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1. COMPANY: RYANAIR PLC

RYANAIR PLC, VOTED AS EUROPE'S GREENEST AIRLINE, IS WELL POSITIONED FOR A GROWTH OVER THE 2018-2019 FINANCIAL CYCLE IN LIGHT OF A SOFT BREXIT.

1.1 EXECUTIVE SUMMERY

A number of negative reports relating to Ryanair have depressed the share price of Ryanair. These have included strikes by pilots and resultant flight cancellations, introduction of carry on baggage charge and dissatisfaction with the performance of the CEO. Strikes were also seen at Lufthansa and Air France.

The company is at risk from a failure in the Brexit negotiations and the resulting impact on the value of the pound sterling against the euro.

BUY
BEST SP

Price: €12.77

Price Target: €14.6

Price Target Potential 15%

Price Target Period 6

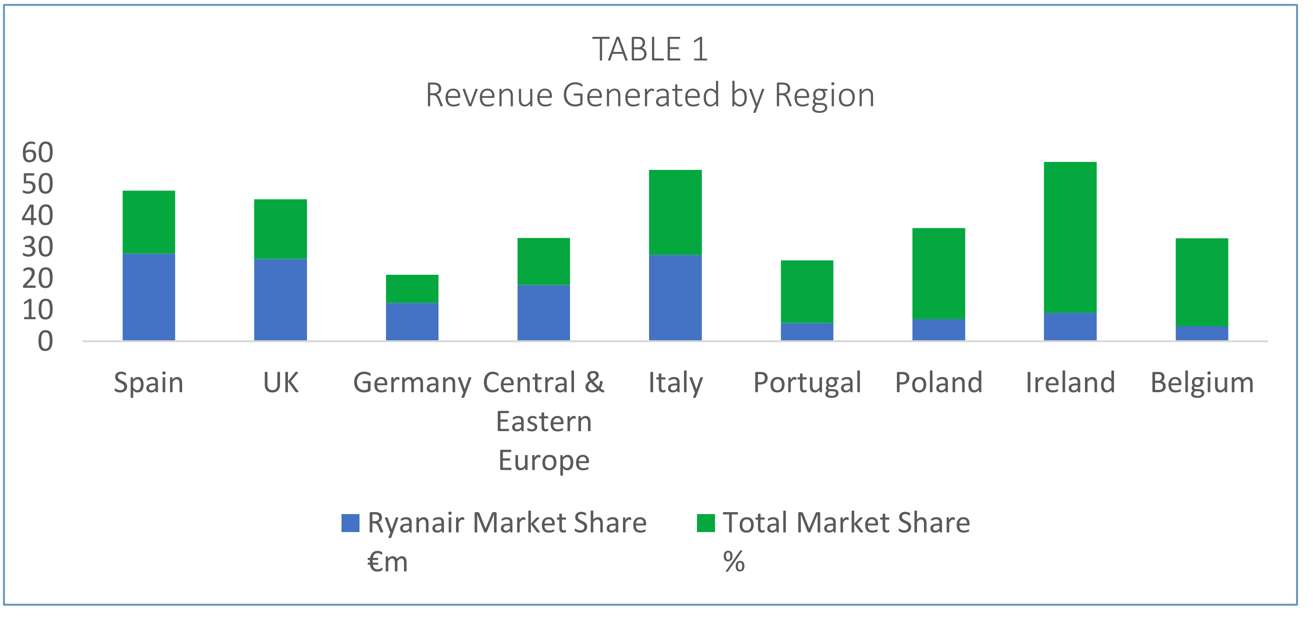
Furthermore, the company is under pressure from the fluctuations in the price of oil. All that being said, further consolidation of the low fares airlines across Europe and the share price has dropped from €17.37 to €12.37 over the year.

1.2 INTRODUCTION

Founded in 1984, Ryanair has revolutionised the low-cost aviation industry. Starting with a single route – from Waterford in southern Ireland, to London Gatwick airport – the company has since expanded rapidly to become Europe's largest airline (by passengers carried).

Lead by CEO, Michael O'Leary, Ryanair are well known for a no-frills and occasionally abrasive passenger experience. While there may be divided opinions among passengers, there is little doubt that the company has been very successful with investors.

Ryanair operate in multiple markets predominantly within the EU. Their revenue streams by country/region are shown in Table 1.



Within those markets, they have generated revenue through traditional methods i.e. ticket sales; but they are known in some circles as the "Godfather of ancillary revenue" (Idea Works, 2007) for their ability to generate revenue where others could not e.g. cost for boarding passes, additional bags, hotel bookings etc. In 2017/18, 27% of Ryanair's total revenue was generated through ancillary revenue streams.

1.3 PRINCIPLE RISKS OVER NEXT 6 MONTHS

- The failure of the British government to negotiate a Brexit deal with the EU.
- This would result in a "Hard Brexit" which – in the most extreme scenario – could result in the grounding of all airlines within the UK. This would have a materially significant effect on Ryanair's share price.
- The continued weakening of Sterling (£GBP) with respect to the Euro.

- The other risk inherent to all airlines would be a fluctuation in the cost of oil.
- Ryanair have hedging mechanisms in place to mitigate this wherever possible but the risk remains should fluctuations exceed these limits.
- The retirement(s) of Michael O'Leary and/or Chairman David Bonderman.
- While the management have forecast they will continue in their roles for 2-3 years, a reversal of this position would have a material impact on the share price.
- As part of this study, our underlying assumption is that a suitable Brexit deal would be negotiated which would mitigate some of the above risks and lead to a rebound in Ryanair's share price, relative to the ISEQ index.

1.4 MACRO ECONOMIC FACTORS

GLOBAL FUEL OUTLOOK

Rising global fuel demand and dependence on OPEC countries, combined with development in sustainable, green alternatives have contributed to an average increase in the fuel prices over the past 3-4 years. An unexpected and slight dip in prices in 2017 was followed by a strong rise in prices in 2018. The rising fuel prices contribute to a rise in jet fuel prices.

M. King Hubbert and subsequently Ken Deffey predicted the peak of conventional U.S. Oil production to be around 2005-2006. The decrease in production would be supplemented by the rising demand. Energy industry analyst Matthew Simmons indicates that the oil production figures provided by OPEC are highly exaggerated to begin with for political reasons. This was later ascertained by the Saudi Government itself.

With the global demand for fuel increasing at a much higher rate than improvements in efficient use of alternative energy sources and fuel production, the fuel prices are projected to rise. The monopoly of OPEC in supply of the raw-materials to manufacture different fuel plays a vital role in the pricing of petrol, gas and jet-fuel.

JET FUEL PRICES AND FUEL HEDGING

Jet fuel prices have been historically strongly correlated with crude oil prices. With the scenarios listed above, it is only fair to consider the cost scenarios for jet fuel prices. A typical airline is projected to spend roughly 50% of its operating costs on jet fuel. This is a rise of 38.5% from 2004. Even with a considerable increase in airline fuel efficiency, there has been a simultaneous increase in the total airline usage and traffic.

Though there have been positive strides in development of alternative sources of energy, there have not been sufficient development in harnessing these sources for the high-scale, high-utilisation airline industry. The few fuel resources that have been adapted to airline use such as synthetic jet fuel (SJetA) still need qualification testing that may take on extensive resources and time for commercial use. A detailed split of the global carbon fuel reserves is shown in the figure below In light of the rising jet fuel prices and a lack of a commercially viable alternative source, the airline industry is extensively engaging in Fuel Hedging. It involves fixing in the price for a future jet fuel via futures contracts when the price is low. A risk in this can be that the fuel prices actually drop though that is deemed unlikely until 2020.

Since Jet Fuel prices are an airlines biggest variable cost and the biggest driver in cost, an efficient hedging strategy is pivotal in assessing the company's long-term financial health and success. Ryanair is committed at hedging its fuel prices. Since 2014, Ryanair has hedged almost 90% of its fuel requirements by the final quarter of prior financial year. Fuel and oil prices account for 35%-50% of its total operating costs and are the primary non-market risks affecting the stock price. Thus, Ryanair has been historically increasing its net profit by decreasing its main cost that is fuel and oil prices which is in-line with its goal of providing cheap air travel. A projected increase in routes and operating fleet would contribute to the continuation of this trend. Ryanair begins hedging up to a year in advance, but only purchase contracts for a small percentage of total requirements, and then over time as oil prices are realised, they will only become fully hedged for the following fiscal year by the prior fiscal year end. This limits Ryanair's chance of becoming locked into expensive contracts, simultaneously mitigating their oil price risk and has enabled them to continually profit and become a market leader. A comparison with other companies in the industry in light of fuel hedging with respect to the returns reveals the overall success that Ryanair has had in its fuel hedging operations.

References
https://ntrs.nasa.gov/archive/nasa/casi.ntrs.nasa.gov/20070010628.pdf

BREXIT

Ryanair has a market leading unit cost ex-fuel advantage, a strong cash flow positive balance sheet position, and a large digital reach which should allow it to continue to lead the low-cost carrier in the European aviation market post Brexit as carriers with strong cash flows and low costs are best-placed to withstand the uncertainties surrounding Brexit.

Rating agency Moody's has stated that a "no-deal" Brexit would negatively impact Ryanair's cash flow. Flights between the UK and Europe and the UK and US, could halt should there be a "no-deal" Brexit next March which would end the jurisdiction's participation in various air travel agreements. They highlighted that airlines with a large share of the market, such as Ryanair, could face a severe immediate financial hit if a "no-deal" scenario occurred. The UK is part of the Open Skies agreement, which allows EU-registered airlines to fly throughout EU registered states and the wider European Common Aviation Area (ECAA), which includes Norway, Iceland and other Balkan states. If a "no deal" the UK would be removed from the Open Skies agreement and the remit of the European Aviation Safety Agency. This could prevent air travel between the UK and EU or US. The UK government would need to negotiate aviation treaties with Brussels rather than each individual EU state. Historically, UK passenger volumes are directly correlated to 1.85x multiplier to GDP growth. Therefore, a slow down in the UK economy or if it is driven into recession will cause a decrease in passenger numbers. History is likely to repeat itself with Ryanair downgrading UK plans for expansion and driving capacity growth across mainland Europe like it successfully did post-recession in 2008. (Ref: Diagram 1). The base openings in Bucharest and Sofia highlights Ryanair's growing interest in mainland Europe expansion. Ryanair may also take advantage of a time when other carriers are under significant stress and may invest in planes or invest in network development. Ryanair is exposed to the effects of Brexit but with a strong cash reserve it is in a strong position to take advantages of the opportunities that present alongside the crisis.

1.5 CURRENT STATUS

Ryanair's results for 2018/19 Q2 and H1 showed no change in guidance for the full year of Profit after Tax. The profit after tax remains at €1.10-1.20 billion together with acquisition costs of €150 million for LaudaMotion which will be treated as an exceptional item. The focus is on H1 results with LaudaMotion being commented on separately.

Air Traffic was up 6.2% to 76.6 million passengers. Revenue reported increased 8.1% to €4.79 billion, i.e., an average of €62.50 per passenger, an increase of ~2%. However, other revenues in this period benefit from a change to accounting standard (IFRS 15) concerning when revenue is recognised. A €97 million adjustment is added and last year's number is the same. A fairer comparison would reduce the average revenue per passenger in H1 to about €61.3 and the increase to about 1%. Strikes and negative rumours throughout the year have had minimal effect on traffic volume or seat factor which remained unchanged at 96%.

Operating costs rose significantly during the year by 17% to €3.44 billion, and fuel went up 22%, staff costs went up 33% and maintenance costs up 33%. Operating profit was down 8% to €1.35 billion (comparable figure of 15% without the supporting revenues). Staff costs increased 33% to €485 million due to 20% pilot pay increases, 8% more flight hours, recruitment of additional engineers, investment in pilot & cabin crew training and a 3% pay increase for non-flight staff awarded in April 2018. Operating profit fell 8% to €1.35 billion, a margin of 28%, down from 33% a year ago. Other airlines would be very happy with either number, the drop in margin is large. Ryanair appears to think that staff unit costs are on a new stable level. So while the drop may potentially be a real change, stability in staff unit costs and other operating expenses may see a gradual rise in operating profit in the coming years.

Favourable numbers on other income (mainly interest) and on tax has allowed Ryanair to report its usual headline number, after-tax profit, down a smaller 7%, at €1.20 billion, and a margin of 25%, down from 29%. While other airlines would be very happy, it is not great for Ryanair, given the 6% traffic growth (and there a separate development loss of €45 million for LaudaMotion during the period).

The underlying problem during the first half of the year was that revenue per passenger was only up 1-2% but unit costs were up 10% including fuel (7% excluding fuel).

The balance sheet is still strong, having a net debt under €1 billion. 23 new aircraft were added in the period and they returned 3 aircraft to the lessors. Other comprehensive income for hedging was €643 million, compared to €345 million last year – a big variation..

The outlook for the rest of the year remains the same. Ryanair says the revenue weakness that resulted in a profit warning is now widespread with a big increase in short-haul capacity in Europe generally. Average fares will be down 2-4%. But it is better positioned to handle this than higher cost airlines, like Scandinavia where carriers have struggled with surging fuel prices at €44 per barrel. Many competitors are unhedged and face a price moving towards $85, along with a strong US$.

The first 5 B737-8 MAXs are due in spring (April and after) and 42 more are due between Aug 2019-Mar 2020. Substantial savings in fuel (16% per seat) and maintenance costs will be seen. A number of older B737-800s, both owned and leased, will leave the fleet from Spring 2020, also helping to reduce, or at least stabilise, unit costs.

Ryanair isn't going to support consolidation of airlines in Europe by buying them but by being very aggressive on pricing.

It has moved towards a group structure where it would have 3 or 4 AOCs (Air Operator Certificate) within a group structure. For example, LaudaMotion and Ryanair Sun (Poland) each will have about 20 aircraft next year - a more sensitive way to grow with a number of different brands within the business. Ryanair UK expects to have an AOC by Christmas.

There seems to be an understanding between Ryanair and the European Commission that it would have time to get its post-Brexit non-EU shareholding down from 54-55% to 49% with non-EU shareholders deprived of any voting rights during that period. That prospect may hold up another early share buy-back program.

The OmniServ handling contract replacing Swissport at Stansted, for similar cost, will put Ryanair much more in control of the staffing levels, per shift, the number of teams per crew, etc. Ryanair is now buying the ground handling equipment like steps, tugs, etc. The OmniServ contract next year is dedicated to Ryanair and will not be handling any other airlines. Ryanair expects this to add 3-4 points to its punctuality as Stansted is critical to the entire system.

Ryanair consolidated its position as Italy's largest airline by growing passenger numbers there more than 10% in 2017. Ryanair is also Italy's largest airline in terms of international passengers, having carried more than 25 million in 2017. The Italian flag carrier, Alitalia, remains the largest airline in the domestic market, carrying 12.2 million passengers during the year, while Ryanair carried 11.1 million.

Ryanair sees a lot of potential growth still in Spain, Portugal, the UK, Ireland and over Europe.

Scandinavia is removed from mainland Europe and there are a lot more opportunities closer to the centre of Europe. Norway and Sweden are adding travel taxes which is discouraging. Ryanair sees more scope in Copenhagen where they are the number three airline. It has a plan to grow there pretty rapidly in the event of either SAS or Norwegian, declaring bankruptcy.

Ryanair has brought a case to the European Commission about other airlines' employees on trade union delegations. They do not want to constrain what the people of the unions can choose to have in their delegation. However, they prefer if they are Ryanair employees rather than competitor employees who have a vested interest in disrupting Ryanair services for the betterment of their employers.

LaudaMotion

Ryanair has paid €100 million for its 75% stake in LaudaMotion. It expects to lose about €150 million this year and be close to breakeven next year (range €30 million loss to breakeven) which is sooner than previously indicated.

Lauda is now benefiting from Group strengths, notably in fuel hedging. Ryanair is helping with airport packages and has secured 18 long-term operating aircraft leases for Summer 2019 at just under $200,000 per month, less than half what it was paying Lufthansa. Ancillary and in-flight revenue, previously given away for free to a third party, will come in-house. [Summer fleet 19 A320 + 4 Ryanair B737s, the last based in Palma].

Monthly traffic data for LaudaMotion will be published, but from next year, it is envisaged that the finances will be included in Group quarterly and annual results and not shown separately.

https://investor.ryanair.com/results/h1-results-fy19/
Transcription analysts' call
https://seekingalpha.com/

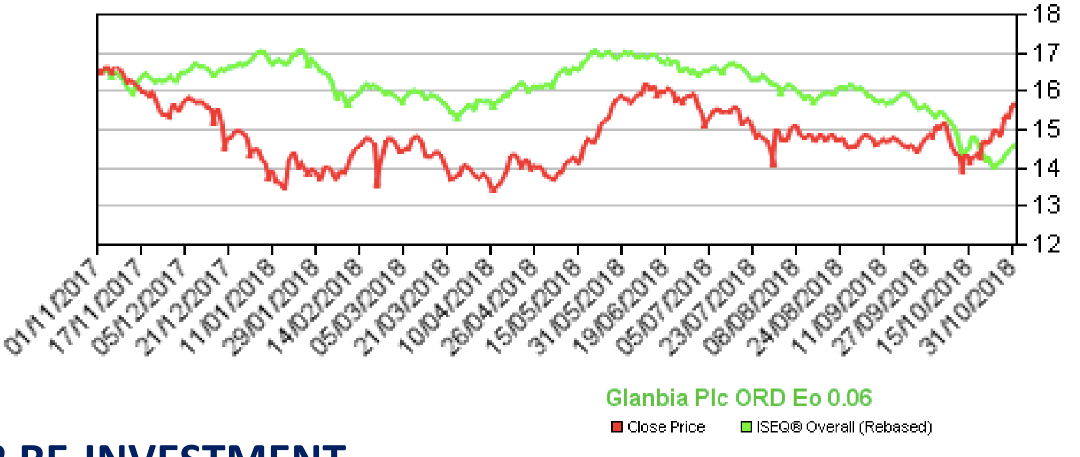
2. COMPANY: GLANBIA

GLANBIA IS WELL POSITIONED FOR GROWTH IN THE SHORT-TO-MEDIUM TERM WITH PREDICTED VOLUME GROWTH IN THE MID-TO-HIGH SINGLE-DIGIT RANGE.

BUY
BEST SP
Price: €14.40
Price Target: €14.80
Price Target Period 6 month

2.1 VOLUME

Glanbia's business volume accelerated in the third quarter of the year as volumes increased and demand for its products grew. Revenues have increased 3.7% in Glanbia for the previous nine months and volumes have increased by 6.7% in the same period. Acquisitions by Glanbia delivered a 1.1% volume increase. The company bought SlimFast for $350 million in early October which will further increase their portfolio. We believe this move confirms Glanbia's strategic choice to move away from low value-added ingredients to become a branded mass nutrition company, more comparable to companies such as Danone. It is predicted that performance nutrition as a segment would represent post the acquisition on a pro-forma basis approximately 56% of 2018 group revenues and 64% of EBITDA. Glanbia's performance nutrition division saw revenue rise by 4.7% for the first nine months of the year and with volume growth of 6.7%.



2.2 RE-INVESTMENT

Glanbia has reinvested cost savings in intense product and channel investment, innovation support and dealt with foreign exchange issues. Net debt in Glanbia is 398 million euro, a decrease of 84 million compared with the end of the third quarter of 2017. The potential risks to our recommendation could include volatility in raw material prices, currency fluctuations and global trade uncertainties as a result of the geo-political climate such as the continued uncertainty in relation to Brexit. The MD of Glanbia has reiterated its guidance for the full year, predicting adjusted earnings per share for the continuing group will grow between 5 – 8%.

3. COMPANY: AIB

ALLIED IRISH BANKS (AIB GROUP PLC), IS AN IRISH FINANCIAL SERVICES GROUP, OFFERING A FULL RANGE OF PERSONAL AND CORPORATE BANKING SERVICES, A RANGE OF INSURANCE, ASSURANCE AND PENSION PRODUCTS..

BUY

BEST SP

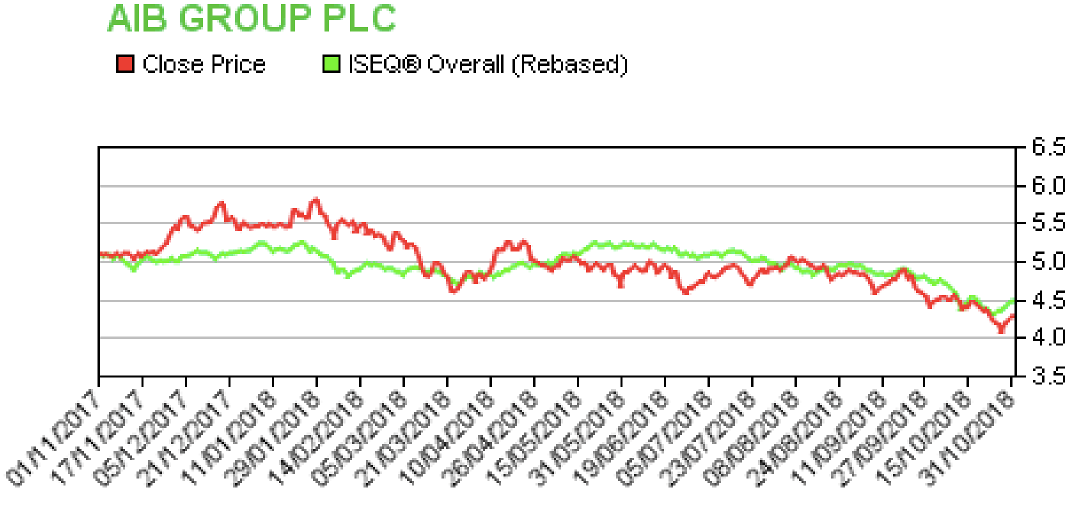
Price: €4.14

Price Target: €4.86

Price Target Period 6 month

3.1 RE-LISTED

It relisted on the Irish Stock Exchange in July 2017 after being effectively nationalised following the global financial crisis.



3.2 STRONG PERFORMANCE

Pre-tax profits of €762m were announced in the 2018 interim report, with a growing performance in the loan book of €56.1bn, accompanied by an increase in new lending of €500m. The loan to deposit ratio stands at 90%, helped by the positive economy. They are on track to deliver on expected full-year forecasts. Lending for mortgages is strong, up by 13% on the previous year, which is expected to increase as a result of Brexit influx and increasing residential property development into the national market. The European Banking Authority carried out stress tests on the bank which has shown that AIB has sufficient capital to survive a hard Brexit downturn scenario, in the face of a 30% drop in property prices, with a fully loaded CET1 ratio of 17.9%, considerably ahead of their 13% target. Despite the strong performance across different arms of the business, the strength of the economy and their performance in the stress tests, the share price has fallen by 19% over the past year to €4.03, undervaluing the stock. We expect in the medium term that it will increase.

4. COMPANY: TOTAL PRODUCE

TOTAL PRODUCE PLC IS A ONE OF THE LARGEST DISTRIBUTOR OF FRESH FRUITS AND VEGETABLE ACROSS THE WORLD.

BUY

BEST SP

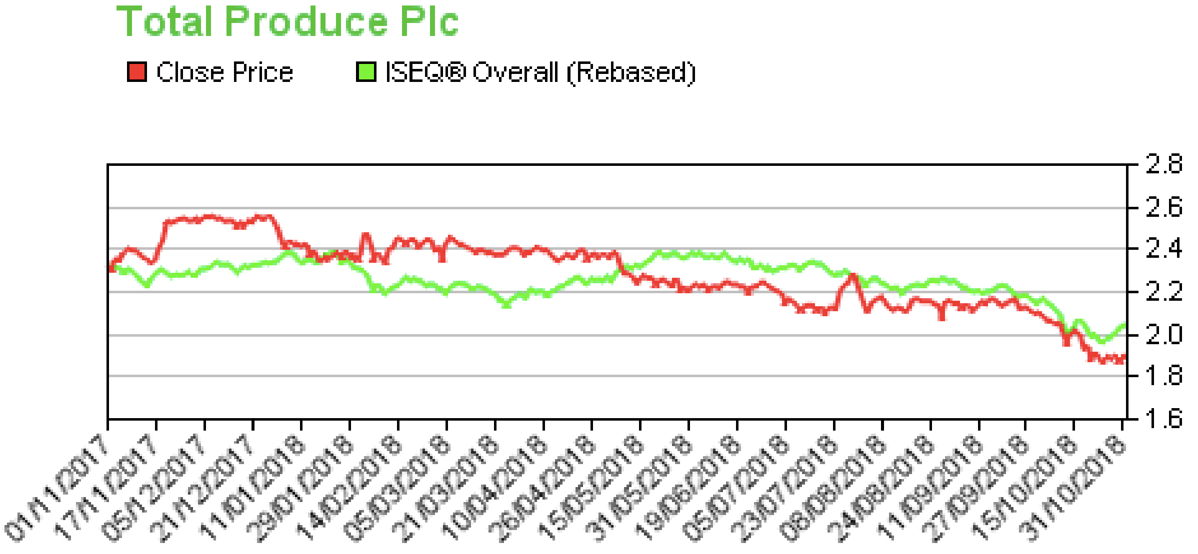
Price: €1.93

Price Target: €1.97

Price Target Period 6 month

4.1 FINACIALLY ROBUST

It is financially robust, dividend paying company. Their 2018 interim report shows promising results with an increase in the revenue of 1.8% to 2.2bn and dividend increased by 2.5% to 0.9129 cent per share. Their earnings growth rate year on year has been positive over the past 5 years.



4.2 ACQUISITIONS

It's results benefited from the incremental contributions of the acquisition on Oppenheimer group and the French Connection in 2017 offset the weakening of US Dollar and Canada dollar against Euro. Moreover, with their acquisition of 45% equity stake in the Dole food company, they show promising growth in the North America and European market. Thus resilient performance over the years shows a stable management performance and increase likeliness to invest in it.

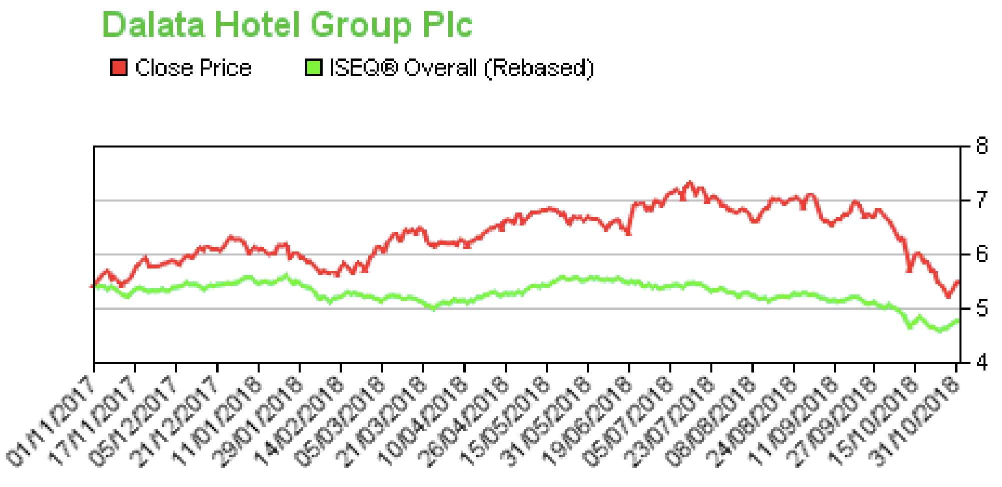
5. COMPANY: DALATA HOTEL GROUP

DALATA HOTEL GROUP PLC (DHG) OWNS AND MANAGES 39 THREE AND FOUR STAR HOTELS IN IRELAND AND THE UNITED KINGDOM.

BUY
BEST SP
Price: €5.66
Price Target: €5.73
Price Target Period 6 month

5.1 SUPERIOR PERFORMANCE

Their current market capitalisation is €1.056 billion. In the last 12 months DHG has outperformed (3.9%) both the Irish (-8.5%) and European hospitality (-4.7%) industries. Compared to expected future cash flow value the current share price is 37% undervalued.



5.2 LOCAL AND GLOBAL ECONOMIC FACTORS

While DHG operates in both the UK and Ireland, there is little cross-border trade and BREXIT is not deemed to impact their future growth prospects. In October the Irish government increased the value added tax (VAT) rate for the hospitality sector from 9% to 11%, this tax change is effective from January 2019 and will impact profits but should already be priced into the share price. The Irish government is also in the process of changing rules regarding the provision of accommodation on peer to peer platforms like Airbnb, this is expected to reduce the supply of Airbnb rooms and increase the demand for hotel rooms. The full details of this new regulation will be made public in the coming months and could increase investor confidence in DHG. DHG's debt amounts to 2.5 times their EBITDA, but cashflows are more than adequate to service this debt. Debt accruing from purchase of hotel buildings is safe debt to hold, given the intrinsic value of real estate. DHG pays substantially lower dividends than most companies across all industries, this should compound any growth in market capitalisation, especially compared to dividend-paying companies.