RBS The Royal Bank of Scotland

28 April 2010

Produced by: RBS Equities (Australia) Limited

Regional Express

The little airline that can

Initiation of coverage

Buy

Target price
A$1.89

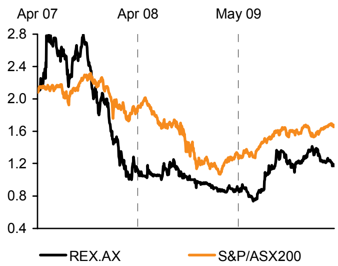
Price
A$1.16

Short term (0-60 days)
n/a

REX is an Australian regional airline with market-leading returns, yield support going forward and growth opportunities. Trading on an FY11F PE of 5.3x and 0.9x P/NTA, it is also cheap in our view, with revenue growth from contract wins likely to drive a rerating. We initiate coverage with a Buy and A$1.89 target price.

Price performance

	(1M)	(3M)	(12M)
Price (A$)	1.23	1.36	0.86
Absolute (%)	-5.3	-14.4	34.9
Rel market (%)	-5.0	-18.5	3.1
Rel sector (%)	-6.8	-17.1	11.9



Market capitalisation
A$140.66m (US$130.40m)

Average (12M) daily turnover
A$0.09m (US$0.07m)

Sector: BBG AP Transport
RIC: REX.AX, REX AU
Priced A$1.16 at close 28 Apr 2010.
Source: Bloomberg

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA (A$m)	39.2	36.2	41.4	48.3	59.8
Reported net profit (A$m)	24.3	23	21.9	24.7	32.5
Normalised net profit (A$m)¹	24.0	20.6	23.3	24.7	32.5
Normalised EPS (c)¹	20.8	18.3	20.5	21.8	28.7
Normalised EPS growth (%)	1.49	-12.00	12.30	6.37	31.40
Dividend per share (c)	6.6	6.0	0.0	7.5	9.0
Dividend yield (%)	5.69	5.17	0.00	6.47	7.76
Normalised PE (x)	5.59	6.35	5.66	5.32	4.05
EV/EBITDA (x)	3.29	3.51	3.87	3.07	2.80
Price/net oper. CF (x)	4.95	4.30	5.25	3.76	4.09
ROIC (%)	23.6	18.4	21.1	15.1	19.5

1. Pre non-recurring items and post preference dividends
Accounting standard: IFRS
Source: Company data, RBS forecasts

year to Jun, fully diluted

Regional airline with proven business model

REX is a niche player in the Australian regional aviation market. It utilises small turbo-prop aircraft to fly to 34 destinations throughout NSW, Victoria, Tasmania, South Australia and Queensland, and is the sole service provider on 26 of these routes. Despite inherent industry volatility, the airline has been profitable in each year since listing and its business model showed resilience through the recent downturn compared with its peers (REX's FY09 reported NPAT declined 5.6% vs Qantas's 88% decline and Virgin Blue's A$160m loss).

Market leading returns with further upside potential

Our FY10F EBITDA margin is 17.9% (vs QAN at 12.4% and VBA at 13.6%) due to REX's low operating costs, while our FY10F ROE is a very strong 17.1% (vs QAN's 5.3% and VBA's 10.5%) highlighting the efficiency of REX's operations. Furthermore, we expect margins to improve in the medium term with the lower margin freight operations exited recently and a higher-margin Air Ambulance contract due to commence in July 2011.

Yield support going forward plus growth opportunities across its businesses

Historically REX has returned cash to shareholders and we forecast a solid 6.3% yield in FY11 (vs QAN 4.9% and VBA 0.0%), although we don't expect a distribution for FY10 due to significant capex during the period. REX also has significant growth opportunities in the medium term; it recently won a 10-year Air Ambulance contract and has tendered for further contracts, driving our FY12F EPS growth of 31.4%.

REX has strong fundamentals and catalysts for a rerating: Buy

REX has a proven business model, strong returns, yield support going forward and growth opportunities, making it a strong investment proposition. It is also cheap, in our view, trading on an FY11F PE of 5.3x and 0.9x P/NTA (versus an average 7.0x and 1.6x respectively), and we expect it to rerate as contracted revenue begins to flow and distributions are reinstated. We initiate coverage with a Buy recommendation and A$1.89 valuation and target price.

Important disclosures can be found in the Disclosures Appendix.

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Niche player with growth opportunities

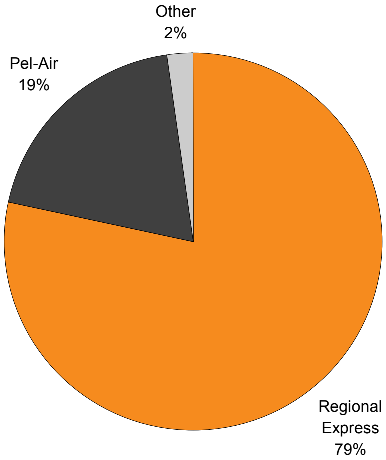
REX is a niche operator in the Australian regional aviation market with a variety of businesses underpinning its growth profile. REX has maintained profitability each year since listing and enjoys a strong ROE compared with its peers (17% vs VBA's 11%).

REX has a niche product offering…

The ASX-listed REX operates a number of subsidiaries including Regional Express, Pel-Air Aviation (Pel-Air), the Australian Airline Pilot Academy (AAPA) and Air Link.

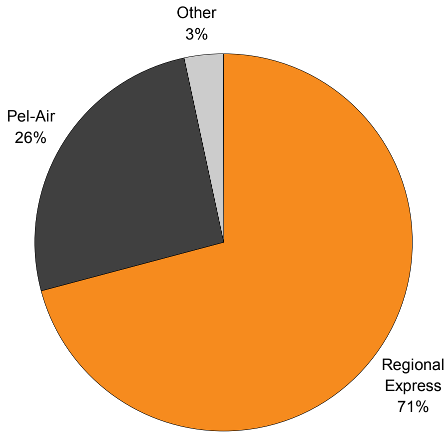
- Regional Express is Australia's largest independent regional airline, offering regular passenger transport (RPT) services and freight services. It operates a fleet of 40-plus Saab 340 aircraft on 1,300 weekly flights to 34 destinations throughout NSW, Victoria, Tasmania, South Australia and Queensland.
- Pel-Air is a charter aircraft operator offering 24/7 medical, passenger and freight services.
- AAPA is a pilot training facility.
- Air Link is a charter operator that also offers aircraft engineering and maintenance services.

Chart 1 : EBITDA split, FY11F



Source: RBS forecasts

Chart 2 : EBITDA split, FY13F



Source: RBS forecasts

Why we like it

… with a number of competitive advantages that have allowed it to remain profitable throughout the downturn, when many of its peers have not

REX has a number of competitive advantages including:

- a monopoly position on the majority of the routes it flies (26 of 34 routes);
- a smaller product offering (SAAB 340 aircraft, 34 seats) versus QAN's larger 55-100 seat and VBA's Embraer's (78-104 seats), allowing it to make smaller passenger routes profitable;
- the competitiveness of Regional Express's pricing and the smaller routes create disincentives for competitors looking to set up on the route; and
- low capital costs given the operating aircraft it employs (which are cheaper to purchase than lease) and its inherent focus on costs.

REX's subsidiaries also have a number of growth opportunities:

- Regional Express has the opportunity to increase its network significantly by expanding into new markets such as Queensland and Western Australia.
- Pel-Air recently won a 10-year Victoria Air Ambulance contract worth an estimated A$20m pa starting in July 2011 and has several other tenders outstanding that we believe it is well placed to win due to its experience and track record in securing work of this type.

We expect Pel-Air to be the key growth driver for the group over coming years

- Pel-Air was also recently empanelled for services to the Department of Defence, which should result in earnings growth.
- AAPA is looking to ramp up its training operations and increase its product offering in order to attract foreign pilot cadets.

REX has strong fundamentals:

- We forecast an FY10 EBITDA margin of 17.9% (vs QAN and VBA at 14-15%), with potential for margin upside in the medium term as the new Air Ambulance contract comes on line .

REX has a history of industry-leading returns, yet trades on 5.6x FY11F earnings and 0.9x P/NTA

- REX has a history of returning cash to shareholders and we forecast a solid 6.3% yield in FY11 (vs QAN 4.9% and VBA 0.0%).
- REX generates a strong return of equity with it three-year average ROE at 22.4% versus QAN's 12.0% and VBA's 16.2%, while its ROIC has averaged 21.0% over the past three years vs QAN's 8.3% and VBA's 16.0% – highlighting the efficiency of REX's operations.
- REX is cheap, in our view, trading on an FY11F PE of 5.3x and 0.9x P/NTA (versus an average 7.0x and 1.6x respectively).

Key drivers and forecasts

Regional Express and Pel-Air are key drivers of group performance. We are factoring in incremental ASK growth for Regional Express' regular passenger transport operations of 2.0% in FY11 and FY12 with Table 1 below, setting out our key operating assumptions.

RPK = revenue passenger kilometre, an indicator of demand

ASK = available seat kilometre, an indicator of supply

Load factor = RPK/ASK

Yield is a measure of revenue per RPK

Table 1 : Regional Express revenue drivers

	FY08A	FY09A	FY10F	FY11F	FY12F
RPK (m)	554.3	483.2	462.8	479.6	496.8
– Growth	3.8%	-12.8%	-4.2%	3.6%	3.6%
ASK(m)	814.0	731.0	734.7	749.3	764.3
– Growth	4.1%	-10.2%	0.5%	2.0%	2.0%
Load factor	68.1%	66.1%	63.0%	64.0%	65.0%
Yield (c/RPK)	38.1	42.3	41.4	42.0	42.7
– Growth	1.8%	10.9%	-2.0%	1.5%	1.5%
Revenue (A$m)	211.3	204.3	191.7	201.7	212.0
– Growth	5.6%	-3.3%	-6.1%	5.2%	5.1%
Average fare (A$)	141.3	156.6	153.1	155.4	157.8

Source: Company data, RBS forecasts

On the cost side, we note the following:

- Regional Express does not hedge its fuel costs, which exposes it to volatility. Historically it passed any increased cost to customers through levies, but now builds it into the ticket price.
- Currency is hedged to the extent that it deviates from budgeted figures. We estimate about 27% of its costs are denominated in USD.

We expect strong growth from Pel-Air given its recent contract wins. In Table 2 below we set out our key earnings and growth forecasts.

Table 2 : Pel-Air financials

(A$m)	FY09E	FY10F	FY11F	FY12F	FY13F	FY14F
Revenue	36.3	34.5	39.7	59.5	65.5	66.8
Expenses	32.4	29.3	31.7	47.6	52.4	53.4
EBITDA	3.9	5.2	7.9	11.9	13.1	13.4
– Growth	n/a	33.3%	51.9%	50.6%	10.1%	2.3%
EBITDA margin	10.8%	15.0%	20.0%	20.0%	20.0%	20.0%

Source: Company data, RBS estimates

Earnings momentum

REX reported FY09 NPAT of A$23.0m, down only 5.6% on pcp, highlighting the resilience of its operating model in an environment where IATA estimates the industry lost US$4.5bn and its Australian peers posted considerable declines and/or losses (QAN saw an 88% profit decline while VBA posted a A$160m loss). REX's recent 1H10 result further highlighted the resilience of its model, with 2Q10 NPAT increasing 5.1% on the pcp after declining 22.9% in 1Q10 (on the back of restructuring charges for Pel-Air). Reported 1H10 NPAT declined 8.6% on the pcp to A$9.6m.

We believe an improvement in load factors and the impact of recent contract wins for Pel-Air will see NPAT continue recovering in 2H10. The company is guiding for full-year reported NPAT of close to that achieved in FY09. We forecast FY10 NPAT of A$21.9m (-4.9% on the pcp).

Key assumptions underpinning our thesis

- The economic recovery gains traction in CY10, leading to load factor recovery, stronger yields and route expansion for Regional Express.
- Contract wins, eg, the Iluka Resources fly-in/fly-out contract, the Department of Defence standing offer and Ambulance Victoria's contract driving growth in Pel-Air.
- Ongoing operating cost control coupled with natural operating leverage, leading to margin improvement in REX's businesses.

Risks to central thesis

We believe the majority of the risks to our central thesis have been mitigated

- Regional Express's peers include QantasLink, Skywest Airlines and Virgin Blue. Regional Express enjoys a monopoly on the majority of its routes and is looking to gain a foothold in Queensland. There is a risk that competitors could choose to introduce services on unlicensed monopoly routes with the possible competition reducing profitability.
- For Pel-Air, there is the risk that contract wins do not materialise or margins are not as strong as anticipated. These risks can be managed through effective contractual terms (guaranteeing a rate of return) and REX only investing in capital once the contracts have been awarded.
- AAPA is looking to ramp up its training operations and offer training to foreign pilot cadets. There is a risk that the business does not receive appropriate accreditations for this.

Recommendation, valuation and target price

We initiate coverage of REX with a Buy recommendation with our A$1.89 valuation and target price derived from a DCF/multiples methodology. Risks to our valuation and target price include lower-than-expected load factors and yields, and increased competition on REX's routes.

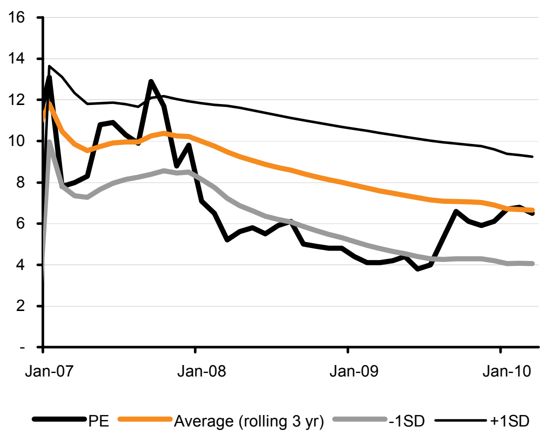
Table 3 : REX blended valuation

Methodology	Valuation (A$ps)	Comment
DCF	1.88	
P/B	2.02	Based on historical average of P/NTA 1.6x since listing
P/E	1.61	Based on historical average 7.0x EPS
EV/EBITDAR	2.05	Based on historical average 4.6x EV/EBITDAR
Average	**1.89**	Blended valuation
Target price	**1.89**	Based on blended valuation

Source: Company data, RBS forecasts

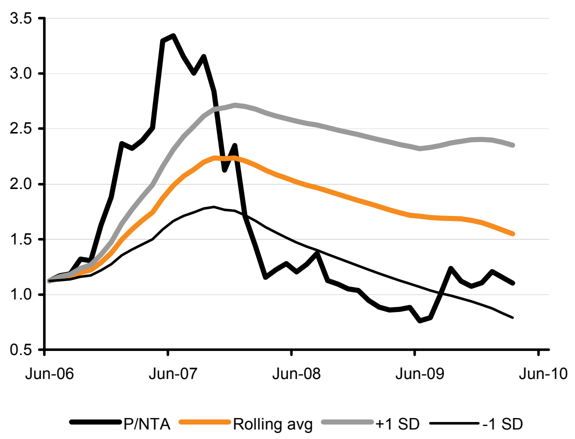
REX is trading on a FY11F PE of 5.3x and P/NTA of 0.9x versus an historical average of 7.0x and 1.6x respectively. By comparison, QAN is trading on an FY11F PE of 9.9x and P/NTA of 1.1x, while VBA is trading on an FY11F PE of 9.9x and P/NTA of 1.3x.

Chart 3 : REX trailing PE ratio



Source: Datastream, RBS

Chart 4 : REX historical P/NTA



Source: Datastream, RBS

REX – financial summary

Year to 30 Jun (A$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS
Income statement	**2008A**	**2009A**	**2010F**	**2011F**	**2012F**
Divisional sales	254.8	243.6	231.2	247.5	279.1
Total revenue	258.8	247.0	235.0	251.3	282.9
EBITDA	39.2	36.2	41.4	48.3	59.8
Depreciation	-8.1	-9.1	-9.6	-13.2	-13.4
EBITA	31.1	27.0	31.8	35.0	46.5
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0
EBIT	31.1	27.0	31.8	35.0	46.5
Associate income	0.0	0.0	0.0	0.0	0.0
EBIT(incl associate profit)	31.1	27.0	31.8	35.0	46.5
Net interest expense	0.9	0.3	-0.3	-0.6	-1.3
Pre-tax profit	32.0	27.4	31.5	34.4	45.2
Income tax expense	-8.0	-6.8	-8.2	-9.7	-12.7
After-tax profit	24.0	20.6	23.3	24.7	32.5
Minority interests	0.0	0.0	0.0	0.0	0.0
NPAT	24.0	20.6	23.3	24.7	32.5
Significant items	0.4	2.4	-1.4	0.0	0.0
NPAT post abnormals	24.3	23.0	21.9	24.7	32.5

Cash flow statement	2008A	2009A	2010F	2011F	2012F
EBITDA	39.2	36.2	41.4	48.3	59.8
Change in working capital	-1.4	4.9	-5.2	-3.0	-13.7
Net interest (pd)/rec	0.9	0.3	-0.3	-0.6	-1.3
Taxes paid	-12.6	-9.0	-7.6	-9.7	-12.7
Other oper cash items	0.9	-2.0	-3.2	0.0	0.0
Cash flow from ops (1)	27.1	30.4	25.1	35.0	32.2
Capex (2)	-16.8	-28.5	-58.1	-15.0	-41.3
Disposals/(acquisitions)	4.3	11.7	0.0	0.0	0.0
Other investing cash flow	-0.1	0.0	0.0	0.0	0.0
Cash flow from invest (3)	-12.6	-16.8	-58.1	-15.0	-41.3
Incr/(decr) in equity	-7.3	-3.6	0.0	0.0	0.0
Incr/(decr) in debt	-2.5	-1.8	28.3	-3.0	23.0
Ordinary dividend paid	-8.0	-7.4	0.0	-8.5	-10.2
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	0.0	-0.5	0.0	0.0	0.0
Cash flow from fin (5)	-17.7	-13.3	28.3	-11.5	12.8
Forex and disc ops (6)					
Inc/(decr) cash (1+3+5+6)	-3.5	0.3	-4.8	8.5	3.6
Equity FCF (1+2+4)	10.2	1.9	-33.1	20.0	-9.2

Balance sheet	2008A	2009A	2010F	2011F	2012F
Cash & deposits	15.1	15.5	10.7	19.2	22.9
Trade debtors	16.5	8.3	12.2	13.1	19.4
Inventory	6.7	7.5	7.0	7.5	17.0
Investments	3.3	0.0	0.0	0.0	0.0
Goodwill	7.4	7.3	7.3	7.3	7.3
Other intangible assets					
Fixed assets	115.4	126.4	174.9	176.7	204.6
Other assets	0.0	3.5	3.5	3.5	3.5
Total assets	164.4	168.5	215.8	227.4	274.7
Short-term borrowings	1.8	1.7	0.0	0.0	0.0
Trade payables	16.3	14.9	16.1	13.8	15.5
Long-term borrowings	1.7	0.0	30.0	27.0	50.0
Provisions	2.4	0.5	0.3	0.3	0.3
Other liabilities	29.6	26.1	22.1	22.8	23.1
Total liabilities	51.7	43.1	68.5	63.9	88.9
Preference shares					
Hybrid equity					
Share capital	78.6	75.0	75.0	75.0	75.0
Other reserves	-1.8	-1.0	-1.0	-1.0	-1.0
FCTR					
Unrealised gains/losses					
Retained earnings	35.8	51.4	73.2	89.5	111.8
Other equity	0.0	0.0	0.0	0.0	0.0
Total equity	112.7	125.4	147.3	163.5	185.8
Minority interest	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	112.7	125.4	147.3	163.5	185.8
Total liabilities & SE	164.4	168.5	215.8	227.4	274.7

Closing price (A$)	1.16	Price target (A$)	1.89
Valuation metrics			
Preferred methodology	DCF/multiples	Val'n (A$)	$ 1.89
DCF valuation inputs			
Rf	5.25%	10-year rate	5.25%
Rm-Rf	6.00%	Margin	2.0%
Beta	2.15	Kd	7.25%
CAPM (Rf+Beta(Rm-Rf))	18.1%	Ke	18.1%
E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A$m)	232.7
Equity (E/EV)	50.0%	Minority interest (A$m)	0.0
Debt (D/EV)	50.0%	Net debt (A$m)	19.3
Interest rate	7.25%	Investments (A$m)	0.0
Tax rate (t)	30.0%	Equity market value (A$m)	213.4
WACC	11.6%	Diluted no. of shares (m)	113.4
		DCF valuation (A$)	**1.88**

Multiples	2009A	2010F	2011F	2012F
Enterprise value (A$m)	126.8	159.9	148.4	167.8
EV/Sales (x)	0.5	0.7	0.6	0.6
EV/EBITDA (x)	3.5	3.9	3.1	2.8
EV/EBIT (x)	4.7	5.0	4.2	3.6
PE (normalised) (x)	6.4	5.7	5.3	4.0
PEG (normalised) (x)	2.5	2.3	2.1	1.6

At target price	2009A	2010F	2011F	2012F
EV/EBITDA (x)	6.0	6.0	4.9	4.3
PE (normalised) (x)	10.4	9.2	8.7	6.6

Comparable company data (x)		2010F	2011F	2012F
Qantas Airways	EV/EBITDA	4.4	3.8	3.3
Year to 30 Jun	EV/EBIT	14.0	8.2	6.7
	PE	21.1	10.1	8.3
	PEG	2.6	1.2	1.0
Virgin Blue Holdings	EV/EBITDA	7.1	5.4	4.4
Year to 30 Jun	EV/EBIT	16.5	9.8	7.6
	PE	20.8	10.0	8.4
	PEG	-10.8	-5.2	-4.3

Per share data	2009A	2010F	2011F	2012F
No. shares	113.4	113.4	113.4	113.4
EPS (cps)	20.4	19.3	21.8	28.7
EPS (pre-goodwill) (c)	20.4	19.3	21.8	28.7
EPS (normalised) (c)	18.3	20.5	21.8	28.7
Dividend per share (c)	6.0	0.0	7.5	9.0
Dividend payout ratio (%)	33.1	0.0	34.4	31.4
Dividend yield (%)	5.2	0.0	6.5	7.8

Growth ratios	2009A	2010F	2011F	2012F
Sales growth	-4.4%	-5.1%	7.0%	12.8%
Operating cost growth	-3.8%	-8.5%	4.9%	10.1%
EBITDA growth	-7.8%	14.4%	16.7%	24.0%
EBITA growth	-13.0%	17.6%	10.3%	32.6%
EBIT growth	-13.0%	17.6%	10.3%	32.6%
NPAT growth	-14.2%	13.0%	6.4%	31.4%
Normalised EPS growth	-12.0%	12.3%	6.4%	31.4%

Operating performance	2009A	2010F	2011F	2012F
Asset turnover (%)	36.6	30.1	27.9	27.8
EBITDA margin (%)	14.8	17.9	19.5	21.4
EBIT margin (%)	11.1	13.7	14.2	16.6
Net profit margin (%)	8.4	10.1	10.0	11.6
Return on net assets (%)	21.5	21.6	21.4	25.0
Net debt (A$m)	-13.8	19.3	7.8	27.1
Net debt/equity (%)	-11.0	13.1	4.8	14.6
Net interest/EBIT cover (x)	-80.7	106.5	55.6	36.2
ROIC (%)	18.4	21.1	15.1	19.5

Internal liquidity	2009A	2010F	2011F	2012F
Current ratio (x)	0.7	0.8	1.1	1.5
Receivables turnover (x)	19.7	22.5	19.6	17.2
Payables turnover (x)	13.3	12.3	13.3	15.0

Source: Company data, RBS forecasts

REX group profitable despite the downturn

REX has effectively carved itself a niche in a highly cyclical industry and, despite recent turbulence (including a chronic pilot shortage, record oil prices and the GFC), it has maintained strong profitability each year since listing.

Regional Express Holdings (REX) was formed in 2002, in the wake of the Ansett collapse and on the merger of two regional carriers, Hazelton and Kendell. After posting a loss in its first year of operations, REX has grown its operations profitably since (acquiring Air Link, a small RPT and charter airline, along the way) and listed on the ASX in November 2005. REX used capital raised during the listing to acquire a 50% stake in Pel-Air (a charter and freight operator) and raised its stake to 100% ownership in 2007. Regional Express Pty Limited (Regional Express) is the now the sole RPT operator in the group and holds an Air Operator's Certificate to conduct an airline and charter activities, in addition to a Certificate of Approval for aircraft and aircraft component maintenance.

Group forecasts

Table 4 : REX – forecast profit and loss items

	FY09A	FY10F	FY11F	FY12F	Comments
Total revenue	247.0	235.0	251.3	282.9	Demand weakness caused by the GFC led to revenue declines in FY09 and FY10.
Sales growth	-5.3%	-4.9%	6.9%	12.6%	Growth driven by increasing ASKs, Pel-Air's contract wins and ramp-up of AAPA.
Operating costs	203.2	187.1	196.3	216.2	REX has a relentless focus on cost control in order to keep fares low.
Cost growth	-7.9%	-7.9%	4.9%	10.1%	Step up in FY12 represents Pel-Air contracts and increase in assumed oil expenses.
Operating EBITDA	36.2	41.4	48.3	59.8	Pel-Air assumed to have the highest margins in the group at about 20%.
EBITDA growth	11.1%	14.4%	16.7%	24.0%	Strong growth from REX's various businesses.
Reported NPAT	23.0	21.9	24.7	32.5	FY10 forecast to see trough earnings.
NPAT growth	-2.6%	-4.9%	13.2%	31.4%	

Source: Company data, RBS forecasts

REX's recent 1H result highlighted both its resilience and the improving operating conditions, with 2Q10 NPAT increasing 5.1% on the pcp after declining 22.9% in 1Q10 (on the back of tough economic conditions and restructuring charges during the period). NPAT in 1H10 declined 8.6% on the pcp to A$9.6m. We believe improving economic conditions and the impact of recent contract wins will see NPAT recover in 2H10, and we forecast FY10 NPAT of A$21.9m, down 4.9% on FY09. The company is guiding for full-year NPAT close to that achieved in FY09.

Table 5 : REX – key ratios

	FY09A	FY10F	FY11F	FY12F	Comments
EBITDAR margin	18.0%	20.7%	22.2%	23.9%	Strong margins maintained despite the industry's reputation for high costs and low margins.
EBITDA margin	14.8%	17.9%	19.5%	21.4%	Compared with FY11F QAN at 12.4% and VBA at 13.6%.
NPAT margin	8.4%	10.1%	10.0%	11.6%	Margin as high as 10.4% in FY07 (peak earnings year) pre higher margin contracts.
DPS (cps)	6.0	0.0	7.5	9.0	No distribution paid in 2H09 and none forecast for FY10 given significant capex programme.
Payout ratio	33.1%	0.0%	34.4%	31.3%	Management generally maintains a DPR of 30-40%.
Franking	100.0%	0.0%	100.0%	100.0%	Assumed that future distributions are fully franked.

Source: Company data, RBS forecasts

Other key points

- In terms of capital management, the company avoided the need to raise capital through the worst of the downturn and historically has returned surplus funds to shareholders through distributions and/or share buybacks.
- The company has very strong interest cover (FY10F 107x) due to virtually no debt on the balance sheet. REX is debt financing aircraft for the Ambulance Victoria project, however, which we estimate will reduce FY11F interest cover to 56x.
- REX also has strong operating margins. We forecast a FY10 EBITDAR margin of 20.7% versus QAN at 15.8% and VBA at 12.7%.

Table 6 : Balance sheet items

(A$m)	FY09A	FY10F	FY11F	FY12F	Comments
Assets					
Cash	15.5	10.7	19.2	22.9	Strong cash generation expected in line with economic recovery.
PP&E	126.4	174.9	176.7	204.6	Comprises aircraft, rotable assets, and land and buildings.
Other	26.6	30.1	31.5	47.2	Predominantly receivables and inventory.
Total assets	168.5	215.8	227.4	278.6	Growth in total assets driven by new aircraft purchases and improved cash holding.
Liabilities					
Payables	14.9	16.1	13.8	15.5	Trade payables settled on 7-30 day terms and non-interest bearing.
Debt	0.0	30.0	27.0	50.0	King Air aircraft acquired for the Ambulance Victoria contract will be debt-financed. We assume success with the NT Ambulance tender and factor additional debt financed aircraft.
Other	28.2	22.4	23.1	23.4	Includes unearned passenger revenue and provisions.
Total liabilities	43.1	68.5	63.9	88.9	
Shareholders' equity	125.4	147.3	163.5	185.8	FY10F ROE of 17.1% (versus 17.3% in FY09).

Source: Company data, RBS forecasts

Fleet profile

REX operates a fleet of 89 aircraft, including 40 Saab 340 (a mix of A, B and B+ models), nine Westwind and nine Metro 3. The full fleet summary is set out below along with our forecasts for future fleet additions.

We assume four King Air aircraft are acquired to service future contract wins

Table 7 : REX fleet profile

	FY09A	FY10F	FY11F	FY12F	FY13F	FY14F
Regional Express						
Saab 340A	1	1	0	0	0	0
Saab 340B	22	22	22	22	22	22
Saab 340B Plus	17	25	25	25	25	25
Total	**40**	**48**	**47**	**47**	**47**	**47**
Pel-Air						
Westwind	9	8	8	8	8	8
King Air	0	4	4	8	8	8
Learjet	4	4	4	4	4	4
Metro 23	4	4	4	4	4	4
Metro 3	9	9	9	9	9	9
Brasilia	1	1	1	1	1	1
Saab 340A (freighter)	3	3	3	3	3	3
Total	**30**	**33**	**33**	**37**	**37**	**37**
Air Link						
Piper chieftain	4	4	4	4	4	4
Beech 1900D	2	2	2	2	2	2
Cessna	3	3	3	3	3	3
Total	**9**	**9**	**9**	**9**	**9**	**9**
AAPA						
Piper Warrior	8	16	16	16	16	16
Piper Seminole	2	4	4	4	4	4
Total	**10**	**20**	**20**	**20**	**20**	**20**
Grand total	**89**	**110**	**109**	**113**	**113**	**113**
– Number under operating lease	22	30	30	30	30	30
– Number owned	67	80	79	83	83	83

Source: Company data, RBS forecasts

Table 8 : Peer comparison

Name	Ticker	Rec	Div yield (%)	EV/ EBIT (x)	EV/ EBITDA (x)	EV/ EBITDAR (x)	2yr fwd EBITDA CAGR (%)	2yr fwd EPS CAGR (%)	P/E (x)	P/B (x)	P/CF (x)	Cash div cover	Div payout ratio	Gearing (ND/ ND+E) (%)	Gearing (ND/ EBITDA) (%)
Qantas Airways	QAN AU	Buy	4.8	8.2	3.7	3.8	20.8	59.2	10.0	1.0	3.0	-1.5	43.5	19.9	0.8
Virgin Blue Holdings	VBA AU	Buy	0.0	9.9	5.4	5.1	28.3	57.5	10.3	1.3	3.1	0.0	0.0	52.1	2.8
Regional Express Holdings	REX AU	Buy	0.0	5.1	4.0	2.8	n/a	n/a	5.8	1.0	n/a	0.0	0.0	11.6	0.5
Full-service carriers															
Air New Zealand	AIR NZ	Buy	4.7	6.4	2.9	-5.0	10.6	35.0	11.9	0.9	3.4	-0.7	62.9	-0.8	0.0
Singapore Airlines	SIA SP		2.9	13.5	5.3	5.2	36.5	155.3	15.5	1.3	7.3	2.2	44.6	-22.7	7.5
Cathay Pacific Airways	293 HK		1.8	19.8	8.9	11.0	17.3	27.6	18.5	1.5	7.1	11.9	8.4	45.5	3.7
British Airways Plc	BAY LN	Buy	0.0	23.1	5.6	5.3	69.1	n/a	n/a	2.7	n/a	0.0	0.0	64.0	4.7
Air France - KLM	AF FP	Buy	0.0	n/a	5.9	n/a	130.0	n/a	n/a	1.0	3.1	0.0	0.0	47.0	9.1
Deutsche Lufthansa - Reg	LHA GR	Buy	0.0	16.2	4.3	4.8	17.9	88.2	33.1	0.9	3.6	0.0	0.0	32.6	1.5
AMR Corp	AMR US		0.0	14.4	6.7	12.4	34.5	n/a	n/a	-0.7	5.3	n/a	n/a	n	-2.4
Delta Air Lines Inc	DAL US		0.0	8.9	5.5	10.6	7.7	15.1	8.3	9.1	4.0	n/a	n/a	98.1	0.1
Continental Airlines	CAL US		0.0	9.6	5.3	4.4	11.6	18.1	8.7	4.1	3.9	n/a	n/a	85.3	0.5
Air Canada - Class A	AC/A CN		0.0	53.6	4.7	5.9	20.1	n/a	n/a	0.5	2.7	n/a	n/a	65.4	2.0
China Eastern Airlines - H	670 HK	Sell	0.0	32.7	8.8	n/a	6.0	-30.5	12.5	3.1	4.5	0.0	0.0	63.7	2.1
China Southern Airlines Co	1055 HK	Buy	0.0	n/a	11.0	n/a	22.6	12.7	15.9	1.2	4.2	0.0	0.0	53.3	4.0
Air China - H	753 HK	Buy	1.8	22.2	10.3	35.6	19.7	2.0	11.3	2.4	8.8	0.2	21.1	63.6	4.2
Asiana Airlines	020560 KS		2.3	18.3	9.3	n/a	10.1	-38.7	9.8	1.1	2.7	n/a	n/a	83.2	1.5
Korean Air Lines Co	003490 KS		0.9	22.0	9.9	n/a	14.2	-46.3	15.3	1.5	4.0	n/a	n/a	78.1	1.9
Thai Airways International	THAI TB		4.4	12.9	5.2	5.8	6.3	12.7	6.1	0.7	1.5	n/a	0.0	72.6	1.5
All Nippon Airways Co	9202 JP		0.2	53.1	8.9	n/a	74.2	n/a	n/a	1.6	6.0	n/a	n/a	69.8	4.7
Average			**1.1**	**21.8**	**8.0**	**8.7**	**35.8**	**20.9**	**13.9**	**2.0**	**7.9**	**1.5**	**12.4**	**56.2**	**2.7**
Median			**0.0**	**18.3**	**6.3**	**5.8**	**18.8**	**13.9**	**12.2**	**1.4**	**4.0**	**0.0**	**0.0**	**63.8**	**2.0**
Low-cost carriers															
Airasia Bhd	AIRA MK		0.0	11.2	7.1	n/a	18.8	20.8	6.8	1.2	4.0	n/a	n/a	72.0	1.8
Ryanair Holdings Plc	RYA ID	Hold	0.0	17.4	10.5	14.3	13.1	9.3	18.7	1.9	8.5	0.0	0.0	18.3	1.0
Easyjet Plc	EZJ LN	Buy	0.9	8.3	6.2	10.8	21.9	26.6	11.2	1.3	n/a	0.0	0.0	8.3	0.5
Air Berlin Plc	AB1 GR	Buy	0.0	12.6	5.3	1.9	12.7	85.3	25.4	0.9	2.5	0.0	0.0	56.7	3.2
Norwegian Air Shuttle AS	NAS NO		0.0	5.6	4.0	n/a	52.0	37.4	12.0	2.5	7.1	n/a	0.0	n/a	2.0
Vueling Airlines SA	VLG SM		0.0	4.6	3.4	n/a	0.9	-3.5	5.5	1.8	5.8	n/a	n/a	n/a	0.5
Jetblue Airways Corp	JBLU US		0.0	10.6	6.5	6.4	11.3	19.9	15.1	1.0	5.2	n/a	0.0	58.5	2.4
Southwest Airlines Co	LUV US		0.1	9.8	6.8	10.1	11.3	17.8	19.8	1.8	8.8	7.6	13.1	14.4	3.5
Airtran Holdings Inc	AAI US		0.0	6.5	4.4	2.7	2.6	7.5	10.5	1.3	6.1	n/a	0.0	57.2	1.7
Westjet Airlines	WJA CN		n/a	8.4	4.9	n/a	13.1	36.3	13.8	1.3	6.2	n/a	0.0	13.6	3.0
GOL Linhas Aereas Intel	GOL US		5.5	n/a	n/a	n/a	21.1	29.4	12.8	1.1	5.2	n/a	n/a	n/a	n/a
Spicejet	SJET IN		n/a	11.0	9.9	42.3	n/a	n/a	10.9	6.8	8.3	n/a	n/a	n/a	-10.1
Average			**0.6**	**9.6**	**6.3**	**12.6**	**16.3**	**26.1**	**13.5**	**1.9**	**6.2**	**1.9**	**1.6**	**37.4**	**0.9**
Median			**0.0**	**9.8**	**6.2**	**10.1**	**13.1**	**20.8**	**12.4**	**1.3**	**6.1**	**0.0**	**0.0**	**37.5**	**1.8**
Regional carriers															
Expressjet Holdings Inc	XJT US		n/a	n/a	1.2	4.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-26.1	9.3
Republic Airways Holdings	RJET U		n/a	n/a	7.3	n/a	n/a	n/a	18.4	n/a	n/a	n/a	0.0	83.6	1.3
Pinnacle Airlines Corp	PNCL U		n/a	n/a	n/a	2.6	n/a	n/a	5.2	n/a	n/a	n/a	0.0	82.9	n/a
Airtran Holdings Inc	AAI US		0.0	6.5	4.4	2.7	2.6	7.5	10.5	1.3	6.1	n/a	0.0	57.2	1.7
Alaska Air Group Inc	ALK US		0.0	5.3	3.6	3.1	6.4	9.9	8.6	1.6	4.6	n/a	0.0	43.2	1.5
Allegiant Travel Co	ALGT U		0.0	6.8	5.1	5.6	15.0	16.9	12.8	2.8	8.8	n/a	0.0	-174.6	1.7
Copa Holdings SA - Class A	CPA US		0.8	10.5	8.6	7.8	14.4	15.4	10.5	2.4	n/a	14.8	6.8	36.3	2.5
Great Lakes Aviation	GLUX U		n/a	n/a	n/a	3.8	n/a	n/a	n/a	n/a	n/a	n/a	0.0	66.5	n/a
Hawaiian Holdings Inc	HA US		n/a	n/a	1.6	1.2	9.6	9.7	6.6	1.6	n/a	n/a	0.0	-38.6	0.9
Jetblue Airways Corp	JBLU U		0.0	10.6	6.5	6.4	11.3	19.9	15.1	1.0	5.2	n/a	0.0	58.5	2.4
Lan Airlines SA - Spon ADR	LFL US		2.6	n/a	n/a	n/a	20.8	23.2	13.6	4.8	8.6	n/a	n/a	n/a	n/a
Skywest Inc	SKYW U		n/a	n/a	4.5	2.8	n/a	n/a	8.6	n/a	n/a	9.3	10.8	47.9	2.9
Southwest Airlines Co	LUV US		0.1	9.8	6.8	10.1	11.3	17.8	19.8	1.8	8.8	7.6	13.1	14.4	3.5
Average			**1.1**	**8.2**	**5.0**	**4.6**	**12.5**	**16.6**	**11.9**	**2.0**	**6.8**	**10.6**	**2.8**	**20.9**	**2.8**
Median			**0.0**	**8.3**	**4.8**	**3.8**	**11.3**	**16.9**	**11.6**	**1.6**	**6.1**	**9.3**	**0.0**	**45.5**	**2.1**

Priced at close of business 27 April 2010.
Source: RBS (where recommendation exists), Bloomberg (all others)

Regional Express, Pel-Air, AAPA & Air Link

REX is a niche operator in the Australian regional aviation market with a variety of businesses underpinning its growth profile, including Regional Express, Pel-Air Aviation, the Australian Airline Pilot Academy (AAPA) and Air Link.

Regional Express – steady growth expected

Regional Express Pty Limited (Regional Express) is Australia's largest independent regional airline. Established in 2002 in the wake of the Ansett collapse, and on the merger of Hazelton and Kendell Airlines, it serves regional centres predominantly in NSW, South Australia and Victoria. It is the sole service provider on a number of routes that key competitors such as QantasLink and VBA see as too small to be profitable.

Of 34 routes flown, REX flies uncontested on 26

REX flies to 34 destinations across South East Australia, with 26 of these not serviced by any other airline. Of these, eight routes are operated exclusively by Regional Express under NSW Government Intrastate Air Transport Licences which expire in March 2013, while two other routes are operated under licence by the Queensland Government (Northern 1 and 2) and were awarded to Regional Express in December 2009.

Figure 1 : Regional Express route map

Source: Company website

While we see a risk that various governments may choose to remove monopoly rights in the future, given the rate at which regional routes have disappeared over recent years (see our industry overview from page 18), and the need for air services to regional communities, we believe this is unlikely to happen. The greater risk is perhaps Regional Express losing the next tender for a monopoly route. However, for reasons outlined below, we believe Regional Express has a number of competitive advantages that will see it succeed where others have failed.

The Regional Express business model

The REX model promotes frequency in order to stimulate demand and therefore maximise revenue

Regional Express is a niche player in the domestic aviation market and enjoys a monopoly on 76% of its routes. However, rather than play a high-load-factor/high-yield game, it instead runs a model that promotes frequency and low fares in order to generate a return (and discourage competition). While adding capacity when load factors exceed 70% can cost in terms of short-term yield, this model is designed to stimulate demand and thereby increase ticket sales. Regional Express also partners with local councils to keep landing fees low in return for additional capacity (often obtaining a moratorium on landing fees for new routes).

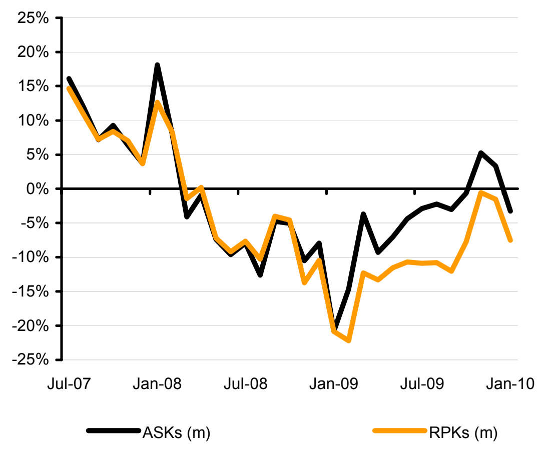
Regional Express has secured more than 540 weekly slots at Sydney Airport, making it the third-largest holder of slots at Sydney Airport and the largest holder of NSW regional slots. It also has a competitive advantage over jet aircraft in that its turbo-prop fleet can operate at the slot-constrained Sydney Airport during curfew hours and is small enough to nimbly add and/or manage capacity at relatively short notice.

Regional Express is also intensely focused on cost control. By running a smaller single aircraft type (the 34-seat SAAB 340, which is cheap to buy and operate), Regional Express creates a significant competitive advantage by allowing it to make smaller routes profitable where its competitors cannot. As noted above, the Regional Express model promotes frequency over yield and, as such, cost savings are passed through to customers through lower fares where practicable. Regional Express prides itself that nominal fares are lower today than they were in 2003.

Why we like it

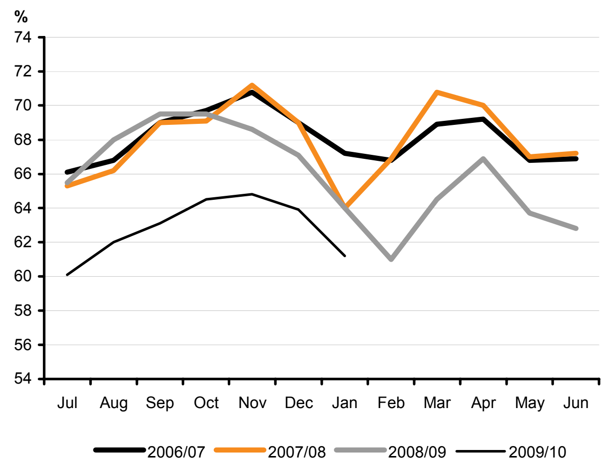
- Regional Express enjoys a monopoly position on 26 of the 34 routes it flies.
- Its smaller product offering (Saab 340 aircraft, 34 seats) versus QAN's larger 55-100 seat and VBA's Embraer's (78-104 seats) affords a competitive advantage in small regional areas and allows it to make smaller passenger routes profitable.
- The competitiveness of Regional Express' pricing and the smaller routes create disincentives for competitors looking to set up on the route.
- Regional Express has low capital costs given the operating aircraft it employs (the operating aircraft are second hand and cheaper to buy outright than lease) and an inherent focus on costs affords it an additional competitive advantage.

Chart 5 : ASK/RPK growth (on the pcp)



Source: Company data, RBS

Chart 6 : Monthly load factor



Source: Company data, RBS

Growth expected via additional frequencies and new routes

We believe growth in ASK can be achieved by adding: 1) frequency to existing routes; and 2) new routes. We see adding frequency to existing routes as a lower-risk option as there is already a known market on these routes and history shows that markets grow in response to additional capacity. This is the airline's preferred growth option as it leverages off existing (and often monopoly) routes and relationships with the communities it services. Table 9 below sets out a few examples of how Regional Express effectively grows its routes.

Table 9 : Regional Express ASK growth on certain routes

City pair	Jul 04	Apr 09	% chg
Adelaide-Ceduna	201,020	431,664	114.7%
Adelaide-Port Lincoln	517,888	971,040	87.5%
Sydney-Parkes	186,048	352,512	89.5%

Source: Company data

Regional Express is also quite nimble and can introduce a new route within four months of identifying an opportunity. It needs a market of about 25,000 passengers pa to make a SAAB 340 service economic, and ideally looks to put on a thrice-daily service including an early morning into the city and back at night with a leg in between. Load factors on morning and afternoon services are generally the strongest as the majority of REX's passenger are business travellers.

Table 10 : Regional Express network summary

Route	Weekly frequency	Competitor	Licensed/competitive	Trip length	% of network
Adelaide – Mt Gambier	56	QantasLink	Competitive	371	4.2%
Adelaide – Ceduna	24	None	Competitive	546	2.7%
Adelaide – Broken Hill	30	None	Competitive	426	2.6%
Adelaide – Whyalla	62	None	Competitive	230	2.9%
Adelaide – Port Lincoln	120	QantasLink	Competitive	246	6.0%
Adelaide – Kangaroo Island	38	None	Competitive	125	1.0%
Adelaide – Coober Pedy	12	None	Competitive	748	1.8%
Melbourne – Mildura	50	QantasLink, Virgin Blue	Competitive	457	4.7%
Melbourne – Albury	42	None	Competitive	260	2.2%
Melbourne – Wagga	32	None	Competitive	365	2.4%
Melbourne – Burnie	70	None	Competitive	378	5.4%
Melbourne – Mt Gambier	36	None	Competitive	358	2.6%
Melbourne – King Island	14	None	Competitive	259	0.7%
Melbourne – Merimbula	14	None	Competitive	457	1.3%
Melbourne – Griffith	12	None	Competitive	396	1.0%
Sydney – Lismore	50	None	Competitive	602	6.1%
Sydney – Ballina	42	Jetstar, Virgin Blue	Competitive	612	5.2%
Sydney – Dubbo	82	QantasLink	Competitive	310	5.2%
Dubbo – Broken Hill	10	None	Competitive	671	1.4%
Sydney – Broken Hill	16	None	Licensed	932	3.0%
Sydney – Wagga	66	QantasLink	Competitive	367	4.9%
Sydney – Albury	54	QantasLink, Virgin Blue	Competitive	452	5.0%
Sydney – Griffith	60	None	Competitive	472	5.8%
Sydney – Narrandera	36	None	Licensed	438	3.2%
Sydney – Moruya	30	None	Licensed	237	1.4%
Sydney – Merimbula	40	None	Licensed	349	2.8%
Sydney – Orange	50	None	Competitive	200	2.0%
Sydney – Bathurst	36	None	Licensed	153	1.1%
Sydney – Parkes	34	None	Licensed	287	2.0%
Sydney – Taree	36	None	Licensed	260	1.9%
Sydney – Grafton	36	None	Licensed	497	3.6%
Townsville – Mt Isa	16	QantasLink	Competitive	778	2.5%
Northern 1	4	None	Licensed	687	0.6%
Northern 2	4	None	Licensed	781	0.6%
	1,312			**426.5**	**100%**

Source: Company data, BITRE, RBS estimates

We believe opportunities to grow ASKs centre in NSW and QLD

The following network enhancements have recently been announced by the airline:

- On 1 October 2009 Regional Express expanded its route offering to include Townsville to Mackay in direct competition with QantasLink, but ceased these operations effective 1 January 2010 citing predatory pricing by QantasLink (and referred to the ACCC).
- On 2 December 2009 Regional Express was awarded two licensed routes by the Queensland Government (Northern 1 and 2) and on 11 December it announced the commencement of services between Mount Isa and Townsville.

While we see some scope for growth in Victoria, there are more opportunities in NSW and Queensland (where QantasLink is particularly strong). We estimate the new services in Queensland (ie, Townsville to Mackay and Northern 1 and 2) will add 3.7% on FY10F ASKs and also that most growth opportunities for the airline are centred in Queensland and NSW.

Key risks arise from possible additional competition

Competitors are trending towards larger aircraft vs Regional Express' smaller 34 seat offering

Regional Express is the sole service provider on a number of routes that key competitors such as QantasLink and VBA see as too small to be profitable. We see a risk that as these smaller routes grow, competitors may add services (eg, QantasLink recently introduced 3,400 seats per week to the Adelaide to Port Lincoln route, formerly a monopoly route). However, with competitors gravitating towards larger-capacity aircraft and the vast majority of Regional Express's routes licensed, we believe this risk is still relatively low.

Key assumptions driving our forecasts

In our view, Regional Express can grow revenues through increasing routes, service frequencies, prices and load factors.

Table 11 : Regional Express revenue drivers

	FY08A	FY09A	FY10F	FY11F	FY12F
RPK (m)	554.3	483.2	462.8	479.6	496.8
- Growth	3.8%	-12.8%	-4.2%	3.6%	3.6%
ASK(m)	814.0	731.0	734.7	749.3	764.3
- Growth	4.1%	-10.2%	0.5%	2.0%	2.0%
Load factor	68.1%	66.1%	63.0%	64.0%	65.0%
Yield (c/RPK)	38.1	42.3	41.4	42.0	42.7
- Growth	1.8%	10.9%	-2.0%	1.5%	1.5%
Revenue (A$m)	211.3	204.3	191.7	201.7	212.0
- Growth	5.6%	-3.3%	-6.1%	5.2%	5.1%
Average fare (A$)	141.3	156.6	153.1	155.4	157.8

Source: Company data, RBS forecasts

The following key cost assumptions have been made:

- 2H10 sees ASKs up 3.3% on the pcp, reflecting additional capacity from new routes in Queensland. We expect full-year ASKs to be largely flat on the pcp (+0.5%) before we see a recovery in FY11 (on the back of improving economic conditions).

Regional airlines tend to operate with lower load factors than network airlines

- Load factors expected to decline in FY10 due to macro softness before settling at 65% in the long term. While load factors have reached up to 68% historically, we believe additional competition on key routes such as Adelaide to Port Lincoln and new route offerings will cap the load factor at around 65%.
- Marginal yield growth due to competition on certain routes and Regional Express model of keeping fares low.
- Oil – Regional Express does not hedge its fuel costs, which exposes it to volatility. This risk is offset to the extent that it can pass on fuel price increases through levies, which historically it has successfully passed on to passengers.
- Currency is hedged to the extent that it deviates from budgeted figures. We estimate about 27% of its costs are denominated in USD.

Table 12 : RBS currency and oil forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F	FY13F
Spot WTI forecast (US$/bbl)	96.8	60.0	73.3	78.3	85.8	90.0
AUD/USD	0.90	0.75	0.89	0.87	0.84	0.80

Source: RBS forecasts

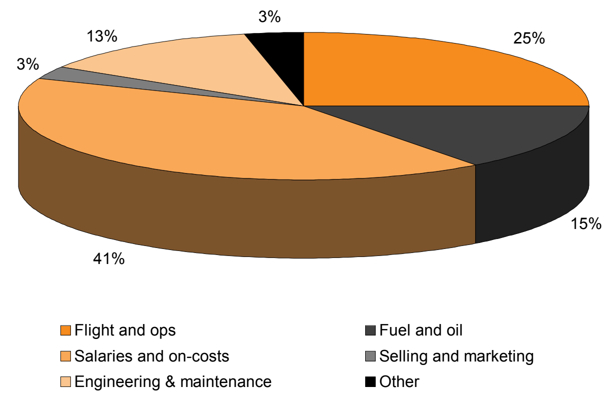
Table 13 : Regional Express operating costs

(A$m)	FY08A	FY09A	FY10F	FY11F	FY12F
Flight and port operations costs	49.6	49.0	48.2	50.7	59.4
– Growth	1.2%	-1.2%	-1.5%	5.1%	17.3%
Fuel and oil	45.9	38.9	28.8	31.3	35.9
– Growth	30.7%	-15.2%	-26.1%	8.9%	14.6%
Salaries and employee related costs	73.9	78.1	80.1	83.3	86.7
– Growth	24.7%	5.7%	2.5%	4.0%	4.0%
Selling and marketing costs	6.8	6.4	5.5	4.9	4.3
– Growth	-10.9%	-5.3%	-13.6%	-12.3%	-12.3%
Engineering and maintenance costs	35.7	31.5	24.4	26.4	29.6
– Growth	22.6%	-11.6%	-22.6%	8.1%	12.2%
Office and general administration costs	6.5	6.5	6.2	6.0	6.7
– Growth	20.6%	-0.7%	-4.5%	-3.1%	12.2%
Other	1.2	0.4	0.4	0.4	0.5
– Growth	-16.3%	-65.6%	0.5%	2.0%	12.2%
Total	219.5	210.8	193.6	203.0	223.1
Cost per ASK (c)	27.0	28.8	26.4	27.1	29.2
– Growth	17.4%	-4.0%	-8.2%	4.8%	9.9%

Source: Company data, RBS forecasts

REX does not report operating costs separately for Regional Express, Pel-Air and other subsidiary businesses. As such, we expect the growth in forecast operating costs to generally outpace growth in ASK. This is especially apparent in FY11 and FY12 when Pel-Air charter operations are assumed to ramp-up.

Chart 7 : Regional Express FY10F operating cost breakdown



Source: Company data, RBS forecasts

Key sensitivities

Regional Express's earnings are most sensitive to load factor and yield changes

Airline earnings are highly volatile, especially to fluctuations in yields, load factors, oil costs and currency. Our sensitivity analysis for Regional Express highlights that a 1% increase in yields delivers a A$1.4m (+5.8%) increase in NPAT, while a 1% increase in load factor delivers a A$2.3m (+9.3%) increase in NPAT.

Table 14 : Regional Express sensitivities, FY11F

	Sensitivity	FY11F NPAT (A$m)	% chg
Base NPAT		24.7	
Yield	1%	1.4	5.8%
Load factor	1%	2.3	9.3%
Fuel	+US$1	-0.2	-1.0%
AUD/USD	+1c	0.3	1.0%

Source: RBS forecasts

Pel-Air – exciting opportunities ahead

Pel-Air is an aircraft charter operator specialising in:

- defence- and government-related aviation support operations;
- express overnight freight operator to the freight forwarding industry;
- medivac services;
- special mission activities for international aid organisations; and
- executive charter.

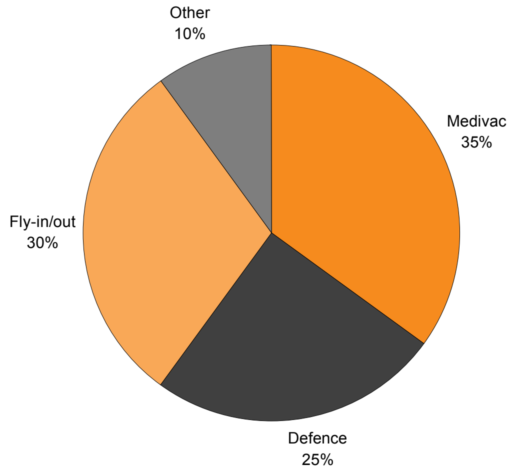
Based in Sydney, Pel-Air is the largest operator of Corporate Jet, Express Freight Jet and Turboprop aircraft in Australia, with operational and maintenance facilities in Brisbane, Darwin and Nowra. REX acquired a 50% stake in Pel-Air in 2005 with a view to improving the profitability of its freight and RPT operations via potential synergies (eg, shared aircraft and maintenance). Pel-Air is now a 100%-owned subsidiary of REX.

Pel-Air recently wound back its freight operations (due to the collapse in demand caused by last year's downturn) and has switched its focus to charter services to the mining industry and medivac operations. This switch may be reassessed should the freight market rebound strongly, given freight operations are relatively lower yield; however, we expect Pel-Air to re-enter the market only if it has surplus operating aircraft. To this end, it has 22 jet and turbo prop aircraft in its fleet and, as an aircraft broker, has access additional aircraft to meet surplus demand.

Why we like it

We believe Pel-Air will be the major growth driver for the group over coming years. Pel-Air recently won a 10-year contract with Ambulance Victoria to provide fixed-wing patient transport services worth an estimated A$20m pa starting in FY12, and has several other similar tenders outstanding that we believe it is well placed to win due to its experience and track record in securing work of this type. Coupled with its recent appointment to the standing committee for services to the Department of Defence (which spends up to A$1bn pa on air transport) and the Jacinth-Ambrosia fly-in/fly-out contract win (due to commence in June 2010), we believe Pel-Air's revenue line is set for strong growth. We factor in revenue growth of 15% in FY11F and 50% in FY12F as revenue from these contract wins comes on line.

Chart 8 : Pel-Air revenue breakdown, FY10F



Source: RBS estimates

Charter services are also generally higher-margin than Regular Passenger Transport (we forecast Regional Express's FY10 EBITDA margin at about 14%) and freight services (about 10%). We estimate the combined effect of medivac, fly-in/fly-out and Australian Defence Force (ADF) support services should provide Pel-Air with an estimated EBITDA margin of 20% in FY11.

We believe there is significant upside potential from the Defence Standing Offer and JP 66 contract

Table 15 : Pel-Air tender details

Contract details	Status	Commencement date	Duration (years)	Revenue impact pa (assumed)
Aircraft services for ADF training	Won	Ongoing	2	
Jacinth Ambrosia	Won	Jun 10	3	A$2.5m
Barrick Gold	Won			
Victoria Ambulance	Won	Jul 11	10	A$20m
NSW Ambulance	Lost	n/a	n/a	n/a
NT Ambulance	Not yet tendered	TBA	TBA	TBA
Defence Standing Offer	Empanelled	Ongoing	TBC	A$5m
JP 66 contract	Tendered	Mar 11	10	

Source: Company information, RBS estimates

Forecast financials

REX does not report the divisional performance of Pel-Air separately in its accounts. Our forecasts are based on announced and anticipated contract wins, and we assume a 20% EBITDA margin in FY11. We believe this margin is appropriate given our understanding that fly-in/fly-out contracts and medivac services tend to be high-yielding due to their intermittent nature.

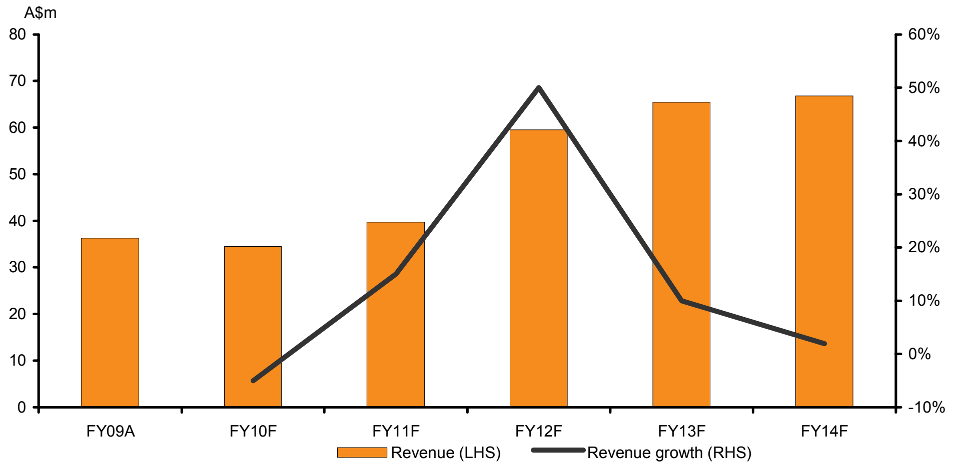
Table 16 : Pel-Air financials

(A$m)	FY09E	FY10F	FY11F	FY12F	FY13F	FY14F
Revenue	36.3	34.5	39.7	59.5	65.5	66.8
Expenses	32.4	29.3	31.7	47.6	52.4	53.4
EBITDA	3.9	5.2	7.9	11.9	13.1	13.4
EBITDA margin	10.8%	15.0%	20.0%	20.0%	20.0%	20.0%

Source: Company data, RBS estimates

In FY09 Pel-Air ceased its freight operations, which was a low-margin business. It is now focusing on medivac and fly-in/fly-out operations, which are both contracted and higher-margin.

Chart 9 : Pel-Air revenue growth



Source: Company data, RBS estimates

Key risks

We see the risk that forecast contract wins do not materialise or that margins are not as strong as anticipated. However, we believe these risks are manageable through measures such as stipulating effective contractual terms (eg, a guaranteed return on investment made to fulfil the contract and pricing changes in the event of oil price volatility).

AAPA – training commercial pilots pays

The Australian Airline Pilot Academy (AAPA) is a wholly-owned pilot training academy located in Wagga Wagga, NSW. REX developed its own pilot training capability in response to the high pilot attrition rate it has experienced historically (eg, in mid-2008 REX lost 75 pilots in six months, c30% of total pilots). REX has also introduced a cadet scheme under which REX lends half of the cost of flight training to the cadet, to be repaid over a period of seven years flying with REX. This locks the pilot into flying with REX for a sufficient period for a return on its investment while reducing the likelihood of REX experiencing acute pilot shortages in the future as major airlines start hiring pilots again.

A commercial pilot's licence can cost the cadet US$90-120k for the eight-month programme, with the cost of providing the programme approximately 70% of this.

Growth opportunities

AAPA expects to commission its new A$12m pilot training facility in 2H10. The facility is equipped to train up to 200 cadets per year with REX needing to recruit around 40 pilots per year for its operations. This spare capacity should enable AAPA to provide training for third-party customers, including the training of International pilot cadets, among others and, to this end, accreditation is being pursued with the Chinese civil aviation authorities.

REX hopes for the venture to reach profitability, and is aiming for revenues of A$20m pa within five years and to be making money from the venture within 12 months. However, given its start-up nature and its reliance on international accreditation for growth, we have been conservative in forecasting future revenues. We will revisit our forecasts once the required accreditations come though, and this represents a small amount of further potential upside to group earnings.

Table 17 : AAPA forecast financials

(A$m)	FY10F	FY11F	FY12F	FY13F	FY14F
Revenue	2.0	3.1	4.5	6.5	9.4
Expenses	1.5	2.4	3.4	4.9	7.1
EBITDA	0.5	0.8	1.1	1.6	2.4
EBITDA margin	25.0%	25.0%	25.0%	25.0%	25.0%

Source: Company data, RBS estimates

Key risks

The key risk we see for AAPA arises due to its start up nature. We have chosen to be conservative in our forecasting to reflect this risk.

Air Link – focusing on charter

Dubbo-based Air Link offers charter services Australia-wide, and provides aircraft engineering and maintenance services. Previously, it offered RPT services but ceased in December 2008 with Regional Express picking up its old services. Air Link's fleet includes two Beech B1900D, four Piper Navajo Chieftain and three Cessna 310R aircraft.

Table 18 : Air Link financials

(A$m)	FY09A	FY10F	FY11F	FY12F	FY13F	FY14F
Revenue	0.9	0.9	0.9	0.9	0.9	0.9
Expenses	0.0	0.8	0.8	0.8	0.8	0.8
EBITDA	0.9	0.1	0.1	0.1	0.1	0.1
EBITDA margin	100%	10%	10%	10%	10%	10%

Source: Company data, RBS estimates

Air Link has now ceased RPT operations and solely flies charters. Given the non-contracted nature of these charters, we have not factored any growth into this business.

Australian regional operating environment

While the overall picture for regional aviation in Australia isn't entirely pretty, we believe Regional Express has a number of competitive advantages that should see it operate successfully in this tough market segment where others have failed.

These competitive advantages include:

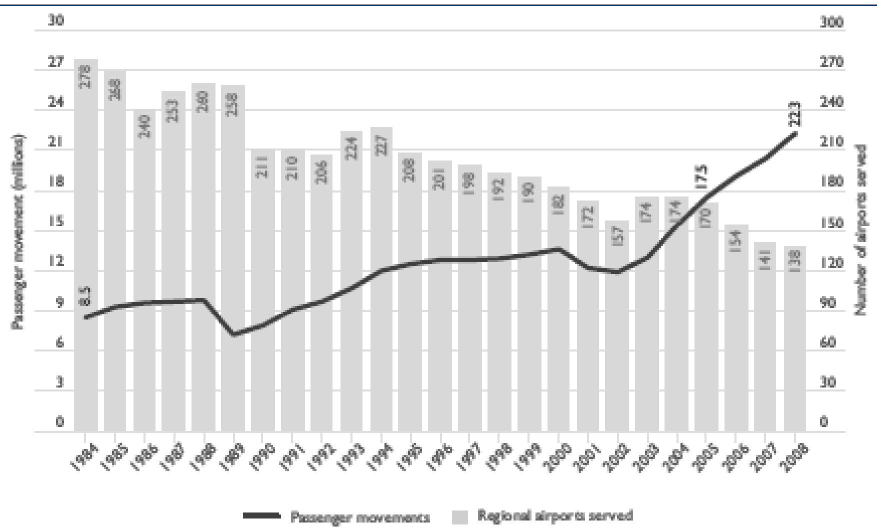
- a monopoly position on the majority of the routes it flies (26 of 34 routes);
- a smaller product offering (SAAB 340 aircraft, 34 seats) versus QAN's larger 55-100 seat and VBA's Embraer's (78-104 seats) which allows it to make smaller passenger routes profitable;
- the competitiveness of Regional Express's pricing and the smaller routes create disincentives for competitors looking to set up on the route; and
- low capital costs given the operating aircraft it employs (which are cheaper to purchase than lease), its partnering with the regional airports from which it operates, its ability to tweak its operating schedule at relatively short notice, and its inherent focus on costs.

History shows a general decline in regional aviation

Regional aviation in Australia is characterised by increasing passengers (passenger movements increased 27.4% between 2005 and 2008) and dwindling numbers of regional airports (and routes) served (a 19% decline between 2005 and 2008). According to the Bureau of Infrastructure, Transport and Regional Economics (BITRE), since 2005 a quarter of Australia's regional airports lost all RPT services (with very remote airports most affected), while only half saw increases in RPT services.

Services between regional areas and major cities led passenger growth (+8.3% CAGR between 2005 and 2008) while growth in between regional areas was a slower 1.2% CAGR.

Chart 10 : Regional passenger movements and airports served



Source: BITRE

The decline in regional airports and routes served can be attributed to the decline in the number of regional airlines (airline numbers declined from 34 in 2005 to 27 in 2008), reflecting the difficulty in making commercial RPT services profitable when dealing with smaller population bases. This point is reinforced by a BITRE statistic highlighting that a vast majority (70-80%) of regional air routes are served by single operators.

Regional carriers have also generally shifted to the use of larger planes over recent years. Prior to 1990, about 40% of movements were performed by aircraft with fewer than 18 seats, while aircraft with 30-100 seats have dominated movements since 1994.

We believe the trend towards larger aircraft actually benefits Regional Express in that it sustains the airline's cost advantage on the smaller routes and dissuades competition.

Industry argues for greater government support

The Regional Aviation Association of Australia (RAAA) represents most of the major regional airlines in Australia along with a number of aviation support businesses. According to the RAAA, the key issues facing the industry include:

- excessively high CASA regulatory costs, which have a disproportionate impact on lower capacity carriers;
- increasing security costs, which the RAAA describes as "expensive window dressing";
- airport privatisation (and deteriorating infrastructure), which at best can cause increased costs and at worse involve the loss of security of tenure at an airport;
- staff shortages due to the failure of governments to invest in training; and
- ageing aircraft given there are no low-capacity airliners in production (<50 seats) across the globe.

The RAAA argues the challenge is in ensuring the maintenance of existing regional services, and that unless these issues are addressed, the trend of declining regional airlines and services will continue. This would mean that only bigger operators with larger aircraft serving profitable routes would remain and smaller communities would likely be left without RPT services.

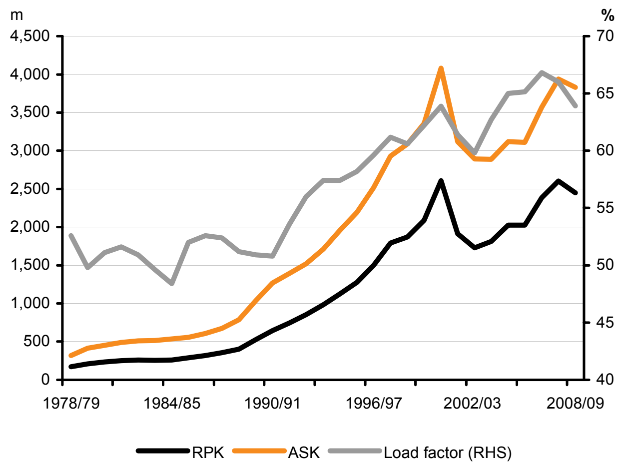
Regulation and recent White Paper address some of the concerns

Even though the domestic aviation market was deregulated in the 1990s, the history (as seen above) and economics of regional airlines in Australia highlights that government intervention is still required. The regulation of intrastate air services is the responsibility of state governments and they have responded to the issue of declining regional RPT services in a number of different ways. For example, Victoria, Tasmania, the ACT and Northern Territory do not regulate, while the NSW Government licenses certain routes and the Queensland Government offers a subsidy-type model to encourage RPT services to remote communities.

The issue of subsidies and the need to support air services to remote and regional communities was addressed in the recent National Aviation White Paper which noted the federal Government's intention to:

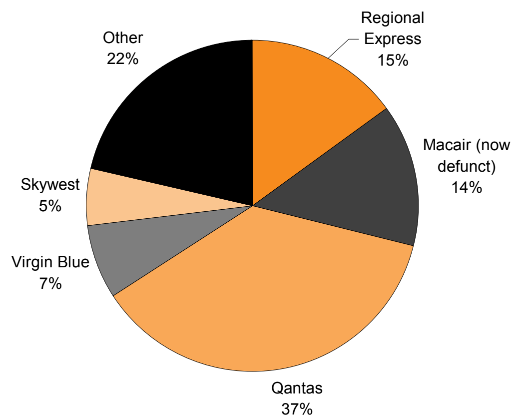
- retain funding assistance for regional and remote air services (though now more concentrated) with a consolidation of the four previous funding schemes; and
- refine the payment scheme for Airservices Enroute Charges to focus on routes rather than networks.

Chart 11 : Regional market statistics



Source: BITRE, RBS

Chart 12 : Market share by regional air routes in 2008



Qantas includes Qantas Airways, Sunstate Airlines, Eastern Australia Airlines and Air Link.
Source: BITRE, RBS

Key drivers of demand for regional air travel in Australia

- The state of the rural economy – which does not always run in step with the broader economy given that it is also affected by drought and therefore is likely more volatile.
- Broader economic conditions – while the majority of Regional Express's passengers are business travellers, buoyant economic conditions foster consumer confidence and a higher propensity to travel.

Competition arises on two separate fronts

Airlines face competition on two levels: from alternative forms of transport and from other airlines. To this end, Regional Express's key competitors include:

- road – a cheaper alternative, but time-consuming and may involve incidental costs such as accommodation, etc;
- rail – a cheaper but similarly time-consuming alternative that may not provide direct point-to-point services; and
- other airlines – a viable threat, especially as demand on monopoly routes increases.

While competition from road and rail will always remain, we expect air travel to pick up market share as people are seeing themselves increasingly time-poor and, as such, convenience and comfort in travel has become more important. Furthermore, with population density increasing, and therefore congestion on road and rail networks increasing, we expect the rate of growth in air passenger movements to remain strong (BITRE forecasts an average 4% growth to 2025-26).

In terms of competition from other airlines, as at 2008 Qantas-owned airlines (including QantasLink, Sunstate, Eastern Australia and Jetstar) dominated the regional skies with a total 189 routes served. Regional Express served the second-highest number of regional air routes (76) followed by Macair (72, now defunct). While many regional routes are uncontested, the fact that in the past five years around eight regional airlines have failed for various reasons highlights just how tough the market actually is.

Regional aviation fleet analysis

A key feature of regional aviation is the utilisation of low-capacity aircraft and the maximisation of frequency in order to reduce operating costs and grow the market. To this end, regional operators generally employ aircraft with between 19 (eg, Brindabella's Metroliners) and 74 seats (eg, QantasLink's Dash 8 -Q400s).

One of the risks facing the industry is that very few low capacity airliners are being constructed anymore (there are no 19-30-seaters being constructed, only a 50-seater out of Europe). As a result, the industry is gravitating towards larger-capacity aircraft (eg, QantasLink, which is moving to 70-seaters) arguably posing further risk to marginal routes.

This is a key risk to REX's business strategy, which employs the classic low-capacity/high-frequency model. However, we believe this is a longer-term issue as REX's fleet of Saab aircraft has another 10-15 years of operating life given the low flight hours of the second-hand aircraft it has recently purchased. Should low-capacity aircraft not come into production within the required timeframe, there is a risk that REX will have to amend its model and follow the trend towards larger aircraft.

REX – SWOT analysis

Strengths

- Monopoly service provider on the majority of routes it flies.
- Strong balance sheet with low debt levels.
- Opportunities for expansion given the recent demise of a number of competitors.
- Leveraged to 'sea-changers' with the majority of its routes between major cities and regional areas.
- Increasingly diversified earnings base as Pel-Air wins new contracts.
- Focus on cost control and disciplined management.

Weaknesses

- Potential reoccurrence of the pilot shortage.
- Exposed to a heavily cyclical industry that can result in volatile earnings.
- Low barriers to entry on certain routes, limited pricing power with customers and exposure to monopoly supplier (airports).

Opportunities

- New route development as regional centres grow plus future contract wins through Pel-Air.
- Increasing cost of fuel makes air travel comparatively attractive (despite fuel surcharges) with time-poor passengers often willing to pay more for convenience, time saving and comfort.
- Mergers and acquisitions in the industry.

Threats

- Increasing fuel and other input costs.
- Macro factors such as the GFC, drought and pandemics.
- Lack of availability of required aircraft (Saab 340s are no longer in production).
- Increasing landing costs charged by airports, many of which themselves are monopoly suppliers.
- Competition on non-mandated routes.
- Ever-increasing regulatory burdens adding to the cost of doing business.

Director and senior management details

Sourced from REX's 2009 annual report unless stated otherwise.

Kim Hai Lim – Executive Chairman

Mr Lim started his career as a defence engineer specialising in underwater warfare. After 10 years he started his own business. Currently, Mr Lim has a portfolio of investment and business interests in diverse sectors and countries. He is also chairman of a biomedical company in Singapore, Lynk Biotechnologies Pte Ltd, as well as chairman of WooWorld Pte Ltd, a supplier of mobile games and content to telecommunications companies in Japan and South East Asia.

The Hon John Sharp – Deputy Chairman and Independent Director

Mr Sharp was a member of the House of Representatives of the federal parliament from 1984 to 1998. He retired from the House of Representatives in 1998 and established his own high-level aviation and transport consulting company, Thenford Consulting. Mr Sharp is a former chairman of the Aviation Safety Foundation of Australia, a director of Australian Aerospace, a wholly-owned subsidiary of European Aeronautics Defence and Space (EADS) representing Airbus (the aircraft manufacturer of ATR, CASA, Eurocopter and Astrium satellites), and a director of Skytraders, an airfreight and aerial work operation providing services for Australia's Antarctic Division.

James Davis – Managing Director

Mr Davis has flown professionally with airlines in Australia and overseas for 26 years, accumulating some 12,500 flying hours. On joining Hazelton Airlines in 1999, he was appointed flight operations and standards manager, and deputy chief pilot for the airline. In 2001, Mr Davis was promoted to chief pilot of Hazelton, and held that position when Hazelton was merged into and began trading as part of REX in 2002. Mr Davis became executive general manager operations in 2003, and then managing director operations. He became chief of staff of the Chairman’s Office in 2007 and was appointed managing director in May 2008. Mr Davis is chairman of the Australian Airline Pilot Academy and a director of Pel-Air and Air Link. He also sits on the board of the Regional Aviation Association of Australia.

Russell Hodge – Independent Director

Mr Hodge practised as a solicitor from 1973 to 1997 and specialised in aviation and commercial law. He retired as senior partner of Owen Hodge & Son Solicitors in 1992. Mr Hodge, a former CEO of Pel-Air, was an executive director of Pel-Air from November 1994 to March 2008. He is currently a nonexecutive director of Pel-Air. He was previously a director of the Regional Aviation Association of Australia (RAAA). He has 30 years experience in aviation regulation, compliance, aircraft financing and the commercial operations of aircraft and airlines.

David Miller – Executive Director Regional Express, Chief Executive Officer Air Link

Mr Miller began flying commercially in 1985 and bought a 50% share of Air Link, at that time a one-aircraft charter business. By 1991 Mr Miller owned 100% of Air Link shares and commenced regular passenger transport services throughout western NSW. Air Link had commercial ties with Hazelton Airlines right through until the Ansett collapse in 2001. Mr Miller has served as a director of the Regional Aviation Association of Australia since 1992 along with industry leaders Max Hazelton and Don Kendell, and held the position of chairman for four years and vice-chairman for numerous terms. Air Link continues to operate under Mr Miller’s management.

Thian Soo Lee Non – Non-Executive Director

Mr Lee has extensive international business experience and currently is chairman and owner of several businesses with subsidiaries in South East Asia. These include an aviation components and service company, specialising in military aircraft, as well as a medical equipment supply company involved in the distribution and marketing of medical equipment and drugs. He is also on the board of a biomedical company and a mobile/internet gaming company.

Warrick Lodge – General Manager, Network Strategy & Sales

Mr Lodge manages a team responsible for scheduling, pricing, revenue management, sales and commercial analysis. His duties include the monitoring of network performance and analysing both existing and new market opportunities. Mr Lodge has more than 17 years of regional airline experience in the specialised areas of scheduling, pricing and revenue management, and held the position of manager network planning with Kendell Airlines, having joined that company in 1992. He has been with Regional Express since its inception in 2002 and is also a member of the Regional Express Management Committee.

Chris Hine – General Manager Flight Operations and Chief Pilot

Mr Hine has more than 19 years of aviation experience, including 14 years as a First Officer and Captain of Metroliner and Saab 340 aircraft. He is a well-accomplished training and checking pilot and has been chief pilot of Regional Express since the company s inception in August 2002. Prior to Regional Express he worked in the same field at Kendell Airlines from 1995. Currently, Mr Hine oversees all facets of the company s flight operations and all operational matters affecting the safety of flight operations. He also has experience as a lecturer in Cockpit Systems Management for the Bachelor of Applied Science (Civil Aviation) degree course at the University of South Australia. Mr Hine is a member of the Regional Express Management Committee and a director of the Australian Airline Pilot Academy.

Irwin Tan – General Manager, Corporate Services

Mr Tan holds biotechnology degree (with first-class honours) from the University of NSW in Sydney, but left the field of genetic research when he joined Morrison Express Logistics in 1999 and then Singapore Airlines in 2001. He was later transferred to Singapore Airlines Cargo as an executive where he took on various appointments in product development, advertising, sales and airline alliances before taking on the role of regional marketing manager in South West Pacific in 2003. Mr Tan joined Regional Express in July 2005 and was appointed company secretary in September 2005. He is also a member of the Regional Express Management Committee.

Mayooran Thanabalasingham – General Manager, IT and Communications

Mr Thanabalasingham completed his associate diploma of Electrical Engineering/Computer Engineering in 2001. He commenced with Regional Express in April 2004 and leads a team of IT professionals responsible for ensuring day-to-day operations of the airline. With more than eight years' experience and an extensive background in information technology, Mr Thanabalasingham has managed a range of IT projects and initiatives for Regional Express, including its internet booking engine, amend booking engine and web check-in. He is a member of the Regional Express Management Committee.

Garry Filmer – General Manager, Engineering

Mr Filmer is a licensed aircraft maintenance engineer with 30 years' experience. He has been involved in regional airline and maintenance repair organisation management for the past 15 years, holding positions such as engineering manager and general manager engineering. Mr Filmer joined Rex in 2007 as engineering advisor in the Chairman's Office and as a member of the Engineering Management Committee, is involved in the coordination of projects such as the management of ground support equipment, review of engineering resources and the recruitment of staff. He became general manager, engineering in June 2008 and is a member of the Regional Express Management Committee.

Dale Hall – Maintenance Control Manager

Mr Hall has 27 years of aviation engineering experience, beginning his career as an apprentice in the Royal Australian Air Force where he served for nine years. He then spent the next 17 years in the industry working in turbine engine and component overhaul facilities, on and offshore gas and petroleum helicopter industries, and maintaining aero-medical charter aircraft. Mr Hall joined Kendell Airlines in 1999 as a licensed aircraft maintenance engineer and held the position of a technical support engineer with both Kendell and Regional Express. In late 2006 he was appointed as a maintenance controller for Regional Express and took up the position of maintenance control manager in 2007. He is a member of the Regional Express Management Committee.

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For research produced by Nedbank Capital, a Buy implies upside in excess of 20%, A Sell implies an expected return less than 10%, and a Hold implies a return between 10% and 20%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research produced by Nedbank Capital and for research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months. Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside. Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 28 Apr 2010)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	702 (0)	432 (0)
Add	0 (0)	0 (0)
Hold	420 (0)	229 (0)
Reduce	0 (0)	0 (0)
Sell	96 (0)	55 (0)
Total (IB%)	1218 (0)	716 (0)

Source: RBS

Trading recommendations (as at 28 Apr 2010)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	0 (0)	0 (0)
Rec	00 (00)	00 (00)
Trading Sell	0 (0)	0 (0)
Total (IB%)	0 (0)	0 (0)

Source: RBS

Valuation and risks to target price

Regional Express (RIC: REX.AX, Rec: Buy, CP: A$1.160, TP: A$1.891): Our target price for REX is based on blended DCF/multiples valuation. Key downside risks to our target price include a return to softening economic conditions that would negatively impact demand and yields, a decline in the AUD given the exposure to USD costs, and a sustained increase in the oil price above our forecast.

Regulatory disclosures

Subject companies: **REX.AX**

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