WHIreland

25th March 2008

MARKETING COMMUNICATION

TRANSPORT

Buy 15.25p (S¢42)

Target Price	33p
Market Cap	£30.8m
Shares in Issue	201.7m
NAV	9.3p
Gearing	Nil
Interest Cover	47.5

Relative Performance	**FTSE All Share**
1 month:	+5.4%
3 months:	+12.6%
12 months:	+23.0%
High/Low	
12 months:	17p / 14½p

Key Data	
EPS CAGR 3-year f/c	37.1%
ROAE	16.8%
Free Cashflow Yield	2.0%

Last Results	Interims 12 Mar 2008
Next Results	Finals Nov 2008
Next Event	Mar Operating Stats

Reuters/BBG	SKYW.L / SKYW LN

Change in Recommendation	No

Share Price Chart

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Skywest Airlines

Interim Results

Skywest Airlines, headquartered in Singapore, is the holding company for the major regional scheduled and charter airline operating in Western Australia. The shares are quoted on London's Alternative Investments Market.

Results for the six months to Dec-07 again underlined the strength of the regional economy that Skywest operates in. Strong growth in passenger revenues on regular scheduled services and income from scheduled charter flights operated on behalf of mining and resources sector clients produced a 26% rise in turnover. Efficiencies and scale economies turned this into a 108% leap in operating profits and 82% EPS growth. **This achievement is more impressive for being delivered at a time when fuel prices are putting pressure on gross margins.**

Skywest is well placed to carry this performance through to the full year. The latest operating statistics showed accelerating growth in passenger numbers as more routes are added and new charter clients signed up.

Seizing the opportunity, Skywest is set to expand its fleet significantly in the current financial year. Already it has added 2 F100 jets and a further 2 are planned for delivery in the final quarter. Such aircraft are leased and the rental costs are not insignificant. This has a particular impact in the short-term because load factors inevitably dip initially as the new aircraft are brought into operation. Subsequently, capacity utilisation rises and the benefits flow through to the bottom line. **The quantum increase in the number of aircraft operated – from 10 to 14 in a single year – suggests that profit growth in FY09 will moderate before picking up sharply again in FY10.**

Despite the track record and rosy outlook, the shares have made little headway in recent months. **With performance running substantially ahead of our expectations, we have raised our EPS estimates by 35% in FY08, by 2% in FY09 and by 12% in FY10.** Based on these estimates, the forward PER multiple is a modest 7.2x. The prospective free cash yield is 9.4% and the dividend yield 6.7%. **Turning to our DCF valuation, we estimate fair value for the shares now to be 33p, up from 29p. We reiterate our 'Buy' recommendation.**

Estimates (Jun – S$m)	2006A	2007A	2008E	2009E	2010E
Revenue	98.9	130.5	166.5	203.7	235.4
EBITDA	11.5	22.0	28.5	29.3	40.3
PBT	5.8	12.7	19.5	20.3	31.3
EPS (S¢)	3.1	3.6	5.8	6.0	9.3
PER (x)	13.7	11.7	7.2	7.0	4.5
EV / EBITDA (x)	5.2	3.4	2.9	2.4	1.5
Dividend (S¢)	0.7	2.1	2.8	3.0	4.5
Yield (%)	1.7	5.0	6.7	7.1	10.7
Net Cash	24.8	9.2	11.9	14.6	23.2
Net Assets	45.6	47.5	52.4	58.5	68.2

Source: Company Data / WH Ireland estimates

W H Ireland acts as NOMAD and broker to this company. W H Ireland has a research mandate for this company. Any research on this company should not be relied upon as being independent or objective.

Interim Results

(S$'000 unless stated)	6m to Dec-06	6m to Dec-07	% Change	12m to Jun-07
INCOME STATEMENT				
Revenue	**58,726**	**74,186**	+26.3	**130,485**
Cost of Sales	(28,820)	(39,355)		(63,493)
Gross Profit	29,906	34,831	+16.5	66,992
Other Operating Income	139	105		326
Other Operating Expenses	(20,075)	(13,840)		(41,497)
EBITDAR*	**9,970**	**21,096**	+115.9	**25,821**
Rental of Aircraft	(2,712)	(8,048)		(5,736)
Depreciation & Amortisation	(3,248)	(4,727)		(7,951)
Operating Profit	**4,010**	**8,321**	+107.5	**12,134**
Net Interest	413	351		562
Profit before Tax	**4,423**	**8,672**	+96.1	**12,696**
Taxation	-	(2,186)		(4,730)
Profit after Tax	4,423	6,486	+46.6	7,966
Minority Interests	(788)	-		(788)
Attributable Profit	**3,635**	**6,486**	+78.3	**7,178**
Dividends	(639)	(1,412)		(4,185)
Retained Earnings	**2,996**	**5,074**	+69.4	**2,993**
Weighted Shares in Issue (m)	203.2	198.7		198.7
Basic EPS (S¢)	**1.79**	**3.26**	+82.1	**3.61**
Net Dividend (S¢)	0.3	0.7	+133.3	2.1
Gross Margin (%)	50.9	47.0		51.3
EBITDAR Margin (%)	17.0	28.4		19.8
Operating Margin (%)	6.8	11.2		9.3
Tax Rate (%)	0.0	25.2		37.3
CASH FLOW STATEMENT				
Operating Profit	**4,010**	**8,321**	+107.5	**12,134**
Depreciation & Amortisation	3,248	4,727		7,951
Non-cash Trading Items	4,376	761		1,910
Gross Cash Flow	**11,634**	**13,809**	+18.7	**21,995**
Interest	413	351		562
Tax	(295)	(295)		(136)
Net Cash Flow	**11,752**	**13,865**	+18.0	**22,421**
Working Capital	(839)	(5,157)		(1,269)
Net Capital Expenditure	(12,297)	(10,893)		(19,432)
Free Cash Flow	**(1,384)**	**(2,185)**	(+57.9)	**1,720**
Dividends	(365)	(3,673)		(1,716)
Financial Investment	(39)	(2,264)		(1,117)
Acquisition of Skywest Minority	(11,288)	-		(16,157)
Shares Issued (Net of Buy-backs)	18,437	1,682		1,882
Increase (Decrease) in Borrowings	(1,480)	2,118		5,209
Increase (Decrease) in Cash	**3,881**	**(4,322)**		**(10,179)**
Closing Net Cash	**7,681**	**2,944**	-61.7	**9,233**

*EBITDAR: Earnings before Interest, Tax, Depreciation, Amortisation & Rental Cost of Leased Aircraft.

Source: Company Data

Results Commentary

Operating statistics for H1 show 13% increases in passenger numbers and RPKs

Load factor down because additional aircraft brought into service …

For the six months to December 31st, passenger numbers on the group's regular scheduled routes rose by 13.3% from 173,000 in 2006 to 196,000 in 2007. Air traffic, as measured by revenue passenger kilometres, increased by 12.7% from 140.9m to 158.9m. Available seat kilometres went up from 235.2m to 276.8m. Skywest operated an average of 10 aircraft against 8 in the comparable period, allowing it to add more regional routes as the additional capacity came on stream.

… allowing new routes and increased service frequencies

Skywest started services to Port Hedland in early July and increased service frequencies to Exmouth, Broome and Darwin during the half-year under review. In addition, services to Melbourne via Kalgoorlie from Perth commenced in November with three flights per week.

Network expansion nearly always brings an initial dip in load factors

Network expansion is nearly always coupled with an initial dip in capacity utilisation and this partly explains the reduced load factor, which was down from 59.9% to 57.4%. But another factor at work is the combination of selling regular passenger tickets with a block booking for a resource company. After disembarking resource company employees to their place of work, the aircraft is able to fly another leg to a second remote location giving ordinary passengers a service that might not be viable without the block booking. However, this tactic also alters the calculation of reported seat load factor, making it appear lower than it actually is.

Revenue growth of 26% overall

Revenues grew by 26.3% from S$58.7m to S$74.2m. The regular airline business, where scheduled flights are provided and sold to the flying public, continues to grow within a relatively stable environment. Skywest puts current growth in this area of the business at around 20% in revenue terms.

Greatest growth came in scheduled charter where flights more than doubled

Proportionately higher growth was experienced in long-term scheduled charters for the resources sector. These services carry workers to and from their place of employment in remote mining areas. Flights delivered during the first half more than doubled from 300 to 621, including services provided for the construction phase of the iron ore facilities for Fortescue Metals Group Ltd. This increase in activity made for better utilisation of the Fokker 100 jet fleet during the first half.

Fuel cost inflation put pressure on gross margin despite protection of fuel cost levy and rise-and-fall provisions

Fuel cost inflation is one of the greatest pressures faced at present. Escalating direct costs put pressure on the gross margin, which fell from 50.9% to 47.0%. In turn, gross profit rose by less than revenues, recording a 16.5% increase from S$29.9m to S$34.8m. Whilst fuel cost has increased dramatically, there is some protection in the form of the passenger fuel levy policy and the rise-and-fall provisions in scheduled long-term charter contracts. This allows much, though not all, of the cost increase to be passed on. However, there is no longer the same benefit of the significant hedging arrangement for future fuel requirements that characterised the previous financial year.

Mostly fixed overheads led to scale economies and 116% rise in EBITDAR

Overheads are mainly fixed so that as the fleet expands, Skywest is able to generate higher operating margins and profits as a result of scale economies. This was evident in the latest half-year. After indirect operating expenses, net of operating income, EBITDAR (the industry-preferred performance measure) grew by 115.9% from S$10.0m to S$21.1m.

Rental costs rose sharply with leasing of two additional F100 jets and depreciation higher

At the half-year end, Skywest had 12 aircraft in operation: 7 F50 turboprops owned outright and 5 F100 jets on operating leases. Depreciation, relating to owned aircraft and other assets, increased from S$3.2m to S$4.7m. Rental costs, relating to jet aircraft leased through Skywest's related leasing company, Avation plc, rose from S$2.7m to S$8.0m with the operation of two additional F100 aircraft.

Operating margin up from 6.8% to 11.2%

After these expenses, operating margin expanded from 6.8% to 11.2% taking operating profit up by 107.5% from S$4.0m to S$8.3m. Our figures differ from those quoted in the announcement because we have treated interest receivable as a financial item rather than

Pre-tax profit up by 96%

an operating item. Treated in this way, net interest fell by S$62,000 leaving pre-tax profit ahead by 96.1% from S$4.4m to S$8.7m.

Absence of last year's H1 tax losses restricted earnings growth to 78%

Carried-forward tax losses that were available to the parent company when Skywest Airlines became 100% owned have now been exhausted. The group suffered tax at 25.2% (6m to Dec-06: Nil) but there was no longer a minority interest (6m to Dec-06: S$0.8m) and accordingly earnings attributable to equity shareholders rose by 78.3% from S$3.6m to S$6.5m.

Share buy-backs helped EPS growth, which reached 82%

The reduction in share capital from buy-backs undertaken to maximise capital efficiency saw 7,936,073 shares repurchased for cancellation in calendar 2007. With the lower weighted average number of shares in issue, basic EPS grew by 82.1% from S¢1.79 to S¢3.26. An interim dividend of S¢0.7 has been declared, up from S¢0.3 in H1 07.

Gross cash flow up by 19%
Net cash flow up by 18%

Gross cash flow rose by 18.7% from S$11.6m to S$13.8m with higher operating profit and depreciation offset by the S$3.9m unearned income provision evident in the Dec-06 interim figures. (Unearned income is where the ticket has been sold but the flight has yet to be taken.) After interest receipts and tax payments, net cash flow was S$13.9m against S$11.8m in the comparable period.

Working capital absorption due to longer payment schedules for charter clients

There was an increase in working capital absorption from S$0.8m to S$5.3m with S$3.3m of the swing relating to the creditors ledger. This reflects the greater amount of charter contract work being undertaken. Individual passengers pay in advance for their tickets; charter clients pay at each month-end.

Free cash outflow of S$2.2m in H1: net cash down from S$9.3m to S$2.9m

Capital expenditure totalled S$10.9m (6m to Dec-06: S$12.3m). This left a free cash outflow of S$2.2m, up from S$1.4m. During the six month period, net cash fell from S$9.3m to S$2.9m.

Business Development

Code share with Virgin Blue allows sales distribution on east coast

The code share agreement reached with Virgin Blue airlines in January will contribute further to revenue growth in the second half. This contract allows Skywest sales distribution on the east coast of Australia, offering an increased number of destinations to passengers of both airlines. The company will attempt to add additional routes to the code share and further utilise Virgin Blue's sales network.

Further route expansion in H2

Extra regular scheduled services continue to be added to the route network. In February, an additional Sunday service on the Perth to Esperance route was initiated.

Second service to Bali planned in April

In conjunction with a charter partner, Islandbound Holidays, Skywest will also add a second service to Bali, Indonesia from April 6th 2008. The Sunday service will make an early departure from Port Hedland, returning late morning from Denpasar with onward connections to Broome and Perth. Skywest remains the only airline flying international services from the Pilbara region of Western Australia.

Major three-year charter contract with Newcrest started in January

On the scheduled charter side of the business, a major contract with Newcrest has been signed to fly the latter's employees to and from Perth to the Telfer Gold production facility in Western Australia. The contract commenced in January for a term of three years with further extensions possible. Skywest is operating regular fly-in, fly-out passenger services several times each week using its F100 jets. The revenue generated depends upon the precise number of services flown over the three-year term. As is customary, the contract includes provision for price adjustments to reflect increases in fuel prices.

Two more F100s to join the fleet in Q4

Demand for services in this business area currently exceeds Skywest's ability to secure the necessary infrastructure (aircraft, pilots and flight attendants). Consequently, two additional leased F100 jets will join the fleet in the next 2-3 months. Also, there are plans to add larger narrow body Airbus jets to the fleet over the next couple of years. These aircraft are required to adequately serve the larger mining operators on certain routes.

All key staff now covered by collective agreements on benefits and rostering

Additional staff recruitment underway

Recently, a three-year collective agreement has been reached with the Flight Attendants Association of Australia (FAAA). This provides for salary and allowance increases, back pay, the introduction of new allowances and other additional rostering and leave benefits. It adds to the collective agreements in place covering pilots and engineers, providing predictable rostering arrangements with the majority of the workforce. As a result of this agreement and the growth currently being experienced, Skywest is currently recruiting additional flight attendants as well as pilots and engineers.

Fuel levy increased with effect from March in effort to defend margins

From March 1st 2008, the fuel levy surcharge was increased to A$27 for routes operated by F50 aircraft, and A$29 for F100 operated routes. Credit card surcharges have also been raised to A$3 per passenger per sector. These changes are designed to protect margins whilst attempting to keep airfares affordable and competitive. Thus the increases are consistent with other airlines operating in Australia, which have increased fuel surcharges in the last few months.

Operating Statistics

Operating statistics for first 8 months show continuing strong growth in pax and RPKs

The table shows performance in the current year compared to that in the previous year. February had the slight benefit of one extra days trading in 2008.

January & February:	**2007**	**2008**	**% Change**
Passengers Carried	47,000	55,000	+17.0
Revenue Passenger Kilometres (‘000)	36,326	41,337	+13.8
Available Seat Kilometres (‘000)	66,142	78,338	+18.4
Load Factor (%)	54.9	52.8	
Charter Services	135	360	+166.7
Average Aircraft in Fleet	9	12	
Year to Date:	**2006/7**	**2007/8**	**% Change**
Passengers Carried	220,000	251,000	+14.1
Revenue Passenger Kilometres (‘000)	164,435	178,057	+8.3
Available Seat Kilometres (‘000)	271,824	320,578	+17.9
Load Factor (%)	60.5	55.5	
Charter Services	435	981	+125.5
Average Aircraft in Fleet	9	10	

Source: Company Data

Future Opportunities

Several benchmark opportunites for future growth identified …

The key growth opportunities are:

- increased resource charter contracts;
- increased services and frequency to existing routes;
- increased load factors and yield on existing routes;
- growth of existing routes into larger jet operations;
- new routes; and
- sweating the assets harder.

… against which demonstrable progress has been made in the current year

When benchmarked against these objectives, Skywest has made demonstrable progress in the current year. The Western Australia mining and resources sector remains buoyant with over $80 billion in projects planned or underway in the state. This will remain the key driver for passenger numbers. New routes, additional frequencies and third-party agreements will also drive revenues. To facilitate this growth, the company is adding to its infrastructure, with the leasing of larger aircraft and additional human resources. Lastly, Skywest has shown its determination to protect margins from extraneous events like fuel cost inflation. These developments leave it well positioned for future growth.

Forecasts

Revenue

Revenue projections based on pax growth of 15% (FY08 & FY09) and 7.5% in FY10

In FY08 to date, passenger numbers have grown by 14.1% aided by the benefit of the two additional F100 aircraft. This is considerably above our earlier estimate and, indeed, the pace of growth has risen significantly of late. In seasonally quieter January and February, passenger numbers have gone up by 16.6% and 19.9%. We feel that this is a firmly based trend given the business development initiatives discussed earlier. Accordingly, we now base our revenue projections on passenger growth of 15% (previously 12.5%) for the full year – producing a tally of 399,000. For FY09, we have projected further 15% growth as the fleet size increases. This growth moderates to 7.5% in FY10 in the absence of further additions to the fleet. This takes passenger numbers through 459,000 to 494,000.

Combined with continuing fares inflation of 5-6% …

… producing scheduled passenger income of A$129.6m rising through A$158.5m to A$183.2m

The first half saw scheduled revenue growth of about 20% from the 13% increase in passengers carried. This implies fares inflation of around 6%, which we feel comfortable in projecting through the full year given the recent increase in the fuel duty levy. For FY09 and FY10, we have assumed 5%. In FY07, total revenue of approximately S$130m was split between passenger revenue of S$85m and charter of S$45m. With 347,000 carried, the average passenger fare was therefore S$245 (A$196). Allowing for the fares inflation, passenger revenue rises in each year for FY08 through FY10 to A$82.9m, A$100.1m and A$113.2m (i.e. approximately S$106.5m, S$125.8m and S$145.5m, respectively).

Projected charter revenue grows at A$15m per annum through FY10

A$1 = S$1.29 exchange rate assumed

Projected charter revenue, reflecting new contracts signed, climbs from S$45m (A$35.7m) last year to S$60m (A$46.7m) in FY08, S$75m (A$58.4m) in FY09 and S$90m (A$70.0m) in FY10. This produces the aggregate revenue estimates of A$129.6m (S$166.5m), A$158.5m (S$203.7m) and A$183.2m (S$235.4m) for each respective year.

Margins

Gross margins remain under pressure but higher fuel cost levy mitigates effect of rising aviation fuel prices

Cost of sales has been allowed for at 52% – 1% lower than in the first half reflecting the relief from imposing higher fuel duty levies. This moderates to 51% in FY09 and FY10 because we think it likely that the rate of increase in the price of crude oil will slow allowing margin to be clawed back through ticket price rises. We have further assumed that indirect overheads as a proportion of sales run at 19% falling by 0.5% in each subsequent year as scale economies are realised. EBITDAR is struck after these items.

Rental costs continue to rise as additional leased jets are added to the fleet

Depreciation stable because number of owned F50 turboprops stays unchanged

Rental costs reflect the current typical leasing cost of an F100 aircraft: £1.7m (S$4.7m) per annum. In H1, Skywest operated an average of 3 aircraft with 2 additions to the fleet of F100 jets at end September taking the total to 5. In Q4, 2 more will be added taking the total to 7. Accordingly, the average over H2 will be a little over 5, implying H2 rental costs of around S$11.8m and S$19.8m for the full year. In FY09 and FY10, the annual cost rises to S$32.8m. The main depreciation item is aircraft and rotables, written-down over 6 years. The owned F50 fleet is unchanged and accordingly, we do not expect to see dramatic changes in the depreciation charge over coming years. The model has assumed charges of S$9.4m, S$9.5m and S$9.6m in each respective year.

Operating margins dip in FY09 before rising sharply in FY10 as load factors improve

After all costs are taken into account, operating margin comes out at 11.5% in FY08. This falls to 9.7% in FY09 as the new aircraft initially reduce the load factor and then rises strongly in FY10 to 13.0% as the capacity is more fully utilised.

Cash Flow

Modest working and fixed capital needs

The base assumption is that S¢7.5 of additional working capital is required to finance each S$1 of revenue growth. Capital expenditure is required for property, plant and equipment with additional amounts being invested in operating leases for additional aircraft. On an ongoing basis, we have taken capex at 1.1x depreciation to allow for 4% inflation between the original purchase of assets and their ultimate replacement 6 years later.

Detailed Profit & Loss Account & Cash Flow Estimates for 2008-2010

Year to December (S$m unless stated)	2008(e)	2009(e)	2010(e)
PROFIT & LOSS ACCOUNT			
Turnover	166.5	203.7	235.4
Cost of Sales	(86.6)	(103.9)	(120.1)
Gross Profit	79.9	99.8	115.3
S,G & A Expenses	(31.6)	(37.7)	(42.4)
Rental Costs	(19.8)	(32.8)	(32.8)
Depreciation & Amortisation	(9.4)	(9.5)	(9.6)
Operating Profit	19.1	19.8	30.6
Net Interest	0.4	0.5	0.7
Profit before Tax	19.5	20.3	31.3
Taxation @ 40%	(7.8)	(8.1)	(12.5)
Attributable Earnings	11.7	12.2	18.8
Weighted Shares in Issue (m)	200.3	201.7	201.7
Fully Diluted Shares in Issue	210.3	211.7	211.7
Basic EPS (S¢)	5.8	6.0	9.3
Fully Diluted EPS (S¢)	5.6	5.8	8.9
Dividend (S¢)	2.8	3.0	4.5
CASH FLOW			
Operating Profit	19.1	19.8	30.6
Depreciation & Amortisation	9.4	9.5	9.6
EBITDA	28.5	29.3	40.3
Interest	0.4	0.5	0.7
Tax	(7.8)	(8.1)	(12.5)
Net Cash Flow	21.1	21.7	28.4
Working Capital	(2.7)	(2.8)	(2.4)
Capital Expenditure	(10.4)	(10.5)	(10.6)
Free Cash Flow	8.0	8.4	15.4
Dividends	(4.6)	(5.7)	(6.8)
Financial Investment	(2.3)	-	-
Share Issues less Buy-backs	1.6	-	-
Movement in Cash	2.7	2.7	8.6
Opening Net Cash	9.2	11.9	14.6
Cash Flow	2.7	2.7	8.6
Closing Net Cash	11.9	14.6	23.2

Source: WH Ireland estimates.

Valuation

PER

Undemanding prospective PER of 7.3x with current year PEG of 0.1

The current share price of 15.25p translates to S¢42.1 based on the £1 = S$2.76 exchange rate used. The prospective PER for 2008 is therefore 7.3x falling to 7.0x in FY09 and 4.5x in FY10. These multiples look very low in the context of the projected earnings growth, which is for a compound annual growth rate of 37.1% over the next three financial years. The PEG for the current year is 0.1.

EV / EBITDA

Low EV/EBITDA multiple of 2.9x

The current market capitalisation of Skywest is £30.8m (S$84.9m). Closing net cash at the half-year was S$2.9m. Therefore the current enterprise value is S$82.0m. This compares with EBITDA expected for FY08 of S$28.5m placing the shares on a lowly EV / EBITDA multiple of 2.9x.

Free Cash Flow Yield

Prospective free cash yield of 9.4% accompanied by prospective dividend yield of 6.7% based on 50% payout ratio

The historic free cash flow yield of 2.0% is constrained by a heavy spend on aircraft and rotables in FY07. With the more normal pattern of capex versus depreciation going forwards, this recovers to 9.4% in FY08, 9.9% in FY09 and 18.1% in FY10. This is a very attractive free cash flow yield, especially since 50% of earnings likely to be distributed to shareholders in dividends. The projected dividend yield of 6.7% in FY08 rises to 10.7% in FY10 based on our expectation of a circa 50% pay-out ratio.

Discounted Cash Flow

Only 2.5% terminal growth has been allowed for beyond FY10

Discounting free cash flows at 10% gives NPV of S$184.3m alongside current net cash of S$2.9m

Beyond the explicit forecasts for FY08 - FY10, we have assumed growth of just 2.5% per annum, this being a reasonable approximation for long-run GDP growth. Skywest should actually be capable of medium-term growth of around 10% per annum but this would require further investment in the fleet. As we are seeing at present, this quantum expansion of infrastructure first eats into margin and free cash flow as the new aircraft are leased and load factors initially fall. Thereafter each picks up again as utilisation increases. Employing our theoretical model and discounting back at 10% – a reasonable expectation of total return for an equity investor – the stream of cash has a net present value of S$184.3m. Add in the present pro-forma net cash position, S$2.9m, and the fair value market capitalisation is S$187.2m.

Share Price Target

Fair value for equity estimated at S¢92.8 33.6p – representing a 120% premium to the current share price

Fair value market capitalisation of S$187.2m equates to a share price of S¢92.8. At current exchange rates, this values the AIM quoted shares at 33.6p – a 120% premium to the current share price. This is our short-term target based on the analysis work and assumptions contained herein.

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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.

Trading Buy
Expected to rise by 15% or more in absolute terms within 3 months

Trading Sell
Expected to fall by 15% or more in absolute terms within 3 months

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

Disclaimer

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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 31st December 2007 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage
Buy	27	32%
Speculative Buy	7	8%
Outperform	24	28%
Market Perform	22	26%
Underperform	3	4%
Sell	2	2%
Total	85	100%

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

Conflicts of Interest Policy

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Analyst Certification

The research analyst or analysts attest that the views expressed in this research report accurately reflect his or her personal views about the subject security and issuer. Furthermore, no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report.

Exchange Rates

The following exchange rates have been used in this report based on data obtained from Proquote at 11:00 on 19/3/2008: £1 = S$2.76; A$1 = S$1.29; £1 = A$2.14

Companies Mentioned

Company Name	Recommendation	Price	Price Date/Time
Avation	N/A	67.5p	19/3/2008 17:00

Source: WH Ireland

Share Price Date/Time

Company Name	Recommendation	Price	Price Date/Time
Skywest Airlines	Buy	15.25p	19/3/2008 17:00

Source: WH Ireland

Summary of Company Notes

Headline	Recommendation	Price	Price Date/Time
Initiation of Coverage	Buy	10.5p	15/5/2006 13:30
Review	Buy	12p	15/11/2006 14:35
Review	Buy	14.75p	28/11/2007 10:00
Review	Buy	15.25p	20/3/2008 07:00

Source: WH Ireland

Summary of Security Recommendations

Skywest Airlines (formerly Advent Air)

Recommendation	From	To	Analyst
Buy	16 May 2006	17 November 2006	PA
Buy	17 November 2006	Present	CA

Source: WH Ireland — Current Analyst (CA), Previous Analyst (PA)

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SKYWEST AIRLINES

Skywest Airlines, headquartered in Singapore, is the holding company for the major regional airline operating in Western Australia. It is the sole permitted operator on a number of coastal routes in the state and its regional charter service caters for the specific needs of Government, corporate and mining and resources clients requiring charter aircraft to remote locations. Skywest shares are quoted in London on the Alternative Investments Market.

Valuation	**2007A**	**2008E**	**2009E**	**2010E**
PER (x)	11.7	7.2	7.0	4.5
EV / EBITDA (x)	3.4	2.9	2.4	1.5
EV / Sales (x)	0.6	0.4	0.3	0.3
Dividend Yield (%)	5.0	6.7	7.1	4.5
Free Cash Yield (%)	2.0	9.4	9.9	18.1
P / FCFPS (x)	46.8	10.5	10.0	5.5
P / NAV (x)	1.8	1.6	1.5	1.2
PEG (X)	0.7	0.1	1.9	0.1

Returns Profile	**2007A**	**2008E**	**2009E**	**2010E**
CROCE (%)	3.3	15.2	15.1	24.3
ROAE (%)	16.8	25.9	22.0	29.7

Profit & Loss	**2007A**	**2008E**	**2009E**	**2010E**
Revenue (S$m)	130.5	166.5	203.7	235.4
Growth (%)	+31.9	+27.6	+22.3	+15.6
Gross Profit (S$m)	67.0	79.9	99.8	115.3
Growth (%)	+40.7	+19.3	+24.9	+15.5
EBITDAR (S$m)	25.8	48.3	62.1	73.0
Growth (%)	+48.2	+87.2	+28.6	+17.6
EBITDA (S$m)	22.0	28.5	29.3	40.3
Growth (%)	+91.3	+29.5	+2.8	+37.5
Operating Profit (S$m)	12.1	19.1	19.8	30.6
Growth (%)	+109.9	+57.9	+3.7	+54.5
PBT (S$m)	12.7	19.5	20.3	31.3
Growth (%)	+119.0	+53.5	+4.1	+54.2
Attributable Earnings (S$m)	7.2	11.7	12.2	18.8
Growth (%)	+80.9	+62.5	+4.3	+54.1
Weighted Shares in Issue (m)	198.7	200.3	201.7	201.7
EPS (S¢)	3.6	5.8	6.0	9.3
Growth (%)	+17.2	+61.8	+3.6	+53.7
Dividend (S¢)	2.1	2.8	3.0	4.5
Growth (%)	+189.3	+33.3	+7.1	+50.0
Dividend Cover (x)	1.7	2.1	2.0	2.1
Gross Margin (%)	51.3	48.0	49.0	49.0
Operating Margin (%)	9.3	11.5	9.7	13.0
Earnings Margin (%)	5.5	7.0	6.0	8.0

Cash Flow & Balance Sheet	**2007A**	**2008E**	**2009E**	**2010E**
Net Assets (S$m)	47.5	52.4	58.5	68.2
Net Cash (S$m)	9.2	11.9	14.6	23.2
NAV (S¢)	23.9	26.0	29.0	33.8
Free Cash Flow (S$m)	1.7	8.0	8.4	15.4
FCFPS (S¢)	0.9	4.0	4.2	7.6

Source: Company Data / WH Ireland estimates

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