

## Buy and Hold Investment Investment Idea

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## **World Airways Inc. (\$6.40 WLDA, NASDAQ)**

**September 30, 2004**

### Recommendation

Most stock pickers would not be looking to the airline industry to identify potential winners, however WinningStocks.com believes that there is one company that offers the potential of generous returns over the long haul. World Airways Inc. ("WLDA") currently trades at \$6.40 per share and WinningStocks.com has a target price of \$12.00 within the next 12 to 18 months. Our projection is based on the company's superior business model, reasonable valuation and growing operating income as well as expanding revenues

<b>Share Data</b>			
<b>Current Price</b>	<b>\$6.40</b>	<b>Shares Short</b>	<b>492K</b>
<b>52 - Week High</b>	<b>7.27</b>	<b>Short % of Float</b>	<b>0.061%</b>
<b>52 - Week Low</b>	<b>2.56</b>	<b>Book Value Per Share</b>	<b>\$0.56</b>
<b>Avg. Daily Volume</b>	<b>2.1M</b>	<b>EPS (ttm)</b>	<b>\$0.64</b>
<b>52-Week Change</b>	<b>32.73%</b>	<b>Profit Margin</b>	<b>2.66%</b>
<b>Market Cap</b>	<b>\$82.92M</b>	<b>Operating Margin</b>	<b>6.46%</b>
<b>Shares Outstanding</b>	<b>11.54M</b>	<b>Return on Assets</b>	<b>9.12%</b>
<b>Float</b>	<b>9.16M</b>	<b>Return on Equity</b>	<b>22.63%</b>
<b>P/E Ratio</b>	<b>10.16X</b>	<b>Institutions Own</b>	<b>14.18%</b>

<b>World Airways Inc Financial Summary</b>	<b>6 Mos</b>	<b>12 Mos</b>	<b>12 Mos</b>	<b>12 Mos</b>
	<b>June 30,</b>			
<b>All data in thousands USD (FYE Decl 31)</b>	<b>2004</b>	<b>Dec 31, 03</b>	<b>Dec 31, 02</b>	<b>Dec 31, 01</b>
<b>Revenue</b>	<b>\$244,644</b>	<b>\$474,850</b>	<b>\$384,489</b>	<b>\$317,866</b>
<b>Net Income</b>	<b>10,444</b>	<b>15,321</b>	<b>2,041</b>	<b>(26,037)</b>
<b>Working Capital</b>	<b>18,679</b>	<b>8,563</b>	<b>(28,759)</b>	<b>'n/a</b>
<b>Total Assets</b>	<b>138,673</b>	<b>157,301</b>	<b>117,262</b>	<b>112,229</b>
<b>Total Debt</b>	<b>57,041</b>	<b>75,177</b>	<b>57,641</b>	<b>62,396</b>
<b>Shareholders' Equity</b>	<b>6,412</b>	<b>(6,673)</b>	<b>(28,867)</b>	<b>(31,104)</b>
<b>Cash Flow from Operations</b>	<b>(3,615)</b>	<b>29,536</b>	<b>4,444</b>	<b>(19,601)</b>

### Rationale

#### **Operating Performance:**

WLDA is currently on track to post its third straight year of profitability. For the six months ended June 30, 2003 the company reported net income of \$10.4 million, this is however disappointing when compared

to the same six months of 2003, when the Company earned \$13 million. Revenues were virtually flat on a comparative basis.

The big news however is what's coming for the third quarter. Management announced on September 22<sup>nd</sup> that it would be raising revenue and earnings guidance for the third quarter. Previous guidance was that revenue would come in between \$113 million and \$123 million however management now expects between \$125 and \$130 million. Operating income, which was expected to be between \$5 to \$7 million, will be between \$11 million and \$13 million. Putting this into perspective, this would mean that operating income for the third quarter of 2004 will be, at a minimum, an 87% increase over the same quarter of the prior year.

**Valuation:**

WLDA's current P/E ratio of 10.5X stands at a steep discount to industry peers that have a combined P/E ratio of 25X. WinningStocks.com believes that the growth described above will continue over the next 12 to 18 months and this combined with a very low valuation will continue to propel the stock price over the same period.

**Technical:**

The shares have moved up by 64% over the past 10 day and the average daily volume has mushroomed over the same period – a sure sign that the shares in the company are under accumulation by institutions. Over the past 10 days the average daily volume has soared to 6.94 million shares versus a three-month average daily volume of 2.2 million shares. This, combined with the fact that the float hovers just around 9.3 million shares, indicates that over the short-term, there is a fair amount of upward momentum.

**Operating Environment:**

It is no secret that the business model of the entire airline industry is broken and has been for some time. WLDA's business model is sound. In its essence WLDA is a freight mover, however its freight just happens to be US soldiers. Nearly 80% of revenues are derived from contract services with the United States Air Force and, putting aside concerns of over dependency on one customer, this is a strong position to be in since it looks as if the country, if the current polls are correct, will choose to continue the aggressive persecution of the war on terror, including Iraq. Simply put, there is a lot more business on the horizon for WLDA

**The Company**

World Airways, Inc. provides long-range passenger and cargo charter and wet lease air transportation, serving the United States Government, international passenger and cargo air carriers, tour operators, international freight forwarders and cruise ship companies. During the year ended December 31, 2003, the Company operated 11 MD-11 and seven DC-10-30 aircraft. The United States Air Force accounted for 79.9% of total revenues during the first six months of 2003.

**Conclusion**

It would appear that WLDA is an emerging growth story will continue for the coming 12 months. Also, since the market is currently under valuing the company there is fairly high degree of downside risk protection.

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