

21st October 2009

Skywest Airlines*

Full-Year Results Comment – Reiterate ‘Buy’ at 10.125p; Target Price 32.5p

On 20th October, SkyWest Airlines, the Australian and South East Asia regional airline announced its results for the year ended 30th June 2009 which show that it remained profitable and suffered just a 1.8% decline in revenue despite economic conditions creating what the company described as *“an unprecedented volatile operating environment”*. With the operating environment having now stabilised somewhat, the company looks to have strong growth prospects which are far from discounted in the current rating and with the shares at 10.125p, we reiterate our stance of **‘buy’**.

Despite having to deal with stresses including fuel price highs and volatility and a significant decline in the Australian dollar against the US dollar in addition to the adverse economic conditions, Skywest turned around a first half Singapore \$2.51 million pre-tax loss to record a full-year pre-tax profit of S\$5.14 million (£2.19 million) on revenue of S\$180.85 million. Basic earnings per share were 1.60 Singapore cents (0.68p) compared to 4.61c (1.97p) in 2008, though a recommended final dividend of 1c per share (0.43p) is a 43% increase on 2008’s payout at the full-year stage.

The company generated S\$9.31 million from operating activities but S\$11.79 million of capital expenditure and the repayment of borrowings were largely responsible for an overall S\$4.28 million (£1.83 million) cash outflow. At the period end the balance sheet showed net cash of S\$6.02 million (£2.57 million), net current liabilities of S\$3.59 million and net tangible assets of S\$33.58 million (£14.33 million).

Key Data

EPIC	SKYW
Share Price	10.125p
Spread	9.5p – 10.75p
Total no of shares	194,500,000
Market Cap	£19.69 million
12 Month Range	2.75p – 10.5p
Market	AIM
Net Cash	£2.57 million
Website	www.advent.com.sg
Sector	Travel & Leisure
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Looking forward, Skywest continues to see *“huge growth potential for Western Australia, particularly in light of recent announcements of massive resource development such as the Gorgon Project”*. Such resource projects should see the company’s charter business continue to thrive and it reports it is presently tendering for various charter contracts. In addition, such developments will have a multiplier effect into local economies and in contrast to what is happening in other developed countries, the Reserve Bank of Australia raised interest rates earlier this month as the Australian economy continues to recover strongly. This is positive for Skywest’s conventional passenger operations – where significant scope for growth is also seen, and which the company continues to expand its route network in accordance with this. This two-pronged business model is a key differentiator between Skywest and most other airlines and offers increased defensiveness and efficiency benefits of being able to combine regular passenger sales with block bookings for resource clients.

There are risks; with the first half of the year having particularly demonstrated the swift and dramatic impact economic, fuel and currency volatility can have on the company’s financial performance. Skywest does attempt to mitigate these by way of hedging but significant and rapid changes to such factors represent an evident threat. However, with the economic environment looking more stable now, investors can look forward to future growth and a near-term boost may be provided by an Australian listing in addition to the AIM quotation, which the company is investigating to improve liquidity and with the aim of facilitating an increase in the Australian level of investment in the company. This may in turn assist it in obtaining an Australian International Airline Licence – which would offer further growth opportunities in international routes.

For the current year we maintain forecasts of a pre-tax profit of S\$21 million and earnings per share of 3.25p and considering Skywest’s strategic position continue to believe a price earnings multiple of at least 10 is warranted – suggesting a target price of 32.5p. At the current 10.125p, despite strong balance sheet support, the shares trade on a lowly 3.1 times forecast earnings and potentially yield 6.9%. The stance remains **buy**.



Forecast Table

Year to 30th June	Turnover (S\$ million)	Pre-tax Profit (S\$ million)	Earnings Per Share (p)	Price Earnings Ratio (x)	Dividend Per Share (p)	Dividend Yield (%)
2008A	184.20	12.75	1.97	5.1	0.60	5.9
2009A	180.85	5.14	0.68	14.9	0.43	4.2
2010E	200.0	21.00	3.25	3.9	0.70	6.9

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