RBS
The Royal Bank of Scotland

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Regional Express

Good returns in tough times

Buy

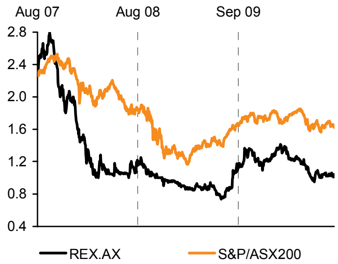
Target price
A$1.40 (from A$1.89)

Price
A$1.08

Short term (0-60 days)
n/a

Price performance

	(1M)	(3M)	(12M)
Price (A$)	1.06	1.02	1.07
Absolute (%)	1.9	5.9	1.4
Rel market (%)	3.7	6.2	2.4
Rel sector (%)	1.3	1.3	1.6



Market capitalisation
A$130.96m (US$115.84m)

Average (12M) daily turnover
A$0.06m (US$0.05m)

Sector: BBG AP Transport
RIC: REX.AX, REX AU
Priced A$1.08 at close 26 Aug 2010.
Source: Bloomberg

REX's underlying FY10 PAT was solid, falling only 3.8% on the pcp despite tough operating conditions over the year and the restructuring of Pel-Air's operations. While the removal of an assumed contract win affects our forecasts, we maintain a Buy rating, with REX trading on 0.8x FY11F P/NTA and a 6.1% yield.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA (A$m)	36.10	34.20	34.20 ▼	45.50 ▼	49.40 ▼
Reported net profit (A$m)	23.00	24.60	14.50 ▼	22.60 ▼	24.90 ▼
Normalised net profit (A$m)[1]	20.10	19.30	14.50 ▼	22.60 ▼	24.90 ▼
Normalised EPS (c)[1]	17.70	17.10	12.80 ▼	20.00 ▼	22.00 ▼
Normalised EPS growth (%)	-14.8	-3.38	-24.8	55.50	10.30
Dividend per share (c)	0.00	6.60	7.00 ▼	7.20 ▼	7.50 ▼
Dividend yield (%)	0.00	6.11	6.48	6.67	6.94
Normalised PE (x)	6.11	6.32	8.41	5.41	4.90
EV/EBITDA (x)	3.24	4.29	4.08	3.02	2.41
Price/net oper. CF (x)	4.03	4.01	4.61 ▲	5.39 ▲	3.12 ▲
ROIC (%)	18.30	16.00	8.85	13.80	14.00

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
1. Pre non-recurring items and post preference dividends
Accounting standard: IFRS
Source: Company data, RBS forecasts

year to Jun, fully diluted

Underlying FY10 result highlights the resilience of REX's operations

REX's underlying NPAT declined 3.8% (to A$19.3m) highlighting the resilience of its operating model, while reported NPAT rose 7.2% to A$24.6m (vs RBS A$23.3m) as the company benefited from government tax incentives (A$4.1m) and an insurance claim (A$1.8m). Total revenue fell 7.9% on the back of lower passengers (-5.0%) and the restructuring of Pel-Air's operations, while tight cost control saw costs per ASK decline 5.3% on the pcp (-1.9% excl fuel). Underlying EPS was 17.1c and, in a positive surprise, REX declared a full-year distribution of 6.6c as its capex program wound up during the year.

FY11 forecasts affected by removal of expected contract win

Conditions are expected to steadily improve over FY11, but our FY11F NPAT falls from A$24.7m to A$14.5m (-41.4%) as we adjust for the full-year load factor impact and the yield impact of the subsidised Northern 1 and 2 routes, and remove the impact of an assumed NT Air Ambulance contract win from our FY11 forecasts. The NT Air Ambulance contract was to commence on 1 July 2010 and the decision on preferred tenderer has now been extended to September, lowering our expectation for a positive outcome for Pel-Air.

Cheap with industry-leading returns; Buy maintained

We believe REX remains cheap at 0.8x FY11F P/NTA (vs an average 1.5x) and it continues to generate market-leading returns (ROIC of 16.0% vs QAN 4.0% and VBA [forecast] 3.1%) while also yielding 6.1% (vs no distribution for QAN or VBA). We expect FY11 to be a year of consolidation for REX as its RPT network adds back frequencies, while FY12 is expected to see strong growth on the back of Pel-Air's Victorian Air Ambulance contract. Our valuation reduces from A$1.89 to A$1.55 due to the downgrades to our earnings forecasts while our target price falls to A$1.40, factoring in a 10% discount for lack of liquidity. Risks to our valuation and target price include worse-than-expected yield performance, competition on uncontested routes rising and cost increases. Buy maintained.

Analysts

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Investment view – Buy maintained

REX's FY10 result has again highlighted the resilience of its operating model in tough economic conditions. Our forecast downgrades appear severe, but they are off a low base and reflect a reduction in revenue from Pel-Air as a result of the restructure in FY10, the removal of an assumed contract win and recent capacity-reduction announcements by REX. FY11 will be a year of consolidation for REX as its RPT network adds back frequencies removed through the downturn and Pel-Air's charter operations look to gain traction, while FY12 should see strong growth on the back of Pel-Air's Victorian Air Ambulance contract, commencing on 1 July 2011.

We continue to believe REX presents solid value in view of its proven business model through the downturn, industry-leading returns and dividend yield. REX is also cheap, in our view, trading on an FY11F P/NTA of 0.8x (versus an historical average of 1.5x), and we expect it to rerate as contracted revenue begins to flow from the Victorian Air Ambulance contract.

Risks to our valuation and target price include a return to softening economic conditions that would negatively affect demand and yields, new competition on REX's contestable routes and continued softness in Pel-Air's operations.

Earnings forecast changes – competition and reduced charter work

Table 1 below sets out the changes to our forecasts. The key points are as follows:

- We adjust for the full-year load factor and yield impact of the subsidised Northern 1 and 2 routes. We believe these will operate at a load factor of about 17% but will return commercial rates.
- Our Pel-Air forecasts factored in a small recovery in 2H10 that did not eventuate. Additionally, the revenue impact of the restructure is still flowing through, and we adjust our forecasts accordingly. FY12 remains the key year for Pel-Air, with the Victorian Air Ambulance to commence, contributing A$15m-20m in revenue annually.
- We remove the impact of an assumed NT Air Ambulance contract win from our FY11 forecasts. The NT Air Ambulance contract was to commence on 1 July 2010 and the decision on preferred tenderer has now been extended to September, lowering our expectation for a positive outcome for Pel-Air.
- Our forecast distributions decline in order to remain in line with a 30-40% payout ratio.

Table 1 : REX earnings forecast changes

	FY11F			FY12F			FY13F		
	Prev	New	% chg	Prev	New	% chg	Prev	New	% chg
EBIT (A$m)	35.0	20.4	-41.7%	46.5	31.8	-31.6%	46.4	35.8	-22.8%
NPAT ($Am)	24.7	14.5	-41.4%	32.5	22.6	-30.6%	31.5	24.9	-21.0%
EPS (c)	21.8	12.8	-41.1%	28.7	20.0	-30.3%	27.8	22.0	-20.6%
DPS (c)	7.5	7.0	-6.7%	9.0	7.2	-20.0%	10.5	7.5	-28.6%
Net op cash flow (A$m)	35.0	26.4	-24.5%	32.2	22.6	-29.7%	46.3	39.1	-15.5%

Source: RBS forecasts

The key operating assumption changes include the lowering of forecast load factors in FY11 and FY12, but an increase in yields reflecting the lower passenger Northern 1 and 2 routes and aggressive competition on the Adelaide – Port Lincoln route. The subsidised Northern 1 and 2 routes are anticipated to operate at a load factor of about 17% (and therefore skew future load factors downwards) but should return commercial rates for REX.

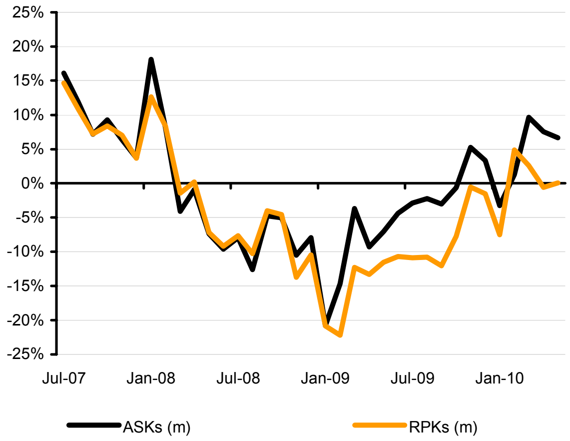
Table 2 : REX key operating assumption changes

	FY10		FY11F		FY12F	
Operating forecasts	Forecast	Actual	Prev	New	Prev	New
ASK growth	0.5%	1.5%	2.0%	2.0%	2.0%	2.0%
Load factor	63.0%	61.9%	64.0%	62.0%	64.0%	63.0%
Yield growth	-2.0%	-0.5%	1.5%	2.0%	1.5%	2.0%
Oil price – WTI (US/bbl)	73.3	73.3	78.3	80.4	85.8	85.8
Spot AUD/USD	0.89	0.89	0.87	0.87	0.84	0.84

Source: Company data, RBS forecasts

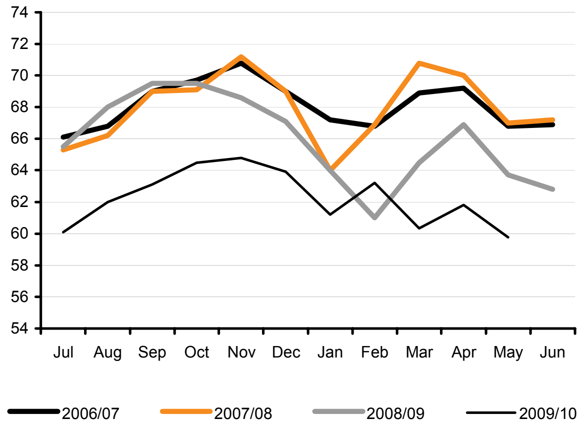
Charts 1 and 2 show that while REX is now seeing a return to ASK and RPK growth, load factors are still well below average. We expect load factors to improve to some degree due to recovering economic conditions, but we also expect the low load factors from the Northern 1 and 2 routes to keep the reported load factor 1-2ppt lower than would otherwise be reported.

Chart 1 : ASK and RPK growth



Source: Company data, RBS

Chart 2 : Load factor by financial year



Source: Company data, RBS

Result highlights and key takeaways

Result highlights

- The underlying result was solid despite the difficult trading conditions over FY10 and the ongoing restructuring of Pel-Air's operations. Underlying NPAT fell only 3.8% (to A$19.3m) highlighting the resilience of REX's operating model, while reported NPAT rose 7.2% to A$24.6m as the company benefited from government tax incentives (A$4.1m) and an insurance claim (A$1.8m)
- Total revenue fell 7.9% on the back of lower passengers and the restructuring of Pel-Air's operations. Pel-Air's freight operations were previously low yielding and the restructure has already seen margins increase from 7% in FY09 to 10% in FY10. We expect margins to improve further once the full impact of the restructure flows through, as the company increases its focus on fly-in/fly-out charters (FIFO) and as the Victorian Air Ambulance contract commences.
- Ongoing cost control saw costs per ASK decline 5.3% including fuel and 1.9% excluding fuel. This is an area of continual focus for REX and we expect cost control to remain tight in FY11.
- A dividend of 6.6c, fully franked, was a positive surprise. With REX's substantial capex program now complete, the company reinstituted its dividend and we expect a distribution payout ratio in the order of 30-40% of EPS going forward.

Table 3 : REX summary profit and loss

(A$m)	FY09A	FY10A	% chg	Comment
Total revenue	247.0	227.5	-7.9%	Reflects 5.0% passenger decline and the restructuring of Pel-Air's operations
Operating costs	203.2	184.4	-9.3%	Cost/ASK declined 5.3% highlighting ongoing cost control and lower oil prices
Operating EBITDAR	43.7	43.1	-1.5%	Solid result given the difficult trading conditions
Non-cancellable operating leases	7.6	8.9	17.5%	Reflects addition of 8 SAAB 340B+ aircraft during the period
Operating EBITDA	36.1	34.2	-5.5%	EBIT margin of improved to 15.1% vs 14.7% in the pcp
Depreciation	9.0	9.9	10.0%	Reflects new training aircraft added to the AAPA fleet during the period
Operating EBITA	27.1	24.2	-10.6%	
Amortisation	0.1	0.1	-37.7%	
Operating EBIT	27.0	24.2	-10.5%	EBIT margin of 10.7% vs 11.0% in the pcp
Net interest expense	0.3	0.3	3.3%	REX took on A$26m in debt to fund 4 KingAirs during the period
Pre-tax profit	27.3	24.5	-10.3%	
Tax	7.3	5.2	-28.3%	Reflects write back of over-provision in the current period
Adjusted economic profit	20.1	19.3	-3.8%	Solid underlying performance in volatile operating conditions
Abnormals (net of tax)	2.9	5.3	82.3%	Includes tax allowance incentives (A$4.1m) and insurance claim (A$1.8m)
Reported profit	23.0	24.6	7.2%	Record reported profit for REX

Source: Company data

Key takeaways:

- **RPT operations are recovering slowly.** We expect REX to consolidate its network in FY11, and to focus on improving load factors and yields. Competition on the Adelaide to Port Lincoln route has led to some capacity rationalisation, but REX believes it can grow other existing routes profitably and, given its track record in this, we believe it will succeed.
- **Pel-Air is looking for opportunities in fly-in/fly-out,** particularly in Central Queensland. This is generally a lucrative, and hence competitively tendered for, service though Pel-Air benefits from pre-existing relationships, eg, with Barrick Gold. We have factored no contract wins into our forecasts, so any new contracts would represent upside to our forecasts.
- **AAPA is now ready to take foreign students.** AAPA is now fully operational and accredited to train foreign students. It can house up to 200 students and recently signed an agreement with Jeppensen Australia to train its pilot trainees, though the number of trainees involved has yet to be disclosed. We are factoring in 20 students for FY11, with possible upside to this number from the recent agreement.
- **ROIC remains market-leading at 16.0%** vs QAN's FY10A 4.0% and VBA's FY10F 3.1%, while ROA reduced to 12.5% (from 16.2%). This reduction was due to the investment in aircraft for the Victorian Air Ambulance contract, with revenue streams to follow from 1 July 2011.
- **Outlook too uncertain for guidance.** Management declined to give guidance, citing volatility in the economic outlook, passenger demand and fuel prices. Conditions are expected to improve over FY11, but we expect NPAT to fall back largely as a result of the Pel-Air restructure and the cost of carrying the 4 KingAirs for the VIC Air Ambulance contract.

Valuation and target price reduced to A$1.42

The changes to our forecasts have reduced our blended valuation to A$1.55 (from A$1.89). However, our target price falls to A$1.40 (from A$1.89) based on a 10% discount to our blended valuation reflecting a discount for liquidity. Risks to our valuation and target price include a return to softening economic conditions that would negatively impact demand and yields, new competition on REX's monopoly routes and continued softness in Pel-Air's operations.

Table 4 : REX – blended valuation

Methodology	Valuation (A$ps)	Comment
DCF	1.64	
P/B	2.00	Based on historical average of P/NTA 1.5x since listing
P/E	0.87	Based on historical average 6.9x EPS
EV/EBITDAR	1.69	Based on historical average 4.6x EV/EBITDAR
Average	**1.55**	**Blended valuation**
Target price	**1.40**	**Based on 10% discount to our blended valuation**

Source: RBS estimates

REX – financial summary

Year to 30 Jun (A$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS
Income statement	**2009A**	**2010A**	**2011F**	**2012F**	**2013F**
Divisional sales	245.6	225.6	231.8	260.8	274.9
Total revenue	247.0	227.5	233.7	262.8	276.8
EBITDA	36.1	34.2	34.2	45.5	49.4
Depreciation	-9.1	-10.0	-13.8	-13.7	-13.6
EBITA	27.0	24.2	20.4	31.8	35.8
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0
EBIT	27.0	24.2	20.4	31.8	35.8
Associate income	0.0	0.0	0.0	0.0	0.0
EBIT(incl associate profit)	27.0	24.2	20.4	31.8	35.8
Net interest expense	0.3	0.3	-0.3	-0.4	-0.3
Pre-tax profit	27.3	24.5	20.2	31.4	35.6
Income tax expense	-7.3	-5.2	-5.7	-8.8	-10.7
After-tax profit	20.1	19.3	14.5	22.6	24.9
Minority interests	0.0	0.0	0.0	0.0	0.0
NPAT	20.1	19.3	14.5	22.6	24.9
Significant items	2.9	5.3	0.0	0.0	0.0
NPAT post abnormals	23.0	24.6	14.5	22.6	24.9

Cash flow statement	2009A	2010A	2011F	2012F	2013F
EBITDA	36.1	34.2	34.2	45.5	49.4
Change in working capital	4.9	1.2	-1.9	-13.6	0.7
Net interest (pd)/rec	0.3	0.3	-0.3	-0.4	-0.3
Taxes paid	-9.0	-7.6	-5.7	-8.8	-10.7
Other oper cash items	-2.0	2.3	0.0	0.0	0.0
Cash flow from ops (1)	30.4	30.4	26.4	22.6	39.1
Capex (2)	-28.5	-61.9	-12.0	-12.3	-12.6
Disposals/(acquisitions)	11.7	2.5	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from invest (3)	-16.8	-59.4	-12.0	-12.3	-12.6
Incr/(decr) in equity	-3.6	-0.4	0.0	0.0	0.0
Incr/(decr) in debt	-1.8	24.3	-3.0	-3.0	-3.0
Ordinary dividend paid	-7.4	0.0	-7.5	-7.9	-8.1
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	-0.5	-0.1	0.0	0.0	0.0
Cash flow from fin (5)	-13.3	23.8	-10.5	-10.9	-11.1
Forex and disc ops (6)					
Inc/(decr) cash (1+3+5+6)	0.3	-5.1	4.0	-0.6	15.4
Equity FCF (1+2+4)	1.9	-31.5	14.4	10.3	26.5

Balance sheet	2009A	2010A	2011F	2012F	2013F
Cash & deposits	15.5	10.3	14.3	13.7	29.1
Trade debtors	8.3	9.5	9.8	18.0	19.0
Inventory	7.5	7.7	8.0	15.8	16.6
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	7.3	7.3	7.3	7.3	7.3
Other intangible assets					
Fixed assets	126.4	174.8	173.0	171.7	170.7
Other assets	3.5	9.1	9.1	9.1	9.1
Total assets	168.5	218.8	221.4	235.5	251.7
Short-term borrowings	1.7	0.0	0.0	0.0	0.0
Trade payables	14.9	18.3	16.0	18.0	19.0
Long-term borrowings	0.0	26.0	23.0	20.0	17.0
Provisions	0.5	0.4	0.4	0.4	0.4
Other liabilities	26.1	23.5	24.3	24.8	26.3
Total liabilities	43.1	68.2	63.8	63.2	62.7
Preference shares					
Hybrid equity					
Share capital	75.0	74.7	74.7	74.7	74.7
Other reserves	-1.0	0.0	0.4	0.6	1.0
FCTR					
Unrealised gains/losses					
Retained earnings	51.4	76.0	82.6	97.0	113.4
Other equity	0.0	0.0	0.0	0.0	0.0
Total equity	125.4	150.6	157.7	172.3	189.1
Minority interest	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	125.4	150.6	157.7	172.3	189.1
Total liabilities & SE	168.5	218.8	221.4	235.5	251.7

Closing price (A$)	1.08	Price target (A$)	1.40
Valuation metrics			
Preferred methodology	DCF/multiples	Val'n (A$)	$ 1.55
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$m)	193.7
Equity (E/EV)	50.0%	Minority interest (A$m)	0.0
Debt (D/EV)	50.0%	Net debt (A$m)	8.7
Interest rate	7.25%	Investments (A$m)	0.0
Tax rate (t)	30.0%	Equity market value (A$m)	185.0
WACC	11.6%	Diluted no. of shares (m)	112.9
		DCF valuation (A$)	**1.64**

Multiples	2010A	2011F	2012F	2013F
Enterprise value (A$m)	146.6	139.6	137.2	118.9
EV/Sales (x)	0.6	0.6	0.5	0.4
EV/EBITDA (x)	4.3	4.1	3.0	2.4
EV/EBIT (x)	6.1	6.8	4.3	3.3
PE (normalised) (x)	6.3	8.4	5.4	4.9
PEG (normalised) (x)	2.5	3.4	2.2	2.0

At target price	2010A	2011F	2012F	2013F
EV/EBITDA (x)	5.4	5.2	3.9	3.2
PE (normalised) (x)	8.2	10.9	7.0	6.3

Comparable company data (x)		2011F	2012F	2013F
Qantas Airways	EV/EBITDA	3.6	3.4	3.3
Year to 30 Jun	EV/EBIT	9.0	7.3	6.9
	PE	10.7	7.7	6.9
	PEG	0.6	0.4	0.4
Virgin Blue Holdings	EV/EBITDA	6.0	5.3	4.7
Year to 30 Jun	EV/EBIT	15.4	12.3	10.4
	PE	16.0	13.6	13.5
	PEG	2.3	2.0	2.0

Per share data	2010A	2011F	2012F	2013F
No. shares	112.9	112.9	112.9	112.9
EPS (cps)	21.8	12.8	20.0	22.0
EPS (pre-goodwill) (c)	21.8	12.8	20.0	22.0
EPS (normalised) (c)	17.1	12.8	20.0	22.0
Dividend per share (c)	6.6	7.0	7.2	7.5
Dividend payout ratio (%)	38.6	54.5	36.0	34.0
Dividend yield (%)	6.1	6.5	6.7	6.9

Growth ratios	2010A	2011F	2012F	2013F
Sales growth	-8.1%	2.7%	12.5%	5.4%
Operating cost growth	-8.6%	3.2%	9.0%	4.7%
EBITDA growth	-5.5%	0.3%	32.7%	8.7%
EBITA growth	-10.5%	-15.4%	55.5%	12.7%
EBIT growth	-10.5%	-15.4%	55.5%	12.7%
NPAT growth	-3.8%	-24.8%	55.5%	10.3%
Normalised EPS growth	-3.4%	-24.8%	55.5%	10.3%

Operating performance	2010A	2011F	2012F	2013F
Asset turnover (%)	29.1	26.3	28.5	28.2
EBITDA margin (%)	15.1	14.8	17.4	18.0
EBIT margin (%)	10.7	8.8	12.2	13.0
Net profit margin (%)	8.6	6.3	8.6	9.1
Return on net assets (%)	16.0	13.0	18.5	19.0
Net debt (A$m)	15.7	8.7	6.3	-12.1
Net debt/equity (%)	10.4	5.5	3.6	-6.4
Net interest/EBIT cover (x)	-69.8	74.8	72.6	135.5
ROIC (%)	16.0	8.9	13.8	14.0

Internal liquidity	2010A	2011F	2012F	2013F
Current ratio (x)	0.7	0.9	1.2	1.5
Receivables turnover (x)	25.3	24.0	18.8	14.9
Payables turnover (x)	11.5	11.5	12.7	12.2

Source: Company data, RBS forecasts

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 25 Aug 2010)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	682 (0)	402 (0)
Add	0 (0)	0 (0)
Hold	421 (0)	235 (0)
Reduce	0 (0)	0 (0)
Sell	99 (0)	59 (0)
Total (IB%)	1202 (0)	696 (0)

Source: RBS

Trading recommendations (as at 25 Aug 2010)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	2 (0)	2 (0)
Rec	00 (00)	00 (00)
Trading Sell	1 (0)	1 (0)
Total (IB%)	3 (0)	3 (0)

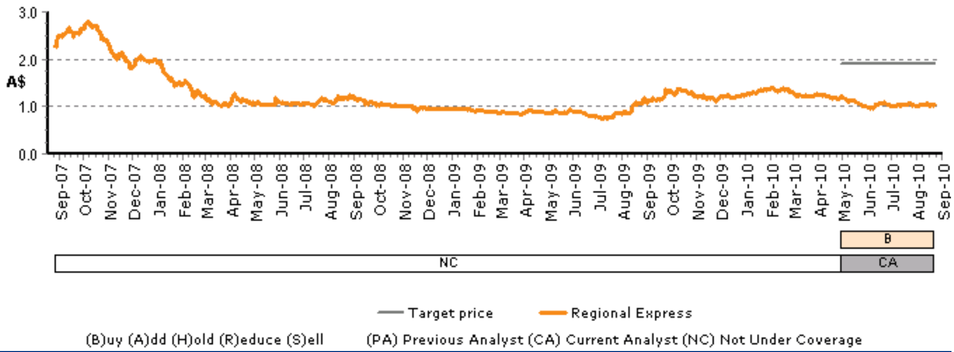
Source: RBS

Valuation and risks to target price

Regional Express (RIC: REX.AX, Rec: Buy, CP: A$1.080, TP: A$1.395): 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.

Regional Express coverage data

Stock performance, recommendations and coverage (as at 24 Aug 2010)



Michael Newbold, CFA started covering this stock on 28 Apr 10

Source: RBS

Trading recommendation history (as at 25 Aug 2010)

Date	Rec	Analyst
	n/a	

Source: RBS

Regulatory disclosures

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