

Buy

Unchanged

Price 22.5p

Target price 41p (from 45p)

Reut./BBG/ASX SKYW.L / SKYW / SXR
Index FTSE AIM / Aust. ASX
Sector Transport
Market Cap £45m

MORNING COMMENT

Skywest Airlines*

Preliminary Results

- **Skywest Airlines, Western Australia's leading regional airline, issued full year results for the year ending 30 June, continuing its unbroken run of annual double digit revenue growth.** Revenues increased 11% to S\$239.9m and pre-tax profit decreased 3.3% to S\$13.6m against a backdrop of high jet-fuel prices and significant one-off costs relating to new aircraft implementation and a new hangar. This was below our profit expectation of S\$20.5m. However adjusting for the one-off costs brings us to an underlying pre-tax profit of S\$17.1m, highly creditable in this environment. The company has recommended a final dividend of 1.2S¢ in line with its recently announced minimum dividend payout policy (25% of net earnings).
- **When put in context with recent published results from other Australian operators, the impressive performance of Skywest is more striking.** On 24 August, Regional Express Holdings announced a decrease in net profits of 28.5% to A\$17.6m on a revenue increase of 4.8% to A\$ 201.3m for FY 2011. Nevertheless the shares were up 4.7% on the day. Similarly, on the following day, Virgin Australia announced EBIT losses of A\$18.4m on revenues of A\$3.2bn. The company's shares were up 14.9% on the day. Qantas continues to struggle with net returns on revenue of only 1.7%. **Skywest's higher growth profile and focus on industrial charter services to the natural resources sector in WA has allowed it to outperform its peers,** better absorbing high fuel prices and one-off cost of investments to expand its fleet and infrastructure.
- The key factor behind the performance is the strength of charter services for resources sector companies operating in Western Australia. The number of **charter services increased by c.3.4% with available seat kilometres increasing by some 15% in the year.** Meanwhile, the FY operating statistics for scheduled regional services show that the **load factor rose from 53.9% to 56.1% - a 2.2% improvement.**
- We believe 2012 will be a year of rapid growth for Skywest. We expect further wins in the charter market from clients in the natural resources sector, and the roll-out of new aircraft. The Virgin Blue alliance represents a step change in scale for the airline. With a current fleet of 17 planes, Skywest will operate up to 18 additional turbo-props for Virgin, under a 'wet lease' agreement. The first two routes go live in October (4 months later than originally expected) with a further two anticipated by December.
- Given the continuing high level of crude oil and jet-fuel prices, and the timing of operations for Virgin Blue, **we are trimming our 2012 forecasts to S\$290m (S\$350m) of revenue and S\$26m (S\$32m) of pre-tax profit.** This still represents revenue growth of 21% and a pre-tax profit increase of 91%. **The shares trade on 5.5x June 2012 estimates falling to 4.6x in 2013. We reiterate our BUY stance with a revised target price of 41p (45p) - equivalent to 10x FY12 estimates.**

*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	2010A	2011A	2012E	2013E
Sales (S\$m)	180.9	215.2	239.9	290.0	360.0
PTP (S\$m)	5.1	14.0	13.6	26.0	31.0
EPS (S¢)	1.6	4.7	4.9	8.1	9.6
P/E (x)	27.7	9.4	9.0	5.5	4.6
DPS (S¢)	1	1.2	1.2	2.0	2.4
Dividend Yield (%)	2.3	2.7	2.7	4.6	5.4

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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 30 June 2011 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks%	Percentage %	Corporate
Buy	29	72%	20
Speculative Buy	5	12%	4
Outperform	1	3%	0
Market Perform	4	10%	3
Underperform	1	3%	0
Sell	0	0%	0
Total	40	100%	27

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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