Growth Equities & Company Research

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Analyst: Derren Nathan
Email: derren.nathan@gecr.co.uk
Tel: 0207 562 3671

Avation* - Barnstorming interims. Significant upgrades to earnings estimates and target price revised upwards to 172p

Key Data	
EPIC	AVAP
Share Price	99p
Spread	98p - 100p
Total no of Shares	28.53 million
Market Cap	£28.25 million
NMS	4,000
12 Month Range	57p - 99p
Market	Full List
Sector	Diversified Industrials
Contact	Jeff Chatfield (Chairman) +44 (0)7783 942 553

On February 3rd Avation, the aircraft leasing company, announced very strong interims which were well ahead of the run rate for our full year 2011 forecasts. During the six months to 31st December 2010 revenues increased by 10% to £8.3 million. This was due to the leasing of an extra Airbus A320-200 aircraft from April 2010. Given that this made only three months contribution, it could drive a larger revenue uplift in the second half.

Profit before tax was up an impressive 82% to £2.79 million, representing a margin increase of nearly 16 percentage points to 33.7%. The key factors behind this margin increase were a normalisation of claims on maintenance reserves (down 37% to £0.7 million) and an increase in gross margin due to a reduction in costs at Avation.Net Inc which supplies aircraft parts and spares. Basic earnings per share rose by 87% to 5.86p.

Strategically and financially the period has been significant for Avation. The company moved from PLUS to the LSE Main Market in October. The shares have responded well to the positive news flow generated since then, rising by more than 20% and now trade with a relatively low 2% spread.

Post year end the company announced a transformative deal with Skywest Airlines and Virgin Blue Airlines which the company anticipates will result in the deployment of 8 further aircraft in the year ending June 2012, with an option for Virgin Blue to request 10 or more extra aircraft thereafter. Please see our note of 12th January for further details.

On January the 31st the company appointed Merrill Lynch International (Australia) to provide it with capital structuring services regarding the Virgin Blue deal. News flow regarding the financing of the new aircraft will be a key driver of the share price in the short term.

Avation reports that current trading conditions are satisfactory, with the cost of finance being reduced and the group successfully reducing or repaying higher cost debt facilities. Approximately

£5 million in long term debt was repaid during the period. This was achievable due to the strong operating cash inflow of £5.2 million. The company anticipates that the operations of the second half period of the 2010-2011financial year will be in line with the first half.

We are therefore increasing our 2011 pre-tax earnings estimate to £5.88 million (£3.55 million) and our earnings per share forecasts to 11.4p (6.3p). Given the margin uplift this gives us scope to also raise our 2012 earnings estimates and we now are forecasting pre-tax profits of £7 million (£4.22 million) and earnings per share of 14.3p (7.4p).

The results were truly outstanding, ahead of all market expectations, and give us the confidence to upgrade our recommendation from **buy** to **strong buy.** Given the growth profile we feel comfortable valuing the stock on 12x 2012 earnings in the short term generating an improved target price of **172p.** As more visibility emerges on the financing and roll out of the new fleet for Skywest and Virgin Blue, we anticipate being able to increase our valuation further.

Year to 30th June	**Revenue (£ million)**	**Pre-tax Profit (£million)**	**Diluted Earnings Per Share (p)**	**Price Earnings Ratio**	**Dividend Per Share (p)**	**Dividend Yield (%)**
2009 A	16.3	4.99	9.2	10.7	0.5	0.5%
2010 A	17.6	3.55	6.3	15.7	0.6	0.6%
2011 E	19.1	5.58	11.4	8.7	0.6	0.6%
2012 E	21.1	7.00	14.3	6.9	0.7	0.7%

Source: Growth Equities &Company Research

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email philip.morrish@gecr.co.uk - fax 020 7628 3815 tel 0207 562 3371