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THE RIVKIN REPORT

REGIONAL EXPRESS HOLDINGS LTD (REX)

We traded REX very successfully last year, buying in at around \$1 and exiting at \$1.60. The stock continued pushing on to peak at \$2.15 in January and has since been trading sideways at around \$2.

A week or so ago, we saw that one of the directors put his hand in his own pocket to buy \$200,000 worth of stock (now owns 300,000 shares). This rang alarm bells, so Nigel bought some stock to get some money in the game and then had another look at the situation for subscribers. As you know, smart money flows are one of our favourite catalysts and there is little money that is smarter than directors buying and selling. We understand business has continued to go well and earnings estimates are starting to be increased for the current year from estimates of a few months ago.

With earnings expectations now of around \$22m, the stock is on a P/E of around 10 times with no debt, therefore a very lazy balance sheet. Indeed, cash on balance sheet sits at around \$20m. The strengthening \$AUD reduces REX's costs, both on its fuel and aircraft leasing costs, so these are sweet times right now. As we get closer to the end of the financial year and the market get clearer on how well the business is going and gets confirmation via its result, its hard to see this one staying on a 10 times multiple. It could easily move up to the \$2.20-\$2.30 range or even higher if evidence is delivered that helps underpin forecasts for next year too.

REX is only a small company with a market cap of \$227m, so liquidity is not huge, but we got subscribers set in the past and hope that liquidity will provide those who want to get set with the chance to do so again. This one will suit those with a short to medium term outlook and a medium risk profile. As a guide only, you may allocate 3% -6% of your portfolios to REX but as always, make allocations based on your own situation.

As a worst case scenario (which is most unlikely), the stock could fall say 20% -30% if things go wrong, as they can do with airlines (or any business), but this one has no debt and most of its routes are monopolies, so the two big killers for airlines (excess capacity and high debt) don't really apply here. REX is a medium term, medium risk buy at around \$2.

(Member of the investment team own shares in REX)

If you have any questions about this recommendation, please call a Rivkin Report Stock Consultant on 02 8302 3602 between 8.30am and 5pm Monday to Friday.

Good investing,

The Rivkin Report Investment Team