

MORNING COMMENT

Buy Skywest Airlines*

Unchanged

Price 28.5p
SGD S\$ 57.41
Target price 45p

Reuters/BBG SKYW.L / SKYW LN
Index FTSE AIM
Sector Transport
Market Cap £50m

Virgin Blue 10 Year Strategic Alliance with Skywest Airlines

- **Skywest has this morning announced a major exclusive 10 year strategic alliance with Virgin Blue Group to build a regional network, building on previous code share agreements.** Skywest will operate up to 18 new additional turbo jet Virgin Blue branded aircraft (on a wet lease) on new and existing routes around Australia (largely outside of the Skywest's existing regional network in Western Australia), the first routes coming on stream (circa four) from mid 2011. The agreement also includes the ability for Skywest to code-share on Virgin Blue's domestic network. The agreement has the potential to double the size of Skywest's operations, probably over the next two-three years, as aircraft/routes are deployed.
- **Critically, Skywest is to be a service provider to Virgin Blue and is not exposed to the capital investment of owning the aircraft.** The additional aircraft will be leased and serviced by Skywest on a cost plus contract with Virgin Blue. Skywest will receive a fee for the operation of the routes whilst also benefiting from ticketing sales for those routes code-shared.
- **We view this development as a major positive for Skywest.** Virgin is an exceptionally strong marketing business and this should be beneficial for Skywest in the region. Skywest will continue to benefit from other existing and newly established code sharing agreements which will help benefit load factors on existing routes. The new alliance also allows Skywest to significantly grow its corporate travel offer for the resource sector and charter clients across Australia (not just the West) and internationally.
- **The agreement has the potential to double the size of Skywest's operations from 18 aircraft to nearer 40** over the next two-three years as new routes are deployed. Skywest will also benefit from previously announced route expansion plans, including plans to expand its network on the Western side of Australia following the Western Australian State Governments award to Skywest of sole operator status for certain routes. Many of these are key routes for Skywest's mining clients who Skywest service on a largely charter basis. The deal with Virgin and the consequent new aircraft orders gives Skywest better buying power which could enable the company to more competitively upgrade its existing fleet with more efficient, newer generation aircraft.
- Our rebased 2011 estimates (new analyst) look for revenue of S\$280m, pre-tax profit of S\$20.5m and EPS of 6.4S¢, with PTP estimated to grow by 56% to S\$32.0m in 2012 as new routes from the agreement come on stream, along with the benefit of previously announced route expansion plans.
- The shares trade on 9.0x June 2011 estimates falling to 5.8x in 2012. We reiterate our BUY recommendation and 45p price target (placing the share on 9x FY12 estimates). Interim results are expected to be announced in February 2011.

*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	2011E	2012E	2013E
Sales (S\$m)	180.9	215.2	280.0	350.0	400.0
PTP (S\$m)	5.1	14.3	20.5	32.0	38.0
EPS (S¢)	1.6	4.9	6.4	9.9	11.8
P/E (x)	35.9	11.8	9.0	5.8	4.9
DPS (S¢)	1.0	1.2	1.6	2.1	2.1
Dividend Yield (%)	1.7	2.1	2.8	3.7	3.7

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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 31 December 2010 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	18	40%	6
Speculative Buy	9	20%	9
Outperform	8	18%	1
Market Perform	4	8%	3
Underperform	3	7%	0
Sell	3	7%	0
Total	45	100%	19

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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