

Growth Equities & Company Research



Avation*

Reiterate Buy at 67.5p; short-term target price 246p

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11th March 2008

Avation* - Interim Results

Reiterate Buy at 67.5p; short-term target price 246p

PLUS-quoted Avation has announced a confident set of results for the six months to 31st December 2007 as its aircraft leasing business continues to drive the group forward.

The company reported a pre-tax profit of £6.93 million, up from £246,243 for the same period in 2006 as increased profits from continuing operations were supplemented by an extraordinary gain recorded as a result of the AIM listing in December of 51.22% owned subsidiary Capital Lease Aviation* (CLA). The post-tax profit attributable to shareholders totalled £6.45 million - with this figure including a £5.5 million gain from the CLA spin off. However, even stripping this out leaves £945,443 which compares favourably with the £174,169 achieved for the corresponding period in 2006. Revenue grew by 266% to £2.16 million and management signalled its future confidence by announcing a maiden 0.5p per share interim dividend, payable from underlying earnings per share of 4.04p, an increase of 334%.

The results again convey the significant bottom-line impact of a scaling up of aircraft leasing operations, with the announcement of the acquisition and leasing of a fourth aircraft on 31st July 2007 meaning the company had four aircraft leased out for most of the period compared with two aircraft for just over one month in the comparative period. Additionally, CLA has two aircraft presently leased out and has just acquired a third which it intends to lease to Australian carrier Skywest*. The impressive ability to translate revenue into profit which Avation is demonstrating also appears to be a striking facet of CLA with that company's recent interims showing a pre-tax profit of £362,190 on turnover of £573,149 - achieved with the two aircraft being in the portfolio for just three months of the financial period.

Significantly, the aircraft leased out by both Avation and CLA are typically in the early stages of 5-6 year leases and the revenues received over the rest of their contracted leases will more than cover the costs of purchase and moreover at the end of the present lease periods, all of the aircraft will have significant usable life remaining.

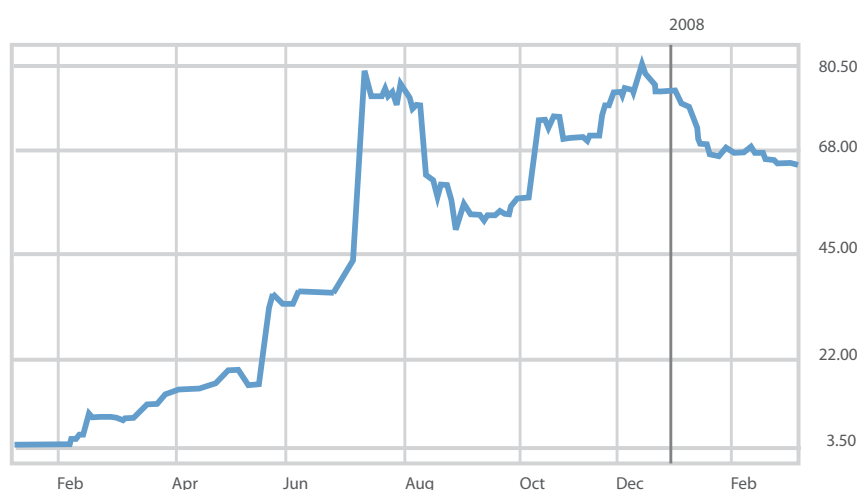
| KEY DATA | |
|--------------------|-------------------------------------------|
| EPIC | AVAP |
| Share Price | 67.5p |
| Spread | 85p - 70p |
| Total no of shares | 24,235,000 |
| Market cap | £16.36 million |
| 12 Month Range | 9.25p -86.5p |
| Net Debt | £2.14 million |
| Market | PLUS |
| website | www.avation.net |
| sector | Transport |
| contact | Jeff Chatfield (chairman) 07783 942553 |

Looking forward, both Avation and CLA have shown an impressive ability to access the capital necessary for expansion - with, for example, CLA securing a \$7.57 million finance facility at a fixed 6.5% per annum interest rate as recently as December. While CLA will seek expansion through leasing a variety of types of aircraft to a wide range of airlines, Avation is to seek continued growth through focussing on servicing the needs of the Skywest Airlines group. We identified a reliance on Skywest to provide aircraft leasing business as a key risk factor since initiating coverage of Avation in March of last year. However, with the continuing expansion of Skywest and the dynamics of both the regular passenger transport and resource charter sides of its business looking favourable, we continue to regard the company as a secure covenant for Avation. Meanwhile, the more diverse earnings stream CLA should soon be offering is a further comforting factor.

There are risks to expansion with the company noting in its results statement that the market value of aircraft has recently risen significantly “together with a concomitant firming of the leasing market and an environment of aircraft shortages”. However, we would note that a past ability to pass on cost increases to lessees has been demonstrated and that going forward management “remain modestly confident.”

With this, we are maintaining our full-year forecasts as the interim numbers should be healthily built upon by CLA having

two aircraft leased out for the whole of the second half and the acquisition and leasing of further aircraft. We continue to form our short-term valuation of Avation by valuing the company at a conservative 12 times current year earnings per share excluding CLA's contribution (we estimate 7.5p) and then adding the £37.83 million market value of Avation's CLA stake. This produces a short-term target price of 246p and with Avation's shares presently at 67.5p, our stance remains buy.



Forecasts Table

| Year to 30 th June | Sales (£million) | Pre-tax Profit (£million) | Earnings Per Share (p) | Price Earnings Ratio |
|-------------------------------|------------------|---------------------------|------------------------|----------------------|
| 2007A | 1.81 | 0.78 | 3.01 | 22.6 |
| 2008E | 5.00 | 3.13** | 9.04* | 7.5 |

** On an underlying, pre-exceptionals basis

* Avation, Capital Lease Aviation and Skywest Airlines are all corporate clients of Bishopsgate Communications which is owned by Rivington Street Holdings, the ultimate owner of GE&CR.

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