

MORNING COMMENT

Buy

Unchanged

Price 14.25p (S€31.0)
Target price 45p (from 21p)

Reuters/BBG SKYW.L/SKYW.LN/SXR.AX
Index FTSE AIM
Sector Transport
Market Cap £27.9m (S\$60.7m)

Skywest Airlines*

Interims shoot the lights out: further upgrades to full-year estimates

- The interim results demonstrate the operational gearing, a facet accentuated by the scale of the cost-cutting over the last year. **Revenue increased by 10.0% from S\$97.3m to S\$107.1m.** With cost of sales only 1.5% higher, Skywest increased gross margin from 16.7% to 23.2%. Admin expenses fell by S\$3.3m, reflecting cost cutting, and the operating result turned from a loss of S\$2.5m in H1 09 to a profit of S\$9.3m in H1 10. After net financial income, **pre-tax profit moved from a loss of S\$2.5m to a profit of S\$10.1m – more than twice the turnaround that we had been expecting.** Fully diluted EPS of S€3.63 compared with a LPS of S€1.40 for the comparable period out of which an interim dividend of S€0.5 has been declared (H1 09: S€Nil).
- The key factor in this performance is the strength of charter services for companies operating in the Western Australian resources sector.** Meanwhile, the H1 operating statistics for scheduled regional services show that the all-important load factor rose from 52.9% to 55.7%. Every point added above break-even (which is circa 48%) results in an ever increasing amount of profit on the bottom line.
- Given the growth potential for Western Australia, Skywest has been targeting major resource producers who fly their workers on a regular scheduled basis into and out of mining areas. **These scheduled fly-in fly-out contracts provide strong recurring revenues.** The company is tendering for various charter contracts and has deployed an additional aircraft, which may be used to provide additional charter services. In addition, given the capacity constraints evident at Perth, Skywest is looking to substitute larger A320 aircraft on these operations with the prospect of almost doubling revenues per round trip. **This means that the group could be on the cusp of a major expansion of revenues over the next few years.**
- The group also provides conventional airline services to all of the major airports in Western Australia and this continues its organic growth in a buoyant environment. Additional routes are added as and when more aircraft become available. **Skywest has an exclusive licence on some routes and the Regional Government extended the one for the Coastal Network of Western Australia during H1.**
- H1 is usually the weaker semester with little business travel in December. At present, demand is strong and the market growing. Also additional aircraft have been added during H1, which offers the prospect of incremental revenue growth at somewhat less incremental cost. **We have therefore brought forward revenue growth projections and upgraded margin expectations, generating a 200% uplift to EPS.** Capitalising EPS based on average prospective multiples for Easyjet and Ryanair gives an increase to our target share price from 21p to 45p. **We reiterate Buy.**

*WH Ireland acts as Broker and Nomad. This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research.

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Y/E June	2009A	2010E OLD	2010E NEW	2011E OLD	2011E NEW	2012E
Sales (S\$m)	180.9	190.0	220.0	205.0	280.0	350.0
PTP (S\$m)	5.1	7.2	22.0	10.2	34.5	49.5
EPS (S€)	1.6	2.3	7.0	3.2	10.9	15.7
P/E (x)	19.0		4.3		2.8	1.9
DPS (S€)	1.0	1.2	1.2	1.6	1.6	2.1
Dividend Yield (%)	3.3		3.9		5.3	6.9

Source: WH Ireland estimates

Disclosures

WH Ireland Recommendation Definitions

Buy

Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

Outperform

Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

Market Perform

Expected to perform in line with the FTSE All Share over the next 12 months.

Underperform

Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

Sell

Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

Speculative Buy

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

Share Price Target

The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

Stock Rating Distribution

As at the quarter ending 31 December 2009 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	18	22%	4
Speculative Buy	4	5%	4
Outperform	18	22%	1
Market Perform	26	33%	3
Underperform	14	18%	0
Sell	0	0%	0
Total	80	100%	12

This table demonstrates the distribution of WH Ireland recommendations. The first column illustrates the distribution in absolute terms with the second showing the percentages.

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