

## MORNING COMMENT

**BUY**

Unchanged

Price 105.5p  
Target price 200p

Reuters/BBG AVAP.L / AVAP LN  
Index FTSE ALL SHARE  
Sector Commercial Transportation  
Market Cap £44.7m

### Avation\*#

**Delivery of two ATR aircraft outside of existing delivery stream. Forecasts upgraded. Target price increased to 200p.**

The recent announcement that Avation will lease two further ATR72-500 aircraft is immediately revenue and earnings enhancing for the company. These will be leased to Skywest Airlines who will use the planes to accelerate the roll out of the alliance with Virgin Australia under 10 year wet lease agreements. The availability of aircraft is the main brake on the growth of this alliance, and Avation's ability to procure these aircraft ahead of schedule is impressive. We have increased our target price to 200p (180p) equivalent to 11x 2014 earnings and just under 2x NAV.

- We assume that the planes will be financed at least on equivalent terms to the existing ATR aircraft in the fleet. They should make a 5 month contribution to 2012 numbers and as such we are increasing our 2012 revenue expectations by 5% to £22.9m which we estimate will add a further 0.6p to earnings per share. We are now targeting 11.2p for 2012.
- 2013 will see a full year's contribution from both aircraft which we estimate will generate £2.6m of leasing revenues and add a further £0.4m to pre-tax profits. We now see total year on year revenue pushing ahead 22% to £28.7m with pre-tax profit accelerating 21% to £8.5m.
- FY 2014 will also benefit from the additional planes acquired last week, and by the end of that period we anticipate that Avation will have delivered a total of 18 ATR aircraft to the Australian Regional Airline Network. Our forecasts show a further 27% revenue growth to £36.4m with earnings per share reaching 18.6p.
- Whilst our forecasts do assume some renewals of existing aircraft in the fleet, Avation's track record suggests the possibility of further fleet expansion. Therefore, there is scope for upside to our forecasts. This month Avation purchased 11% of its minority interests and now owns 62% of AIM listed Capital Lease Aviation (AIM: CLA).
- Compared to the recent £4.7 billion sale of RBS Aviation by the Royal Bank of Scotland, which we estimate to have transacted at 2.9x NAV and 46 times pre-tax profits, it can be argued that our valuation is conservative. Existing shareholders will have recently received a dividend payment and we expect Avation to continue to pay regular, albeit modest, and increasing dividends.
- We reiterate our Buy recommendation and increase our price target to 200p (180p).

\* WH Ireland has acted as manager in the underwriting or placement of securities of this company within the last 12 months. WH Ireland provides joint broking services to this company.

**Analyst**

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Y/E Jun	2010A	2011A	2012E	2013E	2014E
Revenue (£m)	17.6	16.3	22.9	28.7	36.4
PTP (£m)	3.5	5.6	7.0	8.5	11.3
PAT (£m)	2.8	5.1	5.8	7.1	9.4
PAT after minority interest (£m)	1.7	3.6	4.6	5.6	7.9
Diluted EPS (p)	6.3	11.8	11.2	13.2	18.6
Price/Book	1.2	1.2	1.1	1.0	0.8
P/E (x)	16.7	8.9	9.4	8.0	5.7
DPS (p)	0.5	0.6	1.1	1.2	1.6
Yield %	0.5%	0.6%	1.0%	1.1%	1.5%

Source: WH Ireland estimates

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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<sup>st</sup> December 2011 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	44	81%	27
Speculative Buy	2	4%	2
Outperform	2	4%	2
Market Perform	5	9%	5
Underperform	1	2%	0
Sell	0	0%	0
<b>Total</b>	<b>54</b>	<b>100%</b>	<b>36</b>

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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