personnel costs and other expenses following massive strikes in the summer and autumn of 2018
− Lower margins due to higher costs
− Uncertainties in connection with a hard Brexit
− Uncertainties due to unresolved legal disputes

Best case scenario

Best case: A-

Worst case: BBB

We based our best case scenario for the next year on a rating of A-. For the purposes of this scenario, we assumed a successful introduction of new routes to and from Austria and Poland with above average growth rates and equally successful hedging activities. Under this scenario, the costs of investing in the new airlines, increasing costs following the strikes in the summer of 2018 and rising fuel prices were covered by a growing demand for flights on the new routes and increasing ancillary revenues.We also assumed that, thanks to the low fares and the effective forward contracts, there would be no fall in UK revenues.

Worst case scenario

We based our worst case scenario for the next year on a rating of BBB. For the purposes of this scenario, we assumed a combination of increasing costs and flat revenues. The higher costs included higher staff costs, fuel costs, maintenance costs, marketing expenses in form of passenger compensation and financial costs, affecting the operating performance accordingly and leading to lower overall margins. As a result of a hard Brexit, we anticipated the possibility of falling demand and revenues in the United Kingdom.

Note:
The scenarios are based on the information available at the time of the rating. Within the forecast horizon, some circumstances could occur that would lead to a rating change out of the indicated range.

Business development and outlook

In the fiscal year 2018, Ryanair Holdings plc experienced another period of growth. The revenue of Ryanair increased to EUR 7,151 million (2017: EUR 6,647.8 million), a year-on-year rise of 7.6%. According to the report for Q1 of the fiscal year 2019, revenues for the first quarter rose to EUR 2,079 million from EUR 1,910 million in the first three months of the previous fiscal year, an increase of 8.8%. This growth reflected a higher number of flight passengers and an increase of the ancillary revenues. In the fiscal year 2018, 130 million passengers travelled with Ryanair. Traffic grew by 8.3% (2017: 120 million). The first quarterly report of the fiscal year 2019 confirms this trend. Passenger numbers in the three months to June 2018 had grown by 7% to 37.6 million (April-June 2017: 35.0 million) and Ryanair's workforce to 14,583 employees (2017: 13,026). The growth in passenger numbers followed a fall in fares (down by 2.9%). In the fiscal year 2018, the average fare came to EUR 39.40 (2017: EUR 40.58). Ryanair expects to increase its traffic to 139 million passengers following its expansion in Poland and Austria. The company has opened four new bases in Poland. Following the acquisition of a 75 % share in LaudaMotion, Ryanair will also focus on penetrating the Austrian market. While fares are expected to account for 72% (2017: 73%) of the total revenues, the ancillary revenues will represent 28% (2017: 27%). The ancillary revenues including fees for priority boarding, reserved seating and car hire will be offset by lower travel insurance and hotel fees which had increased from EUR 1.779,6 million in the fiscal year 2017 to 2,017.0 million in 2018 (up by 13.3%).

In the fiscal year 2018, Ryanair Holdings plc could also increase its yields despite higher operating expenses. The EBIT increased by 8.88% from EUR 1,533.3 million in 2017 to EUR 1,669.4 million, the EBT by 9.6% and the EAT by 10.2% while total operating expenses grew from EUR 5113.8 million in 2017 to EUR 5,483.7 million in 2018. Total expenses increased by 7.23%, but at the same time, Ryanair reduced its costs per passenger by 1%. The higher operating expenses mainly reflected higher staff costs (up by 7% per passenger), rising marketing costs (17% up per passenger) and a higher depreciation (up by 4% per passenger). The rise in personnel expenses primarily reflects the increase of staff salaries from a total of EUR 655.7 million in 2017 to EUR 701.8 million in the fiscal year 2018. In absolute terms, the marketing costs increased from EUR 322.3 million in 2017 to EUR 410.4 million in 2018 (up by 27.3%). 7.7% of the rise was caused by the flight cancellations which followed the strikes in September/October 2017. Accounting for the effects of the conservative fuel hedging strategy, the fuel costs fell by 8% per passenger and by 10% in absolute terms. The jet fuel price decreased from EUR 1.83 per U.S. gallon to EUR 1.65. The reduction of aircraft rentals by 12% per passenger – following a downsizing of the leased aircraft fleet – also had a positive impact on corporate earnings.

Table 2: Business development of Ryanair Holdings plc I Source: Ryanair Holdings plc, standardized by CRA

EUR million	2015	2016	2017	2018
Revenue	5,654.0	6,535.8	6,647.8	7,151.0
EBIT	1,042.9	1,460.1	1,533.3	1,669.4
EBT	982.4	1,721.9	1,470.3	1,611.3
EAT	866.7	1,559.1	1,315.9	1,450.2

As per September 4, Ryanair has operated with a load factor of 97%. In August, the company transported 13.8 million passengers, an increase of 9% over the same period in the previous year. 4% of this increase reflects the acquisition of LaudaMotion. LaudaMotion transported 0.5 million passengers and already operates with a load factor of 92%. Since this summer, Ryanair has been flying on 239 new routes. We therefore anticipate a proportionate and consistent increase of corporate revenues. For the fiscal year 2019, however, we anticipate falling profits despite growing revenues reflecting rising costs, especially higher staff costs, fuel costs and marketing expenses. This effect is already underlying the figures in the first quarterly report of the fiscal year 2019. The profit after tax declined from EUR 397.1 million in June 2017 to EUR 309.2 million in June 2018, a fall of 22.2%. Although Ryanair follows a highly efficient and conservative fuel hedging strategy, the rising fuel price still affects the prices from the forward contracts. In the first quarter of 2019, the jet fuel costs rose by 23%. Fuel costs represent approximately 35% of total operating expenses. Following wage and salary concessions in the wake of the strikes from the summer of 2018, personnel costs increased by 34% in Q1 of the fiscal year 2019. Marketing costs also rised in consequence of the strikes. Due to air traffic control (ATC) staff shortages and ATC strikes, more than 2,500 flights had been cancelled. To compensate the passengers, the EU261 "right-to-care" costs increased by 40% over the first quarter of 2019. The acquisition of a 75% share in LaudaMotion must also be expected to affect the margins, at least initially. Ryanair has run up initial losses of EUR 152 million and other start-up costs like higher personnel expenses. It also must be taken into account that the 2019 fuel requirements of LaudaMotion have not been hedged. To reduce maintenance and fuel costs and to have more capacity, Ryanair has ordered 210 new Boeing 737-MAX-200 aircraft that will be delivered between 2019 and 2024. This type of aircraft possesses 9 more seats than the old ones and is more fuel-cost-efficient. In comparison to its predecessor, the new aircraft reduces fuel consumption by up to approximately 16% per seat. Ryanair is confident that the European market still offers opportunities for further expansion. Ryanair expects that European airlines that have not made financial hedging arrangements for higher fuel prices will suffer finance failures, which will generate new opportunities for further acquisitions and added growth for the company under review.

Under the assumption of stable economic and political circumstances, we expect that Ryanair - in its capacity as Europe's leading low-cost carrier - will still generate above–average performances in the airline industry through increases of its booked passenger volumes. Despite long-standing higher capex, higher accumulated costs and consequently lower earnings for the fiscal year 2019, we still forecast a stable outlook based on Ryanair's consistently solid and continuously improving profitability and its correspondingly strong cash flow.

Structural risks

Ryanair Holdings plc is a company in the European airline industry which has revolutionized the European airline market as a low-cost carrier. It has always been its policy to offer the lowest average fares in Europe. Ryanair is the leading low-cost airline in Europe. Alongside Lufthansa, it is also the airline with the highest passenger booking volume per year. Ryanair is organized as a single business unit that provides low- fare-airline-related services. The organizational structure is based on two revenue streams: one from scheduled services and one from ancillary services including in-flight sales and internet-related activities. Ryanair offers its services in Morocco and in 36 countries across Europe. Ireland accounts for 7% of total revenues, the United Kingdom for 23% and the other European countries for 70%.

Ryanair is listed on the Irish and London Stock Exchanges and on the NASDAQ. As per June 30, 2018, the company has issued 1,154,586,709 ordinary outstanding shares that represent the capital stock of the holding. Each share has a value of EUR 0.006. Major shareholders include Capital (17%), HSBC Holdings plc (4.8%), Fidelity (5.5%), Bailie Gifford (4.8%), and Michael O'Leary (3.8%). The directors of Ryanair Holdings own another 4.6%. 57.7% of the outstanding shares are in free float. As per March 2018, the nominal capital amounted to EUR 7.0 million. Ryanair is conducting a share buy-back program since June 2007. By June 2018, this share buy-back program has reduced the nominal capital to a volume of EUR 6.9 million. One of the objectives of the buyback/nominal reduction is to improve the earnings per share for the shareholders.To reduce the potential impact of a hard Brexit in March 2019, Ryanair is planning to restrict the voting rights of all non-European shareholders. This measure is designed to ensure that the company's licensing and flight rights will not be at risk.

As we already mentioned, Ryanair expects consolidation opportunities to open up following heavy losses in the airline industry in the wake of rising oil prices. Unsuccessful mergers and acquisitions can cause structural and financial damages. Similar negative effects are not expected to materialize following the acquisition of LaudaMotion and the investment in Ryanair Sun, which is already showing first results. Following its recent acquisitions, Ryanair has hired new employees and will continue to increase its workforce over the next year. Since 2017, Ryanair has had to manage internal problems with its staff. Strikes and salary negotiations with adverse effects on the company have ensued.

Another structural risk is the company's dependence on a rising fuel price. To manage these risk, Ryanair is operating a conservative and efficient risk management strategy that permits Ryanair to preserve its (in comparison to its competitors) very low operating costs per passenger, despite increasing personnel and fuel costs. This is also achieved by the company's efficient hedging activities.

Based on the publicly available information, we expect a continuation and further improvement of the risk management system as well as adequate accounting and controlling systems. With regard to the structural factors, we perceive Ryanair as a stable well-placed business. No significant country risks exist in addition to the aforementioned risk of a hard Brexit for the United Kingdom and other unpredictable incidents like terrorist attacks or air diseases. We believe that Ryanair will be able to manage the current internal labour dispute and control the ensuing cost increases.

Business risks

The airline industry is exposed to a variety of risk factors. In the above, we have identified some of the immediate and contingent risks such as country risks and oil or currency risks. We also need to account for political risks, the risks of the economic situation in Europe, interest risks and the risks deriving from the high degree of competition. Ryanair's business fortunes largely depend on the exchange rate between the U.S. dollar/the British pound and the EUR. The US dollar currently has a high exchange rate, as a result of the new U.S government policies, and a further strengthening of its rate may be expected. This would mean higher fuel prices for European carriers. A hard Brexit could affect the exchange rate of the British pound, adversely affecting Ryanair's UK revenues. To mitigate potential exchange rate losses, Ryanair counterbalances their impact through natural hedging and relies on forward foreign currency contracts to cover any residual risks. It is still uncertain how a hard Brexit will affect the demand in the UK, but - as we have said in the above – we believe that Ryanair is in a better position than its competitors to absorb the shocks that such a development may produce.

The airline industry is subject to safety and legal regulations. Ryanair owns an industry-leading 33-year-long safety record which is also based on a dedicated safety management system. As mentioned in the above, Ryanair was affected by European ATC action (staff shortages and strikes) and is currently still dealing with internal strikes. A legal dispute with the EU Commission is pending, following allegations of benefiting from illegal government subsidies for picking certain airports. It is one of Ryanair's key strategies to fly to and from airports with low charges and slot restrictions, often privately owned airports like old military airports in small towns. The EU Commission has instructed Ryanair to pay back a total of approx. EUR 22.5 million. Ryanair has appealed to the European Court of Justice. It is expected that it will take between two and four years to resolve this matter. If the Court finds in favour of the Commission, Ryanair's growth strategy could be adversely affected by a loss of slots.

Another cost-cutting strategy of Ryanair involves investments into identical types of aircraft and a high turnover of planes, operating aircraft only for limited periods of time. Ryanair's aircraft fleet has an average age of 6.7 years, because the company aims to reduce maintenance and operating costs as far as possible. Acquiring the same type of airplane for any investment period allows the company to be more flexible in reference of the repair costs, aircraft substitution by failure/loss and allocation of personnel. The company has ordered 225 new aircraft with a delivery planning horizon till 2024 with a view to further increasing its capacity.

Thanks to cheaper fares and a stronger economy, the demand for passenger flights in the airline industry has steadily increased over recent years, and more growth is predicted by the experts. Demand currently exceeds the capacity, benefiting most of the airlines. Meanwhile, more and more carriers participate in the low-cost segment of the industry, creating high-intensity price and cost competition between the individual carriers. This price war could also affect Ryanair despite its position as the "first mover" and its highly competitive cost and fare structures. Ryanair currently offers one the lowest average fares based on a very lean cost structure. Due to its advantages as the industry's first mover, Ryanair benefits from a continuously improved learning curve. Over time, the company has reached an optimized degression cost effect, ensuring a clear competitive advantage over its competitors. But its business model of offering low fares to boost demand depends on a very high load factor and a highly stable cost structure – or, to be more precise, on ideally continuous cost reductions. Higher costs, as outlined in the above, will inevitably affect earnings. Under this business model, there is no option of increasing fares to cover higher operating costs in order to remain competitive. Ryanair's management is constantly discovering new opportunities of boosting revenues and of cutting costs, for example by requesting additional charges from their customers. These kinds of decisions can displease the customers and therefore represent a risk for the company. As long as Ryanair offers the lowest fares, however, this way of shifting cost remains an effective strategy. The possibility that the expansion does not achieve the anticipated effect and creates overcapacities instead represents another risk for the company. For this reason, the business model is highly sensitive to risks. Viewing the business model across the course of its history, however, it is remarkable how successful and robust it has been in the face of its volatile environment. It remains to be seen whether this strategy can be sustained for an indefinite period of time, but for the time being, we still identify potential for further growth - under the assumptions that the European economy will remain stable and that no significant changes occur in the body of political regulations.

Financial risks

For analytical purposes, CRA adjusted the original values in the financial statements in the context of the financial ratio analysis. The following descriptions and indicators are based solely on these adjustments. During the fiscal year 2018, Ryanair Holdings plc maintained its robust financial health and a sound financial structure, improving key indicators for yet another year. The equity ratio of 39.96% (2017: 38.14%) is solid. An excellent adjusted net debt on EBITDA of 1.71 (2017: 1.45) supports this assessment. The 2018 return on assets maintained its high level at 12.08 (2017: 12.03). The liquidity situation of the company is also solid with a liquid-funds-to-total-assets ratio of 29.47% (2017: 36.11%). In 2018, Ryanair generated a cash flow of EUR 2011.20 million (2017: EUR 1,816.80 million) and a free cash flow of EUR 1,490.2 million (2017: EUR 358.7 million). On the strength of its free cash flow, the company was able to reduce debt and to finance its share buyback program. By repaying debt of EUR 458.9 million, the interest-expense-to-debt-capital ratio (modified) was reduced from 1.45 (2017) to 1.29 (2018). Through the share buybacks, Ryanair was able to redeem (and cancel) approximately 25% of the total share capital, at significantly lower average prices than the current share price. As a consequence, the EPS increased by 15% in 2018. Due to the fact that Ryanair only pays occasional dividends, the company increased its equity ratio. The last dividend distributed by Ryanair (with a total volume of EUR 520 million) dates back to 2015.

The cover ratio of the non-current assets fell from 98.41% in 2017 to 82.84% in 2018 (down by 15.8%), which means that roughly 17% of Ryanair's durable asset base has been financed by short-term and medium-term liabilities. This fall does not appear overly serious, bearing in mind that the airline industry is highly capital-intensive, but financial observers will be monitoring the further development of this ratio to see whether further falls reflect underlying issues in the expected period of higher capex. 29 Boeing 737-800 aircraft from the "next generation" will be delivered in the fiscal year 2019. Taking into account the forthcoming delivery of 210 new Boeings 737-MAX-200 with a listed value of approximately USD 21.5 billion, which has been scheduled for the period between 2019 and 2024, the total value of non-current assets will significantly increase over the next few years. To eliminate the risk that fluctuations in the exchange rate between USD and EUR will increase the purchasing costs, Ryanair has hedged the payment of the new Boeings and fixed the borrowing costs through interest rate contracts. The acquisition of the new aircraft will financially benefit the company as the planes in question help Ryanair to reduce flight costs and long-term maintenance costs (since they will replace older aircraft) while offering a higher passenger capacity. As a consequence of the investment, however, the short-term maintenance expenses will increase, and so will the financial expenses since the purchase will be funded through the procurement of additional debt on the capital market. The bond issue will have a total value of EUR 13,078.1 million, based on non-discounted list prices, and will be accumulated over a payment period of more than 5 years. The aircraft are or will be financed through unsecured as well as secured debt. Despite a discount and proceeds from the sale of certain old aircraft, Ryanair will assume a higher debt ratio. Uncertainties on the credit market and rating downgrades could affect the financial terms of Ryanair and the company's access to the debt capital market. Additionally, there is also the risk of overcapacity if the new airplanes cannot be filled with paying customers in consequence of a new round of strikes or a lack of demand for the new routes. In the fiscal year 2019, Ryanair will have to apply the new IRFS 16 accounting standard ("Leases"). Ryanair currently possesses 31 aircraft operating lease arrangements. We expect that significant financial ratios determined by us, thereby will be burdened. Though, we have already considered this prospectively in the current rating.

The company is generally exposed to financial risks, e.g. foreign currency risks, interest rate and counterparty risks. It applies mechanisms to control and manage these risks through forward contracts, interest rate swaps and other instruments. Despite our forecast of a substantially increased capex over the next years, which is based on certain assumptions about future developments, we hold the view that the company's financial situation will remain solid. Over the past few years, the company has already managed a difficult trading environment and showed itself capable of generating strong cash flows and of continuously improving its finance performances as one of the strongest airlines in Europe, based on a successful policy of consistent year-on-year reductions in fare prices and operating costs.

Issuer / Issue rating details

Issuer rating of Ryanair DAC

Ryanair DAC ("the Issuer") is a designated activity company, incorporated with liability in the Republic of Ireland. The Issuer´s business activity is the provision of low-fare airline-related services. The Issuer is wholly owned by Ryanair Holdings plc. Its financial statements are fully consolidated. For this reason, we provide Ryanair DAC with the same corporate rating that we provided for Ryanair Holdings plc, i.e. a rating grade of BBB+ with a stable outlook.

Issue rating

This issue rating is exclusively valid for the three long-term guaranteed Notes which become due on 17 June 2021, 10 March 2023 and 15 August 2023 respectively, issued by Ryanair DAC. These Notes were issued under the terms of a Euro Medium Term Note Programme (EMTN Programme) with a volume of up to EUR 5,000 million. The Notes have a total nominal volume of EUR 2,450 million. Following the prospectus of 27 July 2017, the issues are unconditionally and irrevocably guaranteed by Ryanair Holdings plc ("the Guarantor"). Furthermore, regarding the Issuer and the Guarantor, the Notes benefit from a negative pledge provision and a cross default mechanism. In the event of a change of control, the noteholders shall be entitled to exercise an early redemption option, in line with the specifications of the EMTN Programme.

We have provided a rating of BBB+ for the EUR debt securities, issued by Ryanair DAC. This decision is mainly based on the corporate rating of Ryanair Holdings plc, taking into account the specific credit enhancement of the issue, namely the irrevocable and unconditional guarantee of Ryanair Holdings plc for this issue.

Overview

Table 3: Summary of CRA Ratings I Source: CRA

Rating Objects	Detail Information	
	Date	Rating
Ryanair Holdings plc (Guarantor)	21.09.2018	BBB+/stable
Ryanair DAC (Issuer)	21.09.2018	BBB+/stable
Long-term local currency senior unsecured issues (EMTN)	21.09.2018	BBB+
Other	--	n.r.

Table 4: Overview of Ryanair DAC Euro Medium Note Programme I Source: Central Bank of Irland, prospectus dated 27 July 2017

Issue Details			
Program volume	EUR 5,000,000,000	Maturity	Depending on the respective bond
Issuer	Ryanair DAC	Coupon	Depending on the respective bond
Arrangers	BNP PARIBAS, Commerzbank, Deutsche Bank, ING, Nat Wets Markets	Currency	Depending on the respective bond
Credit Enhancement	Guaranteed by Ryanair Holdings plc	ISIN	Depending on the respective bond

At the time of this rating, Creditreform Rating AG provided the three long-term guaranteed EUR-denominated notes with the ratings shown in the following table.

Table 5: Overview of the issues of the Euro Medium Term Note Programme as per 27/07/2017 I Source: Webside of Ryanair and CRA's own presentation

ISIN	EUR	Issue Date	Maturity	Unsolicited Rating
XS1565699763	750,000,000	15/02/2017	15/08/2023	BBB+
XS1199964575	850,000,000	10/03/2015	10/03/2023	BBB+
XS1077584024	850,000,000	17/06/2014	17/06/2021	BBB+

All future Long-Term Local Currency (LT LC) senior unsecured notes that will be issued by Ryanair DAC and guaranteed by Ryanair Holdings plc under the terms of the EMTN Programme will, until further notice, receive the current rating of the EMTN Programme or the same rating as the current rating of LT LC senior unsecured notes as specified in the above. Other types of debt instruments or issues denominated in other currencies have not been rated by CRA. The current ratings and additional information can be accessed on the website of Creditreform Rating AG.

Financial ratios analysis

Asset Structure	2016	2017	2018
Fixed asset intensity (%)	58.42	63.52	65.44
Asset turnover	0.58	0.59	0.60
Asset coverage ratio (%)	94.60	98.41	82.84
Liquid funds to total assets (%)	39.47	36.11	29.47
Capital Structure			
Equity ratio (%)	34.22	38.14	39.96
Short-term-debt ratio (%)	33.14	27.43	28.40
Long-term-debt ratio (%)	21.05	24.37	14.25
Capital lock-up period (in days)	12.88	16.15	12.74
Trade-accounts-payable ratio (%)	2.11	2.56	2.00
Short-term capital lock-up (%)	31.75	15.60	18.31
Gearing	0.77	0.68	0.76
Leverage	2.96	2.76	2.56
Financial Stability			
Cash flow margin (%)	44.93	61.25	46.67
Cash flow ROI (%)	25.60	27.33	28.12
Debt / EBITDA adj.	15.28	15.84	16.10
Net Debt / EBITDA adj.	3.82	3.49	3.36
ROCE (%)	42.35	33.21	31.66
Debt repayment period	3.02	4.07	2.55
Profitability			
Gross profit margin (%)	46.07	48.35	50.45
EBIT interest coverage	20.46	22.82	27.78
EBITDA interest coverage	26.55	30.22	37.11
Ratio of personnel costs to total costs (%)	8.96	9.52	10.33
Ratio of material costs to total costs (%)	53.93	51.65	49.55
Return on investment (%)	14.73	12.03	12.08
Return on equity (%)	41.28	32.41	30.98
Net profit margin (%)	23.85	19.79	20.28
Operating margin (%)	22.34	23.06	23.34
Liquidity			
Cash ratio (%)	34.70	39.29	43.70
Quick ratio (%)	121.27	125.84	114.95
Current ratio (%)	125.45	133.00	121.69

Appendix

Rating history

Corporate Issuer Rating of Ryanair Holdings plc I Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	21.09.2018	28.09.2018	Withdrawal of the rating	BBB+ / stable
Monitoring				

Corporate Issuer Rating of Ryanair DAC I Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	21.09.2018	28.09.2018	Withdrawal of the rating	BBB+ / stable
Monitoring				

LT LC senior unsecured issues issued by Ryanair DAC I Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	21.09.2018	28.09.2018	Withdrawal of the rating	BBB+
Monitoring				

Regulatory requirements

The present rating is an unsolicited rating. Creditreform Rating AG was not commissioned by the Issuer with the preparation of the rating. The present analysis was prepared on a voluntary basis. The rating is based on the analysis of published information and on internal evaluation factors. The quantitative analysis is primarily based on the last annual report of the Issuer, the basis prospectuses and on press releases of the company. The information and documents meet the requirements and are in accordance with the published Creditreform Rating AG's rating methodology.

The rating was conducted on the basis of Creditreform Rating´s "Corporate Issue Ratings" methodology and the "Corporate Issuer Rating" methodology. A complete description of Creditreform Rating´s rating methodologies is published on the following internet page: www.creditreform-rating.de.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodology. A complete description of Creditreform Rating´s rating methodologies and Creditreform`s basic document "Rating Criteria and Definitions" is published on the following internet page:
www.creditreform-rating.de/en/regulatory-requirements/
This rating was carried out by analysts Christina Sauerwein (c.sauerwein@creditreform-rating.de) and Michael Holtzmann (m.holtzmann@creditreform-rating.de), both located in Neuss, Germany. A management meeting did not take place.

The rating was presented to the rating committee on 21 September 2018. The company examined the rating report prior to publication and was given at least one full working day to appeal the rating committee's decision and to provide additional information. The rating decision was not amended following this examination.

The rating will be monitored until CRA removes the rating and sets it to non-rated (n.r.).

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Please note:

This report exists in an English version only. This is the only binding version.

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To prepare this credit rating, CRA has used following substantially material sources:

Corporate Issuer rating:
1. Annual report
2. Website
3. Internet research

Corporate Issue rating:

1. Issuer corporate rating incl. information used for the Issuer corporate rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore, CRA considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The 'Basic Data' information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the ‘Basic Data’ card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.
In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within ‘Basic Data’ information card.

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