WH I SECURITIES

24 February 2011

[redacted]

MARKETING COMMUNICATION

MORNING COMMENT

Skywest Airlines*

Interim Results

Buy

Unchanged

Price	28.4p
Target price	45p / AUD¢75
Reut./BBG/ASX	SKYW.L / SKYW / SXR
Index	FTSE AIM / Aust. ASX
Sector	Transport
Market Cap	£56.6m

- The interim results demonstrate further operational progress, the fleet size increasing to 18 (H110: 16), including the introduction of an Airbus A320-200. The one off costs of introducing this to the fleet in the period was AUD$2.9m. **Revenue increased by 15.8% from S$108.1m to S$125.3m. EBITDAR increased 3.9% from S$28.9m to S$30.0m**, EBITDAR margin decreasing from 27.0% to 24.0%. This, however, is after Skywest absorbed the one off aircraft introduction costs relating to the A320-200 of S$3.8m. Adjusting for this, the **EBITDAR margin came in flat at 27.0%**. After net finance expenses, pre-tax profit moved down 4% from S$10.13m to a profit of S$9.76m – a creditable performance given the one off costs absorbed in H1. Good tax planning enabled profit after tax to come in broadly flat at S$7.2m. Fully diluted EPS of S¢3.56 compared with S¢3.63 for the comparable period. The interim dividend has been passed (H1 10: S¢0.5).

- The key factor in this performance is the strength of charter services for companies operating in the Western Australian resources sector, **charter services increasing 4.7% with Charter ASKs increasing by some 29% in the half year**. Meanwhile, the H1 operating statistics for scheduled regional services show that the **load factor rose from 55.66% to 56.61%, a 0.95% improvement**. Every point added above break-even (which is circa 48%) results in an ever increasing amount of profit on the bottom line.

- Given the growth potential for Western Australia, Skywest has been targeting major resource producers who fly their workers on a regular scheduled basis into and out of mining areas. These scheduled fly-in fly-out contracts provide strong recurring revenues. Given the capacity constraints evident at Perth, **Skywest has leased a larger A320-200 aircraft on these operations with the prospect of almost doubling revenues per round trip**. The benefit of this should come through in the second half.

- **Earlier this month Skywest 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. On the back of this, we rebased our estimates.

- The shares trade on 9.0x June 2011 estimates falling to 5.8x in 2012. We reiterate our BUY recommendation and 45p price target (equivalent to 9x FY12 estimates).

Y/E June	2009A	2010A	2011E	2012E	2013E
Sales (S$m)	180.9	215.2	260.0	350.0	400.0
PTP (S$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

*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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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.

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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