

**LOOK UP ITS AER JAPAN!*****Aer Lingus Share Price***

The chart above shows the performance of Aer Lingus since it was first listed on the stock market. After a promising start in 2006 the share price has declined sharply and the share has fallen to new lows in recent weeks.

In the past I have read a number of analyst reports that have highlighted the cheapness of Aer Lingus shares. They pointed out the following:

- This is a company with net cash of hundreds of millions of euro
- It owns valuable slots at Heathrow airport
- It has gone through a number of restructuring exercises to reduce costs
- It owns a fleet of relatively young aircraft

Here is one analyst comment from Sep. 08 (when the share price was around 1.50):

However, even taking a 25% haircut to its aircraft values (the average age is 5.6 years, mostly post 9/11 aircraft €508m, €0.96 per share), the end-2009 forecast net cash position (€587m, €1.1 per share) and its slot values as per the British Midland valuation (€303m, €0.57 per share) suggest that the shares continue to be cheap and that the airline could soon become again a 'restructuring' or 'take-out' play.

Here is another analyst comment from December 08 (share price still around 1.50)

Valuing Aer Lingus at €2.00 and recommending BUY: The market's reaction to Ryanair's €1.40 per share cash offer for Aer Lingus highlighted that the Group has been undervalued for some time. The market quickly recognized that, even should Aer Lingus shareholders and the European Commission be open to a deal, a new higher offer will likely be required to buy Aer Lingus and the Group now trades at a 3% premium to the offer price having reached €1.55. We now value Aer Lingus based on 1.1x its FY10 book value to produce a new price target of €2.00 (up from €1.60).

I have read these comments about the cheapness of Aer Lingus but to be honest I have never been tempted to buy their shares. I have been of the opinion that they are cheap for very good reasons.

- With the government owning 25% of the shares there was always going to be political considerations at work
- The hundreds of millions of euro of net cash will not be returned to shareholders in the form of dividends. This net cash appears to be a war chest to be used for the survival of the company.
- The slots at Heathrow airport were never going to be sold
- Restructuring is likely to be an ongoing feature of a small airline with a strong union presence
- A fleet of young aircraft is no guarantee of profits

One person that was tempted by the cheapness of Aer Lingus was Michael O'Leary. I have written in the past about him (Opinion Piece 18) and I have to admit that I was taken by surprise when he not only tried to buy it once but then he attempted for a second time.

I have given up trying to understand what Michael O'Leary is thinking or preparing to do because he is pretty unique! If he could get control of Aer Lingus and if he could turn it around he would be getting a bargain but they are big ifs!

You may be wondering why I have given this opinion piece the title "Look up its Aer Japan", surely I meant to call it "look up its Aer Lingus". What possible connection could I be making between Aer Lingus and Japan? Well the more I thought about what has been going on in Aer Lingus the more I thought that similar issues have been at work in Japan for many years.

The average Irish person should think of Japan as being made up of hundreds of companies like Aer Lingus.

- There are many "cheap" companies in Japan
- There are plenty of cash rich companies in Japan
- Many Japanese companies own very valuable assets
- Japanese companies have gone through many restructurings
- Japanese companies often have relatively new equipment
- The main shareholders in Japan (the local banks, insurance companies and other Japanese corporations) are similar to the Irish government in the sense that maintaining employment is as important as generating returns above the risk free rate.

In the past I have written about the foreign activist shareholders that have been tempted by the cheapness of the Japanese market (Opinion Piece 19) and have attempted to unlock that value. They are the equivalent of Michael O'Leary.

At one stage I thought that these activists might be successful but so far they have been as frustrated as Michael O'Leary. They appear to have retreated in the short term because activists and hedge funds have other problems to deal with.

I still have about 2% of my portfolio in a Japanese ETF (Exchange Traded Fund) and so in next months' Opinion Piece I will explain my logic for continuing to hold this.

In conclusion I just want to state that Japan might appear to be a distant and unique culture but by understanding the dynamics of a company like Aer Lingus anyone can start to understand Japan.

