

Dow Jones CANADA VENTURE: Stars Aligning For AeroMechanical Services

By Monica Gutschi
Of DOW JONES NEWSWIRES

TORONTO (Dow Jones)--You could say the stars are aligning for AeroMechanical Services Ltd. (AMA.V).

The small Calgary-based firm makes a device that allows flight crews on aircraft to communicate directly with ground support at any time from anywhere in the world. The device also transmits real-time data on the state of the aircraft, including fuel usage, pressure levels, and engine condition.

That information is handy to have at any time, but will become especially so in the next few years as airlines move to comply with new European Commission rules on greenhouse-gas emissions. There are also EC rules in the works that will require aircraft to have the ability to support data-link services.

And the recent tragedy in which an Air France plane disappeared over the Atlantic Ocean has highlighted the gaps in the widely used ACARS, or Aircraft Communication Addressing and Reporting System, raising interest in AeroMechanical's unique product.

"We believe that, had AeroMechanical's AFIRS unit been present on the aircraft, either as the primary communication source or used in conjunction to ACARS, it may have been able to provide the actual coordinates of the plane," Jacques Kavafian of Research Capital said in a recent note.

Kavafian or a member of his family own shares or options of AeroMechanical and Research Capital has an investment-banking relationship with the company.

In contrast to ACARS, which normally requires aircraft to have a direct sightline to a series of transmission towers, AeroMechanical's AFIRS - or Automated Flight Reporting Information System - uses the Iridium network, a group of 68 satellites spanning the globe.

Richard Hayden, AeroMechanical's president, notes there are no ACARS towers, nor conventional satellite coverage, over the North Pole, and limited coverage over Africa, India and parts of South America. While some aircraft can broadcast ACARS via satellite, the system isn't as flexible as AFIRS.

Rob Giguere, president and chief executive of Skyservice Airlines, one of Canada's largest charter airlines, said in a recent letter that AFIRS has given his company "improved confidence in all of our operational systems, communications and flight planning processes resulting in increased fuel savings and consequent reductions in emissions."

Hayden says interest in AFIRS has soared since the EC published its new rules.

Under EC's Emissions Trading Scheme, airlines will have to pay for any greenhouse-gas emissions they emit above a pre-determined level, which is likely to be lowered over time. The looming 2012 deadline now has airlines "in a panic," Hayden says.

AFIRS will not only report how much fuel remains on board, but also "how much they could have saved if they operated the aircraft differently," Hayden says.

Small changes in taxiing, altitude, aircraft weight and so on can all affect how much fuel is used. Fuel typically represents 35-45% of total operating costs and Hayden says AFIRS can help airlines save between \$20,000 and \$300,000 per aircraft per year.

The growing interest is showing up in AeroMechanical's financials: Revenue rose 60% in 2008, and quadrupled in the first quarter of this year. Although the company continues to lose money, its margins are improving as its recurring revenues from installed products rises.

AeroMechanical now has 31 customers, including commercial carriers, cargo airlines, and those that fly special missions such as United Nations relief flights.

Company Web Site: <http://www.amscanada.com>

-Monica Gutschi, Dow Jones Newswires; 416-306-2017;
monica.gutschi@dowjones.com

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