

2nd July 2008

Skywest Airlines * – Rio Tinto contract win: Target price increased from 42.6p to 45p – buy at 13p

AIM listed diversified airline, aerospace and investment group Skywest Airlines Ltd has today announced an important contract win in Western Australia. The contract with mining giant Rio Tinto continues the plan of establishing Skywest as a substantial regional airline in the Australasian and South East Asian region.

Rio Tinto, with a market capitalization of over £55 billion, has enlisted Skywest to provide scheduled air services between Perth, Western Australia and two of its mine sites also in Western Australia – West Angelas and Barimunya. With a relationship dating back to 2002, the contract provides for 15 return jet services each week over an initial 3 year period. In addition, a further 2 year extension of the contract is available at the option of Rio Tinto, while importantly there is a monthly price review based on changes in jet fuel prices. As per the company's recent Fuel Pricing Policy, all contracts will now include a fully transparent monthly review of jet fuel price changes, with both increases and decreases being passed straight through to the customer. Executive Chairman Jeff Chatfield believes the Rio contract is the largest single air services contract of this type in the Australian market, and although unable to put a specific figure on the revenue produced because of the variable pricing element, Skywest's last three scheduled charter service contracts are worth A\$111 million over 3 years or A\$170 million over 5 years if all options are exercised.

As flagged in our March flash note, the chartered flight area of Skywest is showing the largest revenue growth and this announcement, together with the company's May 2008 operating announcement showing scheduled

Key Data

EPIC	SKYW
Share Price	13p
Spread	12.5p – 13.5p
Total no of shares	199.5 million
Market Cap	£25.9 million
12 Month Range	12p – 18p
Net Cash	£3 million
Market	AIM
Website	www.advent.com.sg
Sector	Travel and Leisure
Contact	Jeff Chatfield, Chairman Tel: 07783 942 553

charter services up around 81% over May 2007, certainly reinforces that statement. The booming demand for air services from Western Australia's plethora of mining companies has resulted in a shortage of aircraft, pilots and flight attendants; however Skywest has managed to procure an additional F100 aircraft to complement its current fleet.

With the Rio Tinto announcement coming hot on the heels of its 3 year contract with the Newcrest Mining Group in January, Skywest is certainly establishing itself as a favoured choice with Australia's miners. We are not altering our forecasts on the back of this announcement but the news de-risks those estimates. We continue to believe that in the year just ended earnings will have been 2.3p and for the current year we tentatively forecast earnings of 3p per share. The company has net cash of 1.5p per share and is cash generative. We note that at the current share price the dividend is a highly attractive 7.2% and that should limit the downside risk. We would value the company on a mid-teens current year multiple, reflecting the strong earnings growth forecast and the strong balance sheet and as such are increasing our price target from 42.6p to 45p and, at 13p, our stance remains **buy**.



Forecast Table

Year to 30th Jun	Sales (\$\$ Million)	Pre-tax Profit (\$\$ Million)	Earnings Per Share (p)	Price Earnings Ratio	Dividends Per Share (p)	Dividend Yield (%)
2006A	98.95	5.80	1.03	13.3	0.36	2.6
2007A	130.49	12.70	1.21	11.4	0.70	5.1
2008E	159.60	21.50	2.30	5.7	0.94	7.2

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*This research note cannot be regarded as impartial as GE&CR has been commissioned to produce it by Skywest Airlines**

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