

BUY

New

Price 104p
Target price 180p

Reuters/BBG AVAP.L / AVAP LN
Index FTSE AIM
Sector Commercial Transportation
Market Cap £40.15m

MORNING COMMENT

Avation*

Record full year results

Avation, the aircraft leasing company, has today released preliminary results for the year ending June 2011. Despite a fall in revenues of 7% to £16.3m, the company posted record net profits and earnings per share, up 120% to £3.6m and 87% to 11.95p respectively. The massively improved profitability was driven by lower financing & operating expenses and a reduced tax rate. These results were without the benefit of any new lease agreements with Virgin Australia, for which 3 aircraft have already been delivered. We argue that our target price of 180p (15x earnings combined with a strong balance sheet) is undemanding. Our stance is BUY.

- These outstanding results include no contribution from the landmark growth initiative agreed earlier in the year with Virgin Australia, in respect to the delivery of between 8 and 18 new Aircraft. Avation has now delivered 3 ATR72 aircraft with a further 5 due by mid 2012. The planes are being leased & operated by Skywest Airlines (see our note of 25th October) who are providing 10 year 'wet leases' to Virgin Australia. Avation has options & entitlements to purchase up to 22 further ATR aircraft by 2017.
- Our 2012 forecasts show revenue growth of 33.7% to £21.8m based on the delivery schedule to Skywest and assumes the procurement of 2 further jets over the course of the year based on the company's previous track record. Whilst pre-tax profit is forecast to increase 21% to £6.8m, a reduction in earnings per share of 8% to 10.8p reflects the tax rate stabilising at 17% (Avation now has Singapore tax residency) and dilution from the £9.4m placing conducted earlier this year in order to facilitate the purchase of the first 8 ATR72s.
- Estimated revenue growth of 16% to £25.4m in FY2013 reflects a growing contribution from the Virgin agreement (£9.1m) but also accounts for the expiration of 5 existing leases on other aircraft due during the period. We assume that Avation will re-lease 2 of these aircraft. Upside potential is there from the re-leasing of the remaining 3 planes or the procurement of additional aircraft. Our financing assumptions for the ATRs assume the lower margin scenario detailed in the March placing prospectus. We are forecasting FY 2013 EPS growth of 16.6% to 12.6p. Avation is following a progressive dividend policy and we see dividends reaching 1.2p (up 20% on 2011) by 2013.
- Avation's shares have solid asset backing, and are trading at forecast year end NAV. Combined with a growing dividend yield and a sub 10x PE rating, as well as highly visible revenue streams the shares are very attractive at today's price. Earnings should continue to grow in 2014, with a full annual contribution from the leasing of at least 8 ATR72s. Today's results represent a step change in earnings and we believe, merit a re-rating. We argue that our target price of 180p (15x earnings combined with a strong balance sheet) is undemanding. Our stance is **BUY**.

* WH Ireland acts as joint broker and has acted as manager in the underwriting or placement of securities of this company within the last 12 months.

Analyst

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Y/E Jun	2010A	2011A	2012E	2013E
Revenue (£m)	17.6	16.3	21.8	25.4
PTP (£m)	3.5	5.6	6.8	8.0
PAT (£m)	2.8	5.1	5.7	6.6
PAT less minority interest (£m)	1.7	3.6	4.2	4.9
Diluted EPS (p)	6.3	11.8	10.8	12.6
Price/Book	1.2	1.1	1.0	0.9
P/E (x)	16.5	8.8	9.6	8.2
DPS (p)	0.5	0.6	1.1	1.2
Yield %	0.5%	0.6%	1.1%	1.2%

Source: WH Ireland estimates
WH Ireland is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority.

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 30 September 2011 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	53	85%	32
Speculative Buy	3	5%	3
Outperform	4	7%	2
Market Perform	2	3%	2
Underperform	0	0%	0
Sell	0	0%	0
Total	62	100%	39

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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*WH Ireland acts as joint broker

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