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## SkyWest Airlines\* Extension of coastal network licenses; mining boom strengthens; accepts Virgin Blue passengers at 6 new destinations. Buy with a target price of 35p.

Last week was a milestone for Skywest airlines ensuring that it will remain as the dominant regional carrier in Western Australia for at least the next 5 years. A proportion of the coastal network destinations that Skywest services in Western Australia are regulated by the Western Australian State Government. Skywest has been awarded sole operator status for the Perth to Albany and Esperance routes and granted shared operator capacity to Learmonth/Exmouth. These are key routes for Skywest's mining clients who Skywest service on a largely charter basis.

The company should be able to update the market further shortly concerning the provision of services to ports from Geraldton where Skywest will continue to fly from Perth as a deregulated route. These ports are Carnarvon, Monkey Mia and Kalbarri, which the State Government are keen to have a long term service agreements sewn up for shortly, due to the importance of tourism in the area.

Skywest is also extending its codeshare agreement with Virgin Blue which will enable Virgin passengers to access six new destinations. This should help to drive passenger numbers and load factors on Skywest's scheduled services.

When we last reported on Skywest in August we reported that the scrapped Resources Super Profits Tax in Australia had held back passenger activity in the first half of calendar year 2010.

Key Data	
EPIC	SKYW
Share Price	22.75p
NMS	10,000
Spread	22.5p-23p
Total no of Shares	199.6 million
Market Cap	£45.41 million
12 Month Range	10.25p-27.75p
Market	AIM
Website	<a href="http://www.skywest.com.sg">www.skywest.com.sg</a>
Sector	Travel and Leisure
Contact	Jeff Chatfield Executive Chairman 07783 942553

Resources exploration and extraction activity in Australia is now back with a vengeance which is excellent news for Skywest's charter services.

Planned mining and energy investment has soared to a record AU\$132.9 billion after commodity prices rebounded and key resources projects received the green light. The value of projects under development hit a high in October, up 21% since April, the Australian Bureau of Agricultural and Resource Economics reported recently. The spending spree signals the mining boom is back in full swing, with annual resources investment tipped to surge by another 50 per cent in coming years. Demand for air transportation of workers to the remote resources hubs of Western Australia seems set to remain buoyant for some time to come.

Since the year end air traffic statistics released by Skywest have been strong. Regular passenger traffic was up 8.45% year on year in August, 4.91% in September and 1.05% in October. Charter traffic increased 11.69%, 3.39% and 10.57% over the same periods.

Strong passenger numbers, new routes, a larger fleet and a booming Australian commodities sector give us confidence that 2011 forecast revenue growth of 30% and earnings growth of 140% are achievable. With a forecast dividend yield of 3.5% and a PE rating of just 5.2 there is ample scope for us to raise **the target price beyond our current level of 35p**, which is just 8 times 2011 earnings, especially after recent news flow confirming Skywest's monopoly over key routes for the next five years. Our stance is **buy**.

Year to 30th June	Sales (S\$ Million)	Pre-tax Profit (S\$ Million)	Earnings Per Share (p)	Price Earnings Ratio (x)	Dividends Per Share (p)	Dividend Yield (%)
2008A	184.20	12.75	1.97	11.5	0.6	2.6
2009A	180.85	5.14	0.68	33.5	0.4	1.8
2010A	215.20	14.26	2.12	10.7	0.5	2.2
2011E	280.00	29.5	4.40	5.2	0.8	4.5

*Source: Company and Growth Equities & Company Research*

*\*Skywest Airlines is a corporate client of Bishopsgate Communications, which is owned by Rivington Street Holdings, the ultimate owner of GE&CR. The SF t1ps Smaller Companies Growth Fund, managed by another subsidiary of Rivington Street Holdings, owns shares in Skywest Airlines.*



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