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A cheap small cap with a huge dividend yield

Airlines are terrible businesses, and don't let anyone tell you otherwise. Just take a gander at **Virgin Australia**'s (ASX: VAH) ugly full year result.

But there are exceptions to every rule, and opportunistic small cap investors will do themselves a disservice if they overlook **Regional Express** (ASX: REX). This independent carrier is being buffeted by the same winds as Virgin Australia – consumer confidence and the carbon tax not least among them – but is a far better bet.

For one, because Regional Express flies domestic routes that don't experience much competition, its core business is far more stable.

For two, the share price is extremely cheap, at just 6 times earnings. It's true the company's full year profits are expected to be as much as 40% lower than the year prior, but the market isn't seeing how this conservatively run airline group has weathered greater storms. In short, the current share price poses an opportunity.

As an example, REX shares have outperformed the **S&P/ASX 200 index** (Index: ^AXJO) (ASX: XJO) over the last 5 years, and over the last 10 years as well, a claim which neither Virgin Australia or **Qantas** (ASX: QAN) can rightfully make.

Finally, the current dividend yield is over 7%, fully franked, and this payout looks to be sustainable despite this year's expected profit fall. All told, that's why this cheap small cap falls firmly into 'take a punt, see how you go' territory, especially in the context of a diversified portfolio. Patient, long-term investors will want to pay close attention.

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