

22nd February 2010

QUICK NOTE # 114

RECOMMENDATION:

Speculative Buy

PRICE TARGET:

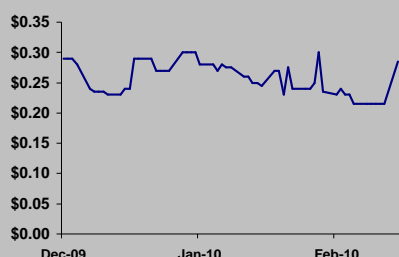
\$0.56 per share

ISSUED CAPITAL

ASX,	SXR
Share price	\$0.285
Mkt cap. ¹	\$56.9m
Ordinary shares on issue	199.6m
Options	3.0m

¹ Undiluted

Source: DJC, IRESS

12 MONTH PERFORMANCE


Source: IRESS

Christopher Chong

 Industrial Analyst
 +61 8 9263 5310

chong@djcar michael.com.au

Skywest Airlines Ltd (SXR)

1H10 results underpinned by FIFO, leveraged to mining

SXR, headquartered in Singapore, is the holding company for the major regional scheduled and charter airline operating in Western Australia. Since 8th December 2009, the shares have been quoted on the ASX in addition to London's Alternative Investments Market (AIM). SXR reported a 10% increase in 1H10 revenue of S\$107.1m (AUD\$87m) and a NPAT of S\$7.1m (AUD\$5.8m) based on an AUD\$/S\$ of 1.23. This represents a significant improvement to the NPAT loss recorded in the pc. The turnaround in the results has been attributable to a return of growth in the Fly-In-Fly-Out (FIFO) chartered services to the WA resources sector and continued intrastate growth. With WA regional traffic which is expected to grow ~14% versus overall Australian market of 9% (BITRE study), the outlook for SXR is looking good. SXR announced an interim dividend of S\$0.05 cps or AUD\$0.041. We believe SXR remains overlooked and believe its discount to the market provides an attractive entry point into a successful business leveraged to WA's resources sector.

Key points

- Price target:** Annualising the result, SXR should record FY10 NPAT result of circa \$11.6m based on a 50:50 1H/2H split. We note given recent ramp up and based on historical trends, the 2H may be slightly stronger. With an NTA of S\$0.21 or AUD\$0.17, it was evident that SXR was overlooked by the market. Even after today's strong jump on the back of the results, SXR trades on a FY10 PE of 4.9x, which is at a significant discount to QAN and VBA's FY10 PER of 20x. To arrive at the target share price, we capitalise the normalised earnings at a 20% discount to the Small Ordinaries PER (12x) to account for the size and liquidity of the stock. On this basis, we attribute a valuation of \$0.56 (FY10e EPS of 5.8cps capitalised on a PER of 9.6x). This is a premium of over 96% to today's close price, which supports our Speculative Buy recommendation.
- Leveraged to mining capex:** With FIFO work contributing 60% to earnings, SXR continues to see this as its key growth opportunity given the significant number of resource developments, particularly in the northwest of WA. The FIFO contracts underpin a strong baseline of recurring revenues and management are tendering for various charter contracts in view of winning additional business in this area. Key current customer contracts include: Newcrest for 2-3 flights per week to Telfer, Portman Iron for 5 flights week to Windarling mine, Fortescue for at least 6 flights week to Cloudbreak mine and Rio Tinto for over 15 return flights week to West Angelas and Barimunya.
- Well positioned to benefit from WA growth:** SXR also continues to provide conventional airline services to all of the major airports in WA and beyond, as it has done for the previous 46 years. It now has the largest route structure within WA. It's expected that scheduled flights to the public will continue its organic growth in a buoyant environment. SXR has the flexibility to expand or change its route network according to demand relatively easy which maximises utilisation.

3000 hours per annum for normal airline operators). SXR have also commenced due diligence on an Airbus A320-200 for lease for use on charter operations for the mining sector.

- **Freight opportunities:** SXR recently announced that it will commence airfreight distribution for The West Australian newspaper to allow morning same day delivery throughout WA. This is a win win situation in our opinion and management are also looking at other opportunities to capitalise on.
- **Risks:** Include Government actions, loss of contracts and typical airline industry related risks. The impact of significant rapid changes in exchange rate and fuel costs continue to represent significant business risks. Inline with SXR's objective to manage fuel cost risk, SXR purchases fuel hedges from time to tome. Recently it entered into a cashless collar for 25% of its overall fuel requirements for the first six months of 2010.

Disclosure Disclaimer**RCAN0864**

This Research report, accurately expresses the personal view of the Author.

Associates DJC is a subsidiary of WHI Australia Pty Ltd ACN 114 921 247 (WHIA), which is owned 37.28% by a public company listed on the London Stock Exchange named WH Ireland Group plc (WHIG) and 62.72% by our previous and new shareholders. WHIA receives benefits from the financial services we provide in WHIA's capacity as a shareholder who holds shares in us, along with all of our other shareholders.

DJ Carmichael Pty Limited, its directors and employees advise that they may hold securities, may have an interest in and/or earn brokerage and other benefits or advantages, either directly or indirectly from client transactions **Skywest Airlines Ltd**

In accordance with Section 949A of the Corporations Act 2001 this document contains general financial information only. In preparing this document D J Carmichael Pty Limited did not take into account the investment objectives, financial situation and particular needs ('financial circumstances') of any particular person. Accordingly, before acting on any information contained in this document, you should assess whether the information is appropriate in light of your own financial circumstances or contact your D J Carmichael Pty Limited adviser. DJ Carmichael Pty Limited also advise that some or all of its Representatives may receive commissions as a result of effecting a transaction on behalf of a client. DJ Carmichael Pty Limited believe that the information herein is accurate however no warranty of accuracy or reliability is given in relation to any information or information contained in this publication and no responsibility for any loss or damage whatsoever arising in any way for any representation, act or omission, whether express or implied (including responsibility to any persons by reason of negligence), is accepted by DJ Carmichael Pty Limited or any officer, agent or employee of DJ Carmichael Pty Limited

Declaration

The Authors of this report made contact with the company mentioned in this report for assistance with verification of facts, access to industry/company information. No inducements have been offered or accepted by the company.

The recommendation made in this report is valid for four weeks from the stated date of issue. If in the event another report has been constructed and released on the companies mentioned in this report, the new recommendation supersedes this and therefore the recommendation in this report will become null and void.

Recommendation Definitions

SPEC BUY - The stock has considerable level of upside but there is a higher than average degree of risk.

BUY - 10% or more outperformance

ACCUMULATE - 10% or more is contingent on entry price and suggests exploiting any share price weakness

HOLD - 10% underperformance to 10% over performance

SELL - 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

Stocks included in this report have their expected performance measured relative to the ASX All Ordinaries index. DJ Carmichael Pty Limited's recommendation is made on the basis of absolute performance. Recommendations are adjusted accordingly as and when the index changes.

To elect not to receive any further direct marketing communications from us, please reply to this email and type 'opt out ' in the subject line. Please allow two weeks for request to be processed.

© 2010 No part of this report may be reproduced or distributed in any manner without permission of DJ Carmichael Pty Limited.