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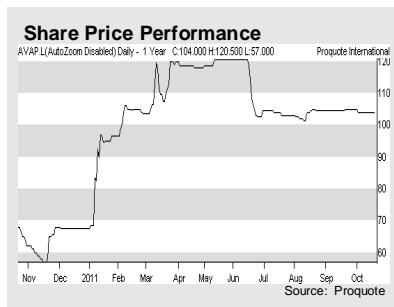
BUY

Price at Avation (GBP) 104p
Target Price (GBP) 190p
52-week range (GBP) 55p – 123p

Reuter: AVAP.L Bloomberg: AVAP.LN
Exchange: LSE Ticker: AVAP

Avation

Lift Off



Avation, an aircraft leasing company, today announced an outstanding set of full year 2011 results. During the year the company entered into a transformational strategic alliance with Virgin Australia. Forecasts indicate a return on equity in FY12 of 13% rising to 20% in FY14.

Track Record – Avation is now on the LSE's standard list at 104 p. Avation initially listed on PLUS in 2006 and its share price has progressively increased from 4p.

Asset base – Its aircraft fleet has expanded from zero in 2006 to twelve as at June 2011. Post year end three additional planes have been purchased. Avation has ordered a further five planes for delivery in the next 18 months. In addition, it has five aircraft under option and a further seventeen under purchase rights (a 'purchase right' is an undated call option over a new aircraft).

Transformational Strategic Alliance – In January 2011, Avation entered into a 10 year strategic alliance with Skywest and Virgin Australia Airlines to provide a fleet of up to 18 new aircraft that will serve regional Australia. Qantas, the incumbent market leader in Australia continues to suffer from an industrial dispute that has grounded the airline's entire fleet to create significant growth opportunities for both Skywest and Virgin Australia.

Business Model – Avation is an operating lessor. It purchases airplanes through leveraged finance and simultaneously leases them to airlines on long term leases. It aims to match lease terms to finance periods to ensure full equity of aircraft at the end of the lease period. Profitability occurs when lease income exceeds finance costs and depreciation (industry average 30 years).

De-risked – Airline lessees are responsible for all maintenance and operational costs of the aircraft and to ensure each aircraft possesses a valid certificate of airworthiness upon lease expiry.

Demand and Supply tightness – Avation has secured options and purchase rights to purchase an additional 22 new aircraft. The particular manufacturer is sold out until at least 2016 despite continually increasing demand for aircraft from airlines.

Financials – Avation has delivered a strong set of results. Revenues of £16.3m delivered profit before tax of £5.6m (FY10: £2.8m). This has resulted in an 87% increase in EPS to 11.95p (FY10: 6.39p).

Valuation – Avation trades on 7.7 times FY12 earnings forecasts dropping to 4.9 times FY14. Avation provides strong and visible operating cash flows underpinned by stable assets. Its fleet is due to expand from 12 to 20 over the next two years offering significant growth opportunities.

Stock Data

Market cap (£m) 40.1
Shares outstanding (m) 38.6

Activities

Aircraft leasing company.

Directors

Jeff Chatfield Chairman
Andrew Baudinette NED
Bryant McLarty NED

Significant Shareholders (%)

Jeff Chatfield 17.8
Slater Investments 5.0
Loeb Aron & Company 2.4
Barclays 1.9
Total 27.1

Forecasts and ratios

Year End June	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E
Revenue (£m)	1.8	5.0	16.3	17.6	16.3	19.7	26.1	27.3
CKS EBITDA (£m)	1.1	4.1	11.8	11.6	13.4	17.6	24.1	25.3
CKS PBT (£m)	0.8	2.6	3.6	3.6	5.6	8.1	10.8	12.0
CKS EPS (p)	3.0	6.0	4.8	6.4	11.9	13.5	18.9	21.1
PER	34.7	17.3	21.7	16.3	8.7	7.7	5.5	4.9
EV / EBITDA	40.7	20.4	7.5	7.6	5.4	6.2	5.2	4.1
Net cash / (debt)	(5.5)	(42.6)	(47.7)	(47.5)	(32.3)	(68.9)	(84.4)	(64.5)

Source: Cenkos securities estimates, company data,

Table of Contents

Section	Page
Background and operations	3
Strategy	3
Historical Growth	4
Transformational Strategic Alliance	5
Strategically positioned aircraft leasing business	7
Financials	8
Valuation	10
Appendices	
Aircraft Fleet	11
Financing	12
Organisational Structure	13
Management Team	14
Risks	15

Source: Cenkos Securities

Background and operations

Avation Plc was formed via a special dividend from what is now Skywest Airlines Ltd (AIM listed Australian and South East Asia regional airline). Management's objective was for it to support Skywest Airlines Ltd by providing aircraft leasing facilities. In November 2006 the company's original 18,639,195 shares were admitted to trading on the PLUS market with an admission price of 4p capitalizing the company at £745,568.

Following its admission to trade on PLUS in November 2006 the Group's balance sheet grew significantly. In November 2010, the company moved to the Official List

The Company's main activity is the leasing of commercial aircraft. The Company currently owns fifteen commercial passenger jet aircraft which are leased to airlines across Europe, the United States and Australia.

In addition, it also provides airline consumables and owns a legacy broadcasting services business. However, these two divisions only contribute £1.0m in revenues translating into £0.2m of operating profits.

Strategy

Avation purchases airplanes through leveraged finance and simultaneously leases them to airlines on long term leases. Profitability is achieved when lease income exceeds finance costs and depreciation (industry average 30 years).

The company aims to maintain a cautious amortization policy of fully amortising the financing of aircraft over the same period as its operating lease (rather than aircraft's usable life) which will see it typically achieve full ownership of the aircraft at the end of the lease, at which time the aircraft will still have significant usable life remaining.

Growth is achieved through expanding its fleet of aircraft. Aircraft are typically acquired using leveraged finance requiring an equity contribution of between 7.5% to 20% with the remaining balance being debt. To date Avation has been able to fund equity contributions through a combination of retained profits and two small fund raisings.

Strong Historical Growth

Historical Financials

Year End June	FY2007A	FY2008A	FY2009A	FY2010A	FY2011A
No. of aircraft at year end	3	8	11	12	12
Revenue (£m)	1.8	5.0	16.3	17.6	16.3
Cenkos PBT (£m)	0.8	2.6	3.6	3.6	5.6
Cenkos EPS (p)	3.01	6.04	4.82	6.39	11.95
NAV/Share (p)	22	55	76	90	118
Net (debt) / cash (£m)	(5.5)	(42.6)	(47.7)	(47.5)	(32.3)

Source: Company data

Aviation has seen its share price increase from 4p on float in 2006 to 104p today. This has been underpinned by strong financial performance enabling the expansion of its fleet of aircraft from zero to fifteen aircraft now. The fleet consists of eight Fokker 100's, two Airbus A320-200's, two Airbus A321-200's and three ATR 72-500s. Ten of the aircraft are 100% owned by Aviation and five through its subsidiary Capital Lease Aviation that it holds a 51.2% stake in. The book value of the fleet as at 30 June 2011 stood at £84.9m.

- **Skywest growth** – Nine of the fleet are leased to Skywest Airlines, a Perth based regional airline serving the remote communities of Western Australia. It has benefited from an exclusive license deal with the government and providing 'fly-in fly-out' services to the mining industry. Over the past five years Skywest has increased its revenues from £41.6m in 2006 to £116.6m in 2011 in which it generated after tax profits of £4.8m. Aviation has assisted this profitable airline in providing aircraft to service new routes.
- **Ability to secure debt and multi-year leases** – Management have successfully obtained favorable debt terms to continue to expand its fleet throughout the credit crunch. The company has demonstrated a proven ability to secure multi year leases at the point of purchase which are closely aligned to the financing terms of aircraft acquisitions.
- **Opportunism** – Aviation was able to take advantage of the financial crisis by purchasing aircraft at distressed rates from the leasing fleets of larger banking operations which have been under severe financial pressure. This has enabled the company to diversify away from supplying aircraft solely to Skywest.

Financing Fleet Expansion

The objective of Aviation was to source aircraft for the purpose of leasing them to Skywest Airlines Ltd. Primarily the company focused on acquiring second hand aircraft funded through retained profits and debt financing.

During 2007, to facilitate the continuing growth of its business Aviation incorporated an additional wholly owned subsidiary, Capital Lease Aviation. In July 2007, 47,708,339 shares in the new subsidiary were placed with investors at 24p each to raise £11.45m (gross of costs). The proceeds were used to increase CLA's fleet from zero to six. CLA is now listed on AIM. Aviation still holds a 51.2% stake. The market cap is currently £16.2m.

In March 2011, Aviation raised a further £10m before expenses at a price of 100p per share. In January, Aviation entered into an agreement with Skywest and Virgin Australia to provide a fleet of up to 18 new commercial aircraft to operate along the length of the Eastern Coast of Australia. The placing funded the pre-delivery payments for the first eight aircraft and placing costs.

Transformational Strategic Alliance

Background

Avation announced on 10th January that it had entered into an agreement with Skywest Airlines and Virgin Australia Airlines to provide a fleet of up to 18 new aircraft which will operate along the East coast of Australia. The aircraft will be purchased by Avation who will grant standard 10 year operating leases to Skywest, who will in turn operate the aircraft on behalf of Virgin Australia under a 'wet' lease and codeshare agreement. This is a transformational agreement for Avation providing:

- **Visibility** - fixed term 10 year lease
- **Quality of lessee** – ultimate lessee is Virgin Australia
- **Opportunity to double fleet size** – Agreement to provide a fleet of up to 18 aircraft
- **High Returns** – An average PBT margin of over 40% per annum for each aircraft forecast over the lease period.

Benefit of Alliance to Virgin and Skywest

Virgin Australia undertook a strategic review with the objective of reducing revenue volatility, improving yields, and ensuring a more consistent growth profile with reduced capital risk through strategic alliances with other airlines. Virgin Australia identified the higher yielding business and government travel as a segment to penetrate and reduce its exposure to the lower yield Low Cost Carrier arena.

Skywest has successfully benefited from servicing the resources sector of Western Australia, targeting major resource producers and providing contracted schedules 'fly in / fly out' services to the mining areas. Virgin Australia are seeking to replicate this focus on commercial travel through the Skywest model on the East Coast. The agreement assists Virgin Australia in investing in building a substantial network in regional Australia and strengthening its domestic network.

The arrangement provides Skywest with the opportunity to renew its existing aircraft fleet over the medium term with highly fuel efficient, low CO₂, new aircraft. Skywest has no material ongoing capital exposure to the Virgin Australia operation and receives a fixed fee per hour to fly the aircraft together with incentives for cost lowering initiatives and code share opportunities. The new network is primarily focused on the East Coast of Australia, which is the ideal complement to Skywest's current West Coast operations. The first routes serviced will include:

- Double daily weekday return Brisbane to Gladstone
- Daily return Brisbane to Port Macquarie
- Double daily Sydney to Port Macquarie
- Up to six daily return services between Sydney to Canberra
- Services to Emerald are scheduled to begin in January 2012

Delivery of first eight aircraft

Avation has agreed to a supply proposal with France based manufacturer Avions de Transport Regional (ATR) for the supply of four ATR 72-500 aircraft and four ATR 72-600 aircraft. The ATR-72 model was selected for its high fuel efficiency. For example, on a 200 nautical mile sector the ATR 72 fuel consumption per passenger is 16% lower than a typical car and 60% better than a typical regional jet. Furthermore the ATR 72-500 emits about 50% less CO₂ per passenger-km than new- generation jets. Compared to a car, the ATR 72-500's CO₂ emissions per seat/km on a 200nm sector are 15% lower. This offers Skywest and Virgin Australia with a significant cost advantage over competitors operating in regional Australia.

The base purchase price for each ATR 72-500 aircraft will be US\$18.3m rising to \$19.5m. These are subject to adjustments to reflect among other things, changes in economic conditions and the agreed aircraft specifications. Delivery is expected to be staggered over the next twelve months (See Appendix for more details).

Additional five aircraft under option

The company has paid \$50,000 for each option to purchase five additional ATR 72-600 aircraft. If the company elects to exercise the option it must give at least 18 months written notice to ATR. The price for the Option Aircraft will be the same as for the first ATR 72-600s, subject to certain adjustments. The five Option Aircraft are scheduled to be delivered in January 2013, April 2013, July 2013, October 2013 and January 2014, respectively. The Company also has the option to request ATR 42-600 aircraft in place of ATR 72-600 when exercising its option. Further fund raising will be required by the Company to implement the purchase of the Option Aircraft. The requirement for further funding will be assessed prior to the exercise of the option rights.

Additional seventeen aircraft under purchase rights

The Company will also be entitled to exercise its right to purchase up to 17 additional ATR 72-600 aircraft so long as the right is exercised to allow delivery of these aircraft before the end of December 2017. Further fund raising may be required by the Company to implement the purchase of these aircraft. The requirement for further funding will be assessed prior to the exercise of the purchase rights.

Business Model

- Options agreements are only exercised if Avation has a 10 year lease in place to provide visibility of revenues at a fixed rate.
- The first eight planes have entered into 10 year lease terms matched to the loan duration ensuring planes are 100% equity owned at the end of the operating lease with a minimum 15 year useful life remaining.
- The finance for the first eight planes have been financed through 7.5% equity , 7.5% fixed rate junior debt at c. 8.08% p.a., and the remaining 85% in senior debt at a fixed rate of 5.09%.
- The new planes are depreciated on a straight lines basis over 25 years.
- This is indicative that an average PBT margin of over 40% per aircraft.
- The financing for future aircraft is dependent on the availability of finance at that point in time.

Business Model for first eight aircraft

US\$ millions	
Annual lease revenue of one plane	2.04
Less	
Depreciation and Amortization	-0.72
Net average annual interest expense	-0.49
Total Expenses	-1.21
Pre tax profit	0.83
PBT Margin (%)	41%

Source: Company Data

Debt Financing

In August, Avation announced it has entered into a 10-year loan facility agreements for up to \$152.2m with Credit Agricole. The loan facilities can be drawn down progressively by the Company on an aircraft by aircraft basis for the purpose of purchasing the eight new ATR-72 aircraft.

The loan facilities, with respect to the first four aircraft, are credit insured by the French and Italian export credit agencies. Avation understands these are the first ATR aircraft ever to be financed under the new 2011 Aircraft Sector Understanding on Export Credits for Civil Aviation. This provides insurance over default by the lessee and a 50% residual value guarantee from the vendor after 10 years. This has enabled Avation to obtain low long term fixed interest rates.

Strategically positioned aircraft leasing business:

- **Aircraft supply shortage** – Major aircraft manufacturers are sold out through to 2016. Avation is in prime position to take advantage of this with five unexercised options and seventeen purchase rights to supply aircraft before year end 2016. In addition, due to this shortage management anticipate significant demand will remain for its existing fleet due to lack of supply of new aircraft.
- **Aircraft demand** – Long term growth in aviation demand is forecast to be led by emerging market demand. Although Oceania is a region with fewer than 40 million people (0.5% of the world's population), it accounts for 3.2% of global air traffic. Traffic is forecast to grow at a rate of 5.5% over the next 20 years. Flights to Southeast Asia will increase as that region grows as an intermediate point between Oceania and the rest of the world. Companies in China continue to look to Australia for raw resources.
- **'Leasing in' capacity trend** – Operating lessees own roughly 30% of the global fleet, an increase from 18% only ten years ago. Market expectations are that this will increase to 40 – 50% in the next ten years. This is underpinned by airlines requiring fleet flexibility, low capital commitment and reduced residual value risk.
- **Fuel efficient carriers** – High fuel costs are compelling airlines to accelerate replacement of older airplanes. Avation's unexercised options and purchase rights for new aircraft with ATR are perfectly positioned to fill this demand.
- **Quality of lessees** – Avation leases nine of its existing fleet to Skywest Airlines, one aircraft to US Airways, two to Thomas Cook and has entered an alliance to provide up to 18 aircrafts to Virgin Australia. Skywest has demonstrated a strong track record of growth in revenues from £42m in 2004 to £117m in 2011. Post tax profits have grown 140% over the same period to £4.8m in 2011. Skywest is successfully servicing the resources sector of Western Australia, targeting major resource producers and providing contracted scheduled 'fly-in/fly-out' services to the mining areas. Major charter clients include Rio Tinto, FMG, Barmenco, Macmahon, BHP, Newmont and Portman. Planned mining and energy investment has soared to a record AU\$132.9 billion indicating growth will continue. Virgin Australia has increased revenues from \$388m in 2002 to \$3,271m 2011 and holds \$731m of cash on its balance sheet. It is backed by the Virgin group which is the company's major shareholder. Thomas Cook recently re-financed and is consequently in a far stronger financial position. US Airways remains profitable and held \$2.64bn of cash at 30 June 2011.

Financials

Year end June (£m)	2011A	2012E	2013E	2014E
Cenkos P&L				
Group Revenue	16.29	19.64	26.09	27.26
Cost of Sales	-0.74	-0.74	-0.74	-0.74
Gross Profit	15.55	18.90	25.35	26.52
Other Income	0.30	0.00	0.00	0.00
Admin Expenses	-2.50	-1.27	-1.27	-1.27
EBITDA	13.35	17.63	24.08	25.25
Depreciation	-4.96	-6.38	-8.32	-8.73
EBITA	8.39	11.25	15.75	16.52
Net Interest	-2.76	-3.16	-4.96	-4.53
Cenkos PBT	5.63	8.09	10.79	12.00
Tax	-0.57	-1.38	-1.84	-2.04
Cenkos PAT	5.06	6.72	8.96	9.96
Minorities	-1.43	-1.50	-1.65	-1.80
PAT to Aviation S/holders	3.63	5.22	7.31	8.16
Weighted Shares in issue	30.36	38.61	38.61	38.61
Options Effect	0.29	0.00	0.00	0.00
CKS Basic EPS (p)	11.95	13.51	18.93	21.13
CKS Diluted EPS (p)	11.84	13.51	18.93	21.13
P&L as reported				
Operating Profit	8.39	11.25	15.75	16.52
Exceptionals	0.00	0.00	0.00	0.00
Net Interest	-2.76	-3.16	-4.96	-4.53
Profit before Tax	5.63	8.09	10.79	12.00
Tax	-0.57	-1.38	-1.84	-2.04
Profit after Tax	5.06	6.72	8.96	9.96
Minorities	-1.43	-1.50	-1.65	-1.80
PAT to Aviation S/holders	3.63	5.22	7.31	8.16
Cashflow				
Operating Profit	8.39	11.25	15.75	16.52
Depreciation/Amortisation/Non-Cash items	4.96	6.38	8.32	8.73
Claim on maintenance Reserve	1.24	1.26	1.27	1.27
WCAP Changes	-6.44	3.55	1.09	0.00
Cashflow from Operations	8.15	22.43	26.44	26.52
Opening Net Cash/(Debt)	-47.50	-32.33	-72.40	-89.07
Cashflow from Operations	8.15	22.43	26.44	26.52
Interest	-2.81	-3.16	-4.96	-4.53
Tax	-0.44	-1.38	-1.84	-2.04
Purchase of PPE	-0.02	-57.77	-36.32	0.00
Net proceeds from issue of share capital	9.42	0.00	0.00	0.00
Dividends	-0.17	-0.20	-0.30	-0.40
Other - Non cash movement	1.04	0.00	0.00	0.00
Other FX	-0.79	0.00	0.00	0.00
Closing Net Cash/(Debt)	-32.33	-72.40	-89.07	-69.11

Source: Cenkos securities estimates, company data

FY11

Avation has delivered a strong set of results. Revenues of £16.3m delivered profit before tax of £5.6m (FY10: £2.8m). This has resulted in an 87% increase in EPS to 11.95p from 6.39p achieved in FY10.

Underpinning the increase in profits are reduced finance charges from £3.8m to £2.8m. This was driven by a fall in net debt from £47.5m at 30 June 2010 to £32.3m at 30 June 2011. Average finance charge was 6.7% (FY10: 6.6%). In addition, in FY10 a net maintenance loss of £0.8m was incurred whereas in FY11 a £0.02m gain was achieved.

The results are even more impressive taking into consideration the dilutive impact of a £10m fundraise before expenses at a price of 100p per share in March. The placing funded the pre-delivery payments for the first eight aircraft purchased as part of the Skywest and Virgin Australia Strategic Alliance and placing costs. The first of eight planes was not received until post year end and therefore the impact of the fundraise was dilutive.

Net cash from operating activities fell year on year from £10.2m to £4.9m. This is due to working capital outflow of £6.4m. The majority of this amount is due to deposits totaling £4.7m relating to the acquisition of new aircraft due to be delivered over the next two years.

Post year end, the Group entered into a 10-year loan facility arrangement for up to \$152.2m, from Credit Agricole. The loan facilities can be drawn down progressively by the Group on an aircraft by aircraft basis for the purpose of purchasing a fleet of eight new ATR72 aircraft. Also, post year end Avation received three of these new ATR aircraft and has since delivered them to Skywest to enter operation.

FY12 – FY14

Fleet expansion – During FY12 five ATR are planned to be received with a further three in FY13 (See Appendix for timeline).

Revenues – Operating lease rates are fixed as outlined in the Appendix. In our projections we have assumed renewal of leases due to expire at existing rates. All other incomes are assumed to be fixed at FY11 run rates.

COS – Assumed to be fixed at FY11 run rate.

Admin expenses – These consist of maintenance reserve claims for certain aircraft. Avation receives maintenance income from lessees of certain aircraft based on hours/cycles flown. The Group provides a provision for future maintenance claims. We have assumed this to be net of zero with maintenance income. This is because over the medium term cash inflows should match cash outflows relating to maintenance.

Depreciation – Existing fleet assumed at a fixed current run rate. Additional aircraft assumed on a straight line 25 year depreciation rate.

Finance charge – Assumed FY11 average interest of 6.7% on existing fleet and additional aircraft at 5.3%.

Tax charge – Fixed at Singapore corporation tax rate of 17%.

Minority Interest – Based on Capital Lease Aviation market forecasts.

Working Capital – Avation is working capital positive with lease payments from counterparties received typically a month in advance. Finance payments are required either at end of the month or quarterly.

Capital expenditure – In FY12 four ATR's are acquired at an average price of £11.6m per aircraft. Three ATRs are due to be acquired in FY13 at an average cost of £12.1m (See Appendix for forecast valuations). The capex disclosed is net of pre-payments relating to the acquisition of each of the aforementioned aircraft. A prepayment of 1.5% of the base price of each aircraft was required on completion of the placing. A second pre-payment equal to 3% of the base price for each aircraft is required twelve months prior to delivery of each individual aircraft and a final prepayment of 3% six months prior to delivery date of each individual aircraft.

Valuation

Avation provides investors with a unique opportunity to gain exposure to the aircraft leasing industry on the LSE. Avation's business model provides a stable, long term, predictable investment profile, presenting generous profit opportunities to investors.

- Avation currently trades on 7.7 times FY12 earnings forecasts dropping to 4.9 times FY14. This is indicative of the underlying growth as the fleet expands from 12 to 20 over the next two years.
- Avation is asset backed with book value of aircraft fleet forecast to expand from £87m at June 2011 to £164m FY13.
- Return on equity is forecast to increase from FY12 13% to FY14 20%. Returns will continue to increase as debt continues to be re-paid.
- Dividend Yield is currently 1.0%. As Avation completes its fleet expansion and debt is repaid management will continue its progressive dividend policy.

In addition, Avation offers significant potential future upside as market analysts anticipate a positive outlook for aircraft leasing industry:

- Market analysts anticipate continued supply demand tightness through a shortage of available aircraft and growing demand for aircraft from airlines is indicative of an increase in aircraft values and lease rates.
- Execution of options and purchase rights provide company with an opportunity to accelerate future growth through fleet expansion.

On the basis of the above factors, we initiate coverage with a target price of 190p.

Appendix Aircraft Fleet

Number	Status	Subsidiary	Aircraft Type	Lessee	Start	End	Acquisition Price (\$m)	Lease Term	Rate(\$m) / year
1	Owned	F100 Pty Ltd	Fokker 100	Skywest	Apr-07	Oct-12	N/A	66	1.02
2	Owned	F100 Pty Ltd	Fokker 100	Skywest	Apr-04	Jan-14	N/A	117	0.90
3	Owned	F100 Pty Ltd	Fokker 100	Skywest	Aug-04	May-14	N/A	117	0.90
4	Owned	F100 Pty Ltd	Fokker 100	Skywest	Aug-08	Aug-14	N/A	72	1.08
5	Owned	F100 Pty Ltd	Fokker 100	Skywest	Aug-08	Dec-13	N/A	64	1.27
6	Owned	Capital Lease Aviation	Fokker 100	Skywest	Oct-07	Oct-12	N/A	60	1.19
7	Owned	Capital Lease Aviation	Fokker 100	Skywest	Feb-08	Feb-13	N/A	60	1.20
8	Owned	Capital Lease Aviation	Fokker 100	Skywest	Oct-07	Oct-12	N/A	60	1.19
9	Owned	Wilmington Trust*	Airbus A320-	US Airways	Sep-90	Dec-12	N/A	267	2.22
10	Owned	Capital Lease Malta	Airbus A321-	Thomas	Apr-03	Apr-15	N/A	144	4.50
11	Owned	Capital Lease Malta	Airbus A321-	Thomas	Feb-03	Feb-15	N/A	144	4.50
12	Owned	MSN 429 Limited	Airbus A320-	Skywest	Apr-10	Apr-13	N/A	36**	2.28
13	Exercised	Avation Eastern Fleet	ATR 72-500	Virgin	Aug-11	Jul-21	18.32	120	2.20
14	Exercised	Avation Eastern Fleet	ATR 72-500	Virgin	Sep-11	Aug-21	18.32	120	2.20
15	Exercised	Avation Eastern Fleet	ATR 72-500	Virgin	Oct-11	Sep-21	18.32	120	2.20
16	Exercised	Avation Eastern Fleet	ATR 72-500	Virgin	Dec-11	Nov-21	18.32	120	2.20
17	Exercised	Avation Eastern Fleet	ATR 72-600	Virgin	Jun-12	May-21	19.17	120	2.30
18	Exercised	Avation Eastern Fleet	ATR 72-600	Virgin	Aug-12	Jul-22	19.26	120	2.31
19	Exercised	Avation Eastern Fleet	ATR 72-600	Virgin	Nov-12	Oct-23	19.40	120	2.33
20	Exercised	Avation Eastern Fleet	ATR 72-600	Virgin	Dec-12	Nov-22	19.45	120	2.33
21	Unexercised		ATR 72-600	Virgin	Feb-13	Jan-13	19.55	120	2.35
22	Unexercised		ATR 72-600	Virgin	May-13	Apr-23	19.70	120	2.36
23	Unexercised		ATR 72-600	Virgin	Aug-13	Jul-23	19.80	120	2.38
24	Unexercised		ATR 72-600	Virgin	Nov-13	Oct-23	19.99	120	2.40
25	Unexercised		ATR 72-600	Virgin	Feb-14	Jan-24	20.14	120	2.42
26	Purchase Rights		ATR 72-600	Not stated	N/A				
27	Purchase Rights		ATR 72-600	Not stated	N/A				
28	Purchase Rights		ATR 72-600	Not stated	N/A				
29	Purchase Rights		ATR 72-600	Not stated	N/A				
30	Purchase Rights		ATR 72-600	Not stated	N/A				
31	Purchase Rights		ATR 72-600	Not stated	N/A				
32	Purchase Rights		ATR 72-600	Not stated	N/A				
33	Purchase Rights		ATR 72-600	Not stated	N/A				
34	Purchase Rights		ATR 72-600	Not stated	N/A				
35	Purchase Rights		ATR 72-600	Not stated	N/A				
36	Purchase Rights		ATR 72-600	Not stated	N/A				
37	Purchase Rights		ATR 72-600	Not stated	N/A				
38	Purchase Rights		ATR 72-600	Not stated	N/A				
39	Purchase Rights		ATR 72-600	Not stated	N/A				
40	Purchase Rights		ATR 72-600	Not stated	N/A				
41	Purchase Rights		ATR 72-600	Not stated	N/A				
42	Purchase Rights		ATR 72-600	Not stated	N/A				

Source: Company data, *Capital Lease Aviation PLC as beneficial owner, ** with an option to extend for a further period of 36 months

Financing

The Group has following finance facilities in place as at 30 June 2011.

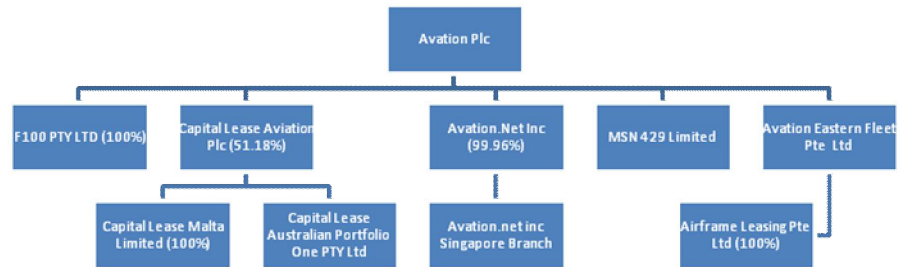
- A US\$43,538,535 senior loan facility which is secured by a cross collateralised mortgage over two Airbus A321 aircraft and one A320 aircraft. The finance period matches the lease term on each underlying aircraft with the residual final payments totaling US\$20,500,000.
- A US\$7,773,813 senior loan facility, which is secured by a mortgage over three Fokker F100 aircraft. The finance periods match the lease term on each underlying aircraft and amortises to nil with the exception of Fokker 100 MSN 11334 owned by Capital Lease Australian Portfolio One Pty Ltd, which has a US\$927,600 final payment attached.
- F100 Pty Ltd has a US\$9,193,138 senior loan facility, which is secured by mortgages over its five Fokker F100 aircraft. The finance periods match the lease terms on each underlying aircraft and amortise to nil.
- The Company and its wholly owned subsidiary, MSN 429 Limited have an arrangement over three years with the vendor for US\$6,599,999.88 in respect of its acquisition of an Airbus 6 A320-200 pursuant to a lease purchase agreement. Minimum lease payments remaining are US\$4,583,333. The three year vendor lease matches the sub-lease term with the airline customer.
- The Group had a facility with a related party, CaptiveVision Ltd, in which the related party granted a lender of the secured borrowings of the Group a charge over its assets for US\$2m and this facility has expired during the financial year. CaptiveVision Capital Ltd charged the Group interest at 14% per annum based on the committed asset amount of A\$2,089,967 until November 2010 and interest charged at 14% on the outstanding balance due to CaptiveVision Capital Ltd.

Organisational Structure

The company consists of the following subsidiaries:

- The Company has three wholly owned subsidiaries, F100 Pty Ltd, MSN 429 Limited and Avation Eastern Fleet Pte Ltd, all of whose principal activities is the leasing of aircraft.
- Additionally, the Company has a 51.18% holding in Capital Lease Aviation PLC whose shares trade on AIM. Prior to Capital Lease Aviation PLC's pre-admission fundraising round in July 2007, it was a wholly owned subsidiary of the Company.
- The Company also owns 99.96% of Avation.net Inc., a subsidiary incorporated in Delaware. Avation.net Inc operates a procurement business for airlines and broadcasters.

Organisational Structure



Source: Company Data

Management Team

Robert Jefferies Chatfield - Chairman

Mr Chatfield is Chairman of the Company and was a founding director, appointed on 11 July 2006. He is also the Executive Chairman of Skywest Singapore, and Chairman of CLA. Mr Chatfield has managed and been a director of a number of companies involved in the airline, data distribution, electronics, investment, broadcasting and manufacturing sectors. He is the author of a variety of patents held by the Company and its subsidiaries. He has a Bachelor of Engineering and a Masters in Engineering Science from the University of Western Australia. He is a member of the Australian Institute of Company Directors and the Singapore Institute of Directors. He was born in Perth, Australia and is a Permanent Resident of Singapore.

Andrew Charles Baudinette - Non-Executive Director

Mr Baudinette was appointed as a founding Director of the Company on 11 July 2006. He is an Australian citizen and a resident of the Republic of Singapore. An experienced marketer and manager, he has a 25 year history in media, having held management positions in the Australian radio and newspaper industries. Prior to this, he was a broadcaster and radio programmer in regional Australian radio. He was appointed as Chief Executive Officer of the Company's subsidiary, Avation.net Inc, in 2003 and became its Managing Director in 2005.

As well as having significant management level experience in all facets of commercial media and emerging technology, Mr Baudinette has been involved with and driven start-up businesses in the advertising, travel, technology and entertainment industries.

Bryant James McLarty - Non-Executive Director

Mr McLarty was appointed as a Non-Executive Director on 28 November 2007. Mr McLarty has extensive experience in corporate strategy and management and a practical working knowledge of securities and equity markets. Currently the Executive Chairman of the Australian Stock Exchange listed company, PharmAust Limited (ASX:PAA), Mr McLarty also holds an Australian Financial Services Licence in his capacity as Executive Director of Equity Capital Markets and Corporate Advisory firm Mac Equity Partners. Mr McLarty is a member of the Australian Institute of Company Directors.

Richard Sinclair - CEO subsidiary Capital Lease Aviation Plc

Mr Sinclair is the C.E.O. of the Avation subsidiary Capital Lease Aviation Plc and provides expertise to the group in respect to asset finance. He has served as Finance Director of Avation Plc where in addition to having responsibility for the finance function, he played an active role in securing aircraft purchases and in negotiating lease transactions. Mr Sinclair has worked in large listed public companies such as Allco (Singapore) Ltd, a public company involved in real estate, aircraft and other capital assets, and Westfield Ltd, a public company which develops, operates and manages retail property assets globally.

He has a Bachelor of Economics from the University of Adelaide and is a member of the Certified Practising Accountants of Australia.

Jonas Bogelund - Business Development Executive

Mr Bogelund is a business development executive in the Avation group. He comes from a legal background having worked as an associate lawyer in the Structured & Asset Finance team of Freshfields Bruckhaus Deringer in London where he primarily provided advice to aircraft leasing companies and, before that, as an associate in the M&A team at Gorrissen Federspiel lawfirm in Copenhagen.

Mr Bogelund has a Master in Laws from the University of Copenhagen and an MBA from INSEAD.

Sumit Vasudeva - Aircraft Leasing Executive

Mr Vasudeva is a leasing executive with Avation PLC. He has a diverse work experience, having worked for an aircraft leasing company based in the Middle East, an airport consultancy firm based out of San Francisco, a German oil trading firm as well as an aerospace research establishment based in India.

He has a BS in Aeronautical Engineering from India, MS in Aerospace Engineering from Virginia Tech, USA with a specialisation in structural dynamics of next generation advanced composite materials and has published his research in archival journals and conference

proceedings. Additionally, he is equipped with an MBA dual degree from Pamplin College of Business, Virginia Tech with a specialisation in Corporate Finance and Investment Banking.

Risks

Risk of lessee default – The airline industry is inherently uncertain. Avation has sought to mitigate this risk through leasing to quality counterparties. Skywest has demonstrated a strong track record of growth and profitability underpinned by exposure to the Australian mining boom. Virgin Australia has increased revenues from \$388m in 2002 to \$3,271m 2011 and holds \$731m of cash on its balance sheet. It is backed by the Virgin group which is the company's major shareholder. Thomas Cook recently re-financed and is consequently in a far stronger financial position. US Airways remains profitable and held \$2.64bn of cash at 30 June 2011.

Ability to re-lease planes – As the leases of the aircraft expire, the Company may not be able to re-lease the aircraft on favorable terms, or at all, or may not be able to sell the aircraft on favorable terms. Avation has reduced this exposure through ensuring contract renewals are at staggered points in time. The first of its fleet is due for renewal in October 2012. In addition, the majority of its fleet are currently leased to Skywest. Skywest and Avation share Jeff Chatfield as Chairman, indicating a strong relationship that will not lead to any significant surprises at lease renewal time.

Exchange rate risk - Avation is exposed to FX volatility. The company operates from Singapore, usually executing business in US dollars but reporting in British pounds.

Variability in aircraft supply and demand - The variability of supply and demand for aircraft and other aviation assets could depress lease rates and the value of underlying assets.

Key management - The Company depends on certain key personnel; the loss of any key personnel may adversely affect its operations.

Aircraft Faults - The Company may be adversely affected by "type" faults in a particular type of aircraft. Eight of the twelve aircraft currently owned by the Group are of one type of aircraft, the Fokker F100, and the Company has purchased four ATR 72-500 aircraft and four ATR 72-600 aircraft. The Company may be adversely affected by design, safety or other issues which may affect aircraft of those types, although there are no known such faults in any of those aircraft types. In the event that there is a "type" fault in a particular type of aircraft, all aircraft of that type may be required to be taken out of service for checks until the nature of the fault is fully ascertained, although that does not obviate each lessee's obligation to make any rental payments due. This may impact the ability of the Company to re-lease its aircraft in the future (after the current leases expire, from September 2012 onwards) or may cause unforeseen expense, since some of the current aircraft leases oblige the Company to cover the cost of any rectification in a recall event.

Ability to obtain finance - The Company will need additional capital to finance its growth, and it may not be able to obtain it on suitable terms or at all.

Airline Industry - A deterioration in the financial condition of the commercial airline industry would have an adverse impact on the Company's ability to lease its aircraft. The Group will lease its aircraft principally to commercial airline customers. Hence, the ability of the Group to lease its aircraft will depend on the financial condition and growth of the commercial airline industry and the appetite of the commercial airline industry to lease, rather than purchase, aircraft. If the financial condition of the commercial airline industry deteriorates, the Group may be adversely affected by:

- Reduced demand for the aircraft in its portfolio and reduced market lease rates and lease margins;
- A higher incidence of lessee defaults, lease restructurings, repossessions and airline bankruptcies and restructurings, resulting in lower lease margins due to maintenance and legal costs associated with the repossession, as well as lost revenue for the time the aircraft are off-lease and possibly lower lease rates from the new lessees;
- An inability to lease aircraft on commercially acceptable terms, resulting in lower lease margins due to aircraft not earning revenue and resulting in storage, insurance and maintenance costs;

- Financial loss if any aircraft in the Group's portfolio is damaged or destroyed by an event specifically excluded from an insurance policy, such as dirty bombs, bio-hazardous materials and electromagnetic pulsing. The Company currently has a limited customer base. Therefore Avation is exposed to the operational and financial performance of its counterparties.

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