

**Source: The Rivkin Report, 10 Sept 07.**

### **REGIONAL EXPRESS**

Airlines have always been tough businesses, there are sweet periods where solid profits can be made then there are terrible periods of weak demand and over capacity and then of course, for every airline there is the regular (high) capital requirement point when new aircraft must be purchased.

We have received quite a few calls regarding the decision by Virgin Blue to purchase around 20 new Brazilian built Embraer jets.

It is not yet clear exactly which routes Virgin will attempt to deploy these smaller jets on. It does seem likely that they will be used on the main trunk routes at times when they can't fill an Airbus (the only other plane in their fleet).

This is clearly a risk for REX. There are a few major regional routes that VBA may try to compete with REX on. It remains unlikely they could offer services as cheap as REX can with its Saab prop-driven aircraft and local airports will need security upgrading in order to service jets too which we expect would need to be funded by Virgin. The other significant hurdle for Virgin is the question of new airport slots. We are told that there just are not any more peak hour slots out of Sydney to be allocated so Virgin's plans will need to work with this limitation too.

Virgin has understandably been cagey about exactly where it will deploy its new aircraft so only time will tell...watch this space.

In last week's report we said that REX has 31 monopolistic routes, since the briefing two weeks ago, REX has picked up another route so can now boast 32 out of 39 routes as sole service provider.

We suspect that there are plenty of small regional operators that will disappear in the years ahead and REX will pick up the majority of that business.

### **SUMMARY**

As with all businesses, there are always risks and business is always competitive. We remain of the view that there is extensive potential for new regional routes and acquisitions for REX, they are acquiring a new aircraft at the rate of 1 per month.

Management is solid and very shareholder focussed. At the current \$2.50, we have the stock on a P/E of 10 and with growth double its P/E we have a PEG of 0.5.

REX remains a med term, med risk hold. All subscribers wanting to have bought have done so.

REX will trade ex its 6.6c (ff) div on the 9<sup>th</sup> oct.

**The Rivkin Report Investment Team**