

31 August 2011
Produced by: RBS Equities (Australia) Limited

Regional Express

Buy

Target price
A\$1.26 (from A\$1.25)

Price
A\$0.965

Short term (0-60 days)
n/a

Price performance


Market capitalisation
A\$106.21m (US\$113.79m)

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

Sector: BBG AP Transport
RIC: REX.AX, REX AU
Priced A\$0.96 at close 30 Aug 2011.
Source: Bloomberg

Analysts

Michael Newbold, CFA
+61 2 8259 5663
michael.newbold@rbs.com

Mark Williams
+61 2 8259 6921
mark.williams@rbs.com

RBS Equities (Australia) Limited, ABN 84 002 768 701, AFS Licence 240530
Level 29, RBS Tower, 88 Phillip Street,
Sydney NSW 2000, Australia

<http://research.rbsm.com>

Buy me

FY12 is the year we have been waiting for. Pel Air is once again profitable, the Victorian Air Ambulance contract has commenced and the AAPA is gaining traction. With earnings growth largely contracted and trading on 4.9x FY12F EPS with an expected 7.9% FY12F yield we maintain our Buy recommendation.

Key forecasts

	FY10A	FY11A	FY12F	FY13F	FY14F
EBITDA (A\$m)	34.20	33.90	45.60 ▲	48.20 ▲	50.90 ▲
Reported net profit (A\$m)	24.60	17.60	21.70 ▲	24.00 ▲	26.80 ▲
Normalised net profit (A\$m) ¹	19.30	17.40	21.70 ▲	24.00 ▲	26.80 ▲
Normalised EPS (c) ¹	17.41	15.66	19.69 ▲	21.86 ▲	24.38 ▲
Normalised EPS growth (%)	-1.56	-10.0	25.70	11.00	11.60
Dividend per share (c)	6.60	7.10	7.60 ▲	8.60 ▲	9.60 ▲
Dividend yield (%)	6.84	7.36	7.88	8.91	9.95
Normalised PE (x)	5.54	6.16	4.90	4.42	3.96
EV/EBITDA (x)	3.57	3.43	2.26	1.77	1.32
Price/net oper. CF (x)	3.52	3.02	3.07 ▽	2.64 ▽	2.55 ▽
ROIC (%)	16.00	9.83	12.90	14.00	15.30

Use of ▲ ▽ indicates that the line item has changed by at least 5%.

year to Jun, fully diluted

1. Pre non-recurring items and post preference dividends

Accounting standard: IFRS

Source: Company data, RBS forecasts

Another solid result in what was expected to be a tough year

FY11A PBT of A\$23.9m was in line with RBS forecasts but a small decline on the pcp. In our view it was a very encouraging result given 1) the volatility of oil and economic conditions during the period; 2) Pel Air's ongoing restructure; and 3) the pilot training academy's (AAPA) ongoing ramp-up. The full-year dividend increase to 7.1cps fully franked (vs RBSe 6.6cps) was a positive surprise and driven by higher cash availability (cash balance of A\$19m, up A\$9m on the pcp) due to lower capex obligations during the period.

Outlook statement rosier than usual

In his outlook statement, REX's ever conservative Chairman, Lim Kim Hai, stated that his optimism and confidence in the outlook and potential for the Rex Group was at its highest level in the past nine years and that all subsidiaries in the Group are expected to be profitable in FY12. With Rex's regular passenger transport (RPT) operation's proven resilience to economic conditions, Pel Air's Victorian Air Ambulance contract coming on line this year and the AAPA gaining traction we tend to agree.

Earning upgrades as turnaround businesses improve faster than expected

Following REX's full-year result, we have upgraded our FY12F PBT by 9% to A\$31m as we account for additional fly-in/fly-out earnings in Pel Air and training revenue at the Academy in our forecasts, while our FY13F PBT increases 11% to A\$34m.

Cheap with yield and industry best returns; Buy maintained

We continue to believe REX is cheap, with strong earnings growth (FY12F NPAT +24%), market-leading returns (FY12F ROIC of 14% vs QAN and VBA at 6%), a 7.9% fully franked yield and trading on an FY12F P/E of 4.9x (vs the Small industrials at 12.1x). Reflecting changes to forecasts our blended valuation increases to A\$1.58 while our target price increases to A\$1.26 reflecting a 20% discount to our valuation for lack of liquidity. Buy.

Important disclosures can be found in the Disclosures Appendix.

Five key things to focus on regarding the result

- **FY11A PBT of A\$23.9m was in line** with forecasts and a small decline on the pcp. This was a very encouraging result given 1) the volatility of oil during the period and the uncertain economic conditions; 2) Pel Air was still undergoing a restructure in the period; and 3) the pilot training academy (AAPA) also lost money as it struggled to sign external training candidates.
- **Distribution per share surprised to the upside**, increasing to 7.1cps fully franked (vs RBS 6.6cps). This was driven by higher cash availability cash (cash balance of A\$19m, up A\$9m on the pcp) due to lower capex obligations during the period. With reduced capex anticipated in the short to medium term, we expect ongoing growth in distributions.
- **Pel Air returned to profit** in 4Q11 following its extensive two-year restructure from a low margin high volume freight operator to a more contract based charter, Air Ambulance, Defence and Freight operator.
- **The outlook looks positive** with the ever-conservative Chairman Lim Kim Hai noting that his optimism and confidence in the outlook and potential for the Rex Group was at its highest level in the past nine years. With Rex's regular passenger transport (RPT) operation's proven resilience to economic conditions, Pel Air's Victorian Air Ambulance contract coming on line this year and the AAPA gaining traction we tend to agree.
- **No guidance was provided for FY12** earnings with Management referring once again to the volatility of market conditions, the foreign exchange rate and fuel prices. However, with the outlook positive as noted above, Management stated it expects all subsidiaries in the Group to be profitable in FY12.

Table 1 : Result summary and earnings forecast changes (A\$m)

	FY11F					FY12F			FY13F		
	FY10A	FY11A	% chg	RBSF	% diff	Prev	New	% chg	Prev	New	% chg
Total Revenue	227.4	239.1	5%	236.9	1%	266.2	272.8	2%	276.9	285.3	3%
Operating Costs	184.3	196.4	7%	195.1	1%	216.8	221.1	2%	225.0	231.1	3%
Operating EBITDAR	43.1	42.7	-1%	41.9	2%	49.4	51.8	5%	51.9	54.2	5%
Non-cancellable operating leases	8.9	8.9	-1%	6.8	31%	6.5	6.2	-5%	6.8	6.0	-11%
Operating EBITDA	34.2	33.9	-1%	35.1	-4%	43.0	45.6	6%	45.1	48.2	7%
Depreciation	9.9	11.1	12%	11.8	-6%	14.3	13.9	-2%	14.2	13.9	-2%
Operating EBITA	24.2	22.8	-6%	23.3	-2%	28.7	31.7	10%	30.9	34.3	11%
Amortisation	0.1	0.1	37%	0.1	33%	0.1	0.1	32%	0.1	0.1	32%
Operating EBIT	24.2	22.7	-6%	23.3	-2%	28.6	31.5	10%	30.8	34.2	11%
Net Interest expense	0.3	1.2	235%	0.6	86%	(0.1)	(0.5)	598%	0.2	0.2	-6%
Pre-tax profit	24.5	23.9	-3%	23.9	0%	28.5	31.0	9%	31.0	34.4	11%
Taxation	5.2	6.4	23%	6.7	-4%	8.6	9.3	9%	9.3	10.3	11%
Underlying	19.3	17.4	-10%	17.2	1%	19.9	21.7	9%	21.7	24.0	11%
Abnormals (net of tax)	5.3	0.2	-97%	0.0	nm	0.0	0.0	nm	0.0	0.0	nm
Reported NPAT	24.6	17.6	-29%	17.2	2%	19.9	21.7	9%	21.7	24.0	11%

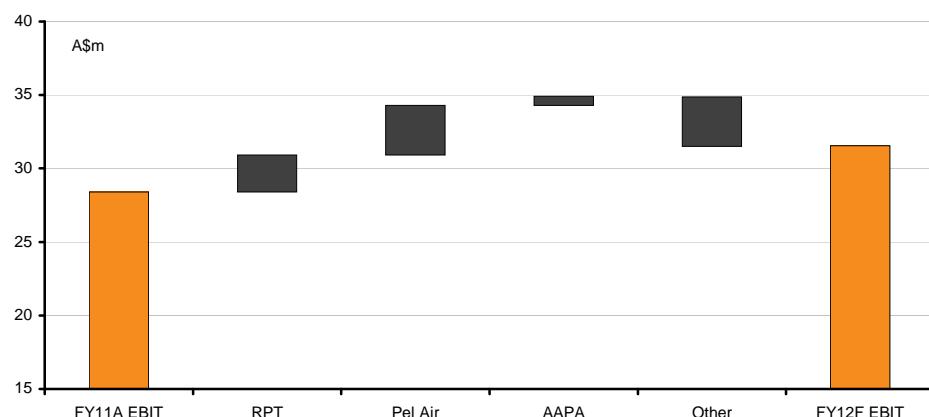
Source: Company data, RBS forecasts

Divisional breakdown

- **REX's** RPT operations saw FY11 EBIT increase 1% on the pcp (to A\$29m), driven by largely flat capacity which helped to buoy yields (+7% on the pcp). Capacity remained flat as reductions due to higher landing charges at Burnie and Mount Gambier airports were offset by new capacity on Melbourne-based routes. Cost/ASK increased ahead of forecasts (+7.8%) led by higher staffing (due to new EBAs effective 1 July 11) and depreciation expenses. REX continues to run ahead of piloting needs to clear excess leave balances and provide a buffer in the event of increased pilot attrition (12.2% in FY11, in line with historical average).
- Delivering ahead of an expected small loss, **Pel Air** saw a solid increase in both contracted and ad hoc fly-in/fly-out activity with contracted revenues doubling in the 2H and ad hoc revenues increasing 80% on the pcp. Pel Air signed a FIFO contract with Ivanhoe Resources during the period and also restructured its arrangements with Australian Air Express. We estimate that new contracts contributed an additional A\$3m to revenue during the period while ad hoc work (which should be largely recurring) contributed A\$2m.

- **AAPA** recorded a small loss for FY11 but broke even in 4Q11 as it continued to gain traction. 114 cadets have now passed through its doors with 18 graduating during the period, 66 now flying with REX/Pel Air and 38 still undergoing training. During the period, the AAPA achieved accreditation by the relevant authority from the United Arab Emirates to deliver Multi-Crew Pilot Licence flight training to cadets in conjunction with the Alpha Aviation Group. Six cadets commenced training in August with 60 per year expected under the agreement. We expect this to contribute cA\$5m to revenue pa and cA\$0.8m to earnings.

Figure 1 : FY11A to FY12F earnings bridge



Source: Company data, RBS forecasts

Key trends to focus on

- **Review of RPT operations.** The enroute rebate subsidy will be removed effective 1 July 2012 and a carbon tax imposed on the same date which will create a cost impost for REX and indeed all airlines. We expect REX to conduct a full review of its network with a view to possibly exiting routes (or reducing capacity on certain routes) which it believes will not sustain the required pricing increases to absorb these cost imposts. Such routes may include Taree, Grafton, Bathurst and Moruya given their already high price sensitivity. We estimate these two measures are likely to add between A\$4-6 per ticket to REX's airfares.
- **Results from outstanding tenders.** During the period Pel Air tendered for the ADF Jet Support contract (for which it is the incumbent). The tender outcome is expected imminently with the contract extension under which Pel Air is currently operating due to expire on 30 September. Pel Air is also awaiting an outcome on the JP66 contract (due for commencement on 1 July 2012) and expects further increases in mining fly in/fly-out operations and foreign charter work over the year. We have not factored in wins from any of these tenders into our numbers to date and as such any wins present upside risk to our forecasts.

Valuation and target price increase given upgrades

As a result of changes to forecasts, our blended valuation increases to A\$1.58 (from A\$1.47) while our target price increases to A\$1.26 (from A\$1.25), reflecting a 20% discount to our valuation for lack of liquidity. Key upside risks to our valuation and target price include REX winning additional tenders and faster-than-expected growth in RPT operations, while downside risks include a return to softening economic conditions that would negatively affect 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.

Table 2 : Valuation and target price

Methodology	Valuation	Comment
DCF	1.94	
P/B	1.29	Based on 3-year rolling average 0.9x P/NTA
P/E	1.12	Based on 3-year rolling average 5.7x EPS
EV/EBITDAR	1.98	Based on 3-year rolling average 4.2x EV/EBITDAR
Average	1.58	Blended valuation
Target price	1.26	Reflects 20% discount for lack of liquidity

Source: RBS forecasts

REX – financial summary

Year to 30 Jun (A\$m)	AIFRS 2010A	AIFRS 2011A	AIFRS 2012F	AIFRS 2013F	AIFRS 2014F	Closing price (A\$)	0.95	Price target (A\$)	1.26	
Income statement						Valuation metrics				
Divisional sales	224.4	230.6	264.3	276.8	290.0	Preferred methodology				
Total revenue	227.4	239.1	272.8	285.3	298.5	DCF/multiples				
EBITDA	34.2	33.9	45.6	48.2	50.9	Rf	5.25%	10-year rate	5.25%	
Depreciation	-10.0	-11.2	-14.0	-14.0	-14.0	Rm-Rf	6.00%	Margin	2.0%	
EBITA	24.2	22.7	31.5	34.2	37.0	Beta	2.15	Kd	7.25%	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	CAPM (Rf+Beta(Rm-Rf))	18.1%	Ke	18.1%	
EBIT	24.2	22.7	31.5	34.2	37.0	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	209.9	
Associate income	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	50.0%	Minority interest (A\$m)	0.0	
EBIT(incl associate profit)	24.2	22.7	31.5	34.2	37.0	Debt (D/EV)	50.0%	Net debt (A\$m)	-3.2	
Net interest expense	0.3	1.2	-0.5	0.2	1.4	Interest rate	7.25%	Investments (A\$m)	0.0	
Pre-tax profit	24.5	23.9	31.0	34.4	38.3	Tax rate (t)	30.0%	Equity market value (A\$m)	213.1	
Income tax expense	-5.2	-6.4	-9.3	-10.3	-11.5	WACC	11.6%	Diluted no. of shares (m)	110.1	
After-tax profit	19.3	17.4	21.7	24.0	26.8			DCF valuation (A\$)	1.94	
Minority interests	0.0	0.0	0.0	0.0	0.0					
NPAT	19.3	17.4	21.7	24.0	26.8	Multiples	2011A	2012F	2013F	2014F
Significant items	5.3	0.2	0.0	0.0	0.0	Enterprise value (A\$m)	116.2	103.0	85.1	67.3
NPAT post abnormals	24.6	17.6	21.7	24.0	26.8	EV/Sales (x)	0.5	0.4	0.3	0.2
Cash flow statement	2010A	2011A	2012F	2013F	2014F	EV/EBITDA (x)	3.4	2.3	1.8	1.3
EBITDA	34.2	33.9	45.6	48.2	50.9	EV/EBIT (x)	5.1	3.3	2.5	1.8
Change in working capital	1.2	1.1	-1.1	2.2	0.8	PE (normalised) (x)	6.1	4.8	4.3	3.9
Net interest (pd)/rec	0.3	1.2	-0.5	0.2	1.4	PEG (normalised) (x)	2.5	2.0	1.8	1.6
Taxes paid	-7.6	1.0	-9.3	-10.3	-11.5	At target price	2011A	2012F	2013F	2014F
Other oper cash items	2.3	-1.6	0.0	0.0	0.0	EV/EBITDA (x)	4.4	3.0	2.4	2.0
Cash flow from ops (1)	30.4	35.6	34.6	40.2	41.6	PE (normalised) (x)	8.1	6.4	5.8	5.2
Capex (2)	-61.9	-29.2	-13.4	-13.8	-14.2	Comparable company data (x)	2012F	2013F	2014F	
Disposals/(acquisitions)	2.5	6.6	0.0	0.0	0.0	Qantas Airways	EV/EBITDA	3.1	3.0	2.6
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	8.2	7.3	5.5
Cash flow from invest (3)	-59.4	-22.5	-13.4	-13.8	-14.2	PE	7.0	5.6	4.4	
Incr/(dec) in equity	-0.4	3.0	0.0	0.0	0.0	PEG	1.2	0.9	0.7	
Incr/(dec) in debt	24.3	0.0	-3.0	-3.0	-3.0	Virgin Blue Holdings	EV/EBITDA	4.1	3.7	3.2
Ordinary dividend paid	0.0	-7.3	-8.0	-8.5	-9.6	Year to 30 Jun	EV/EBIT	10.5	7.6	5.7
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	PE	10.2	5.7	4.1	
Other financing cash flow	-0.1	0.0	0.0	0.0	0.0	PEG	1.8	1.0	0.7	
Cash flow from fin (5)	23.8	-4.3	-11.0	-11.5	-12.6					
Forex and disc ops (6)										
Inc/(dec) cash (1+3+5+6)	-5.1	8.7	10.2	14.9	14.8	Per share data	2011A	2012F	2013F	2014F
Equity FCF (1+2+4)	-31.5	6.4	21.2	26.4	27.4	No. shares	112.9	111.6	111.5	111.5
Balance sheet	2010A	2011A	2012F	2013F	2014F	EPS (cps)	15.8	19.7	21.9	24.4
Cash & deposits	10.3	19.0	29.2	44.1	58.9	EPS (pre-goodwill) (c)	15.8	19.7	21.9	24.4
Trade debtors	9.5	10.0	11.4	11.9	12.5	EPS (normalised) (c)	15.7	19.7	21.9	24.4
Inventory	7.7	10.4	11.8	12.4	13.0	Dividend per share (c)	7.1	7.6	8.6	9.6
Investments	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	46.0	39.1	39.9	39.9
Goodwill	7.3	7.5	7.5	7.5	7.5	Dividend yield (%)	7.5	8.0	9.1	10.1
Other intangible assets						Growth ratios	2011A	2012F	2013F	2014F
Fixed assets	174.8	185.7	185.1	184.9	185.1	Sales growth	2.8%	14.6%	4.7%	4.8%
Other assets	9.1	6.9	6.9	6.9	6.9	Operating cost growth	3.4%	11.2%	4.5%	4.6%
Total assets	218.8	239.6	252.0	267.8	283.9	EBITDA growth	-0.9%	34.6%	5.7%	5.7%
Short-term borrowings	0.0	1.9	1.9	1.9	1.9	EBITA growth	-6.1%	39.0%	8.4%	8.1%
Trade payables	18.3	19.4	22.1	23.2	24.2	EBIT growth	-6.1%	39.0%	8.4%	8.1%
Long-term borrowings	26.0	27.1	24.1	21.1	18.1	NPAT growth	-9.7%	24.4%	10.9%	11.6%
Provisions	0.4	0.5	0.5	0.5	0.5	Normalised EPS growth	-10.0%	25.7%	11.0%	11.6%
Other liabilities	23.5	29.9	28.9	31.1	32.0					
Total liabilities	68.2	78.8	77.5	77.8	76.7	Operating performance	2011A	2012F	2013F	2014F
Preference shares						Asset turnover (%)	25.1	26.9	26.6	26.3
Hybrid equity						EBITDA margin (%)	14.7	17.2	17.4	17.6
Share capital	74.7	74.7	74.7	74.7	74.7	EBIT margin (%)	9.8	11.9	12.4	12.8
Other reserves	0.0	-0.2	0.3	1.4	2.5	Net profit margin (%)	7.6	8.2	8.7	9.2
FCTR						Return on net assets (%)	14.1	18.1	18.0	17.8
Unrealised gains/losses						Net debt (A\$m)	10.0	-3.2	-21.1	-38.9
Retained earnings	76.0	86.3	99.5	113.9	130.0	Net debt/equity (%)	6.2	-1.8	-11.1	-18.8
Other equity	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	-19.6	58.5	-189.7	-26.9
Total equity	150.6	160.8	174.4	190.0	207.2	ROIC (%)	9.8	12.9	14.0	15.3
Minority interest	0.0	0.0	0.0	0.0	0.0					
Total shareholders' equity	150.6	160.8	174.4	190.0	207.2					
Total liabilities & SE	218.8	239.6	252.0	267.8	283.9	Internal liquidity	2011A	2012F	2013F	2014F
						Current ratio (x)	0.8	1.0	1.2	1.5
						Receivables turnover (x)	23.6	24.7	23.7	23.7
						Payables turnover (x)	10.4	10.5	10.1	10.1

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 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 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 31 Aug 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	848 (12)	551 (3)
Hold	416 (7)	226 (4)
Sell	80 (6)	48 (0)
Total (IB%)	1344 (10)	825 (3)

Source: RBS

Trading recommendations (as at 31 Aug 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	1 (100)	1 (100)
Trading Sell	0 (0)	0 (0)
Total (IB%)	1 (100)	1 (100)

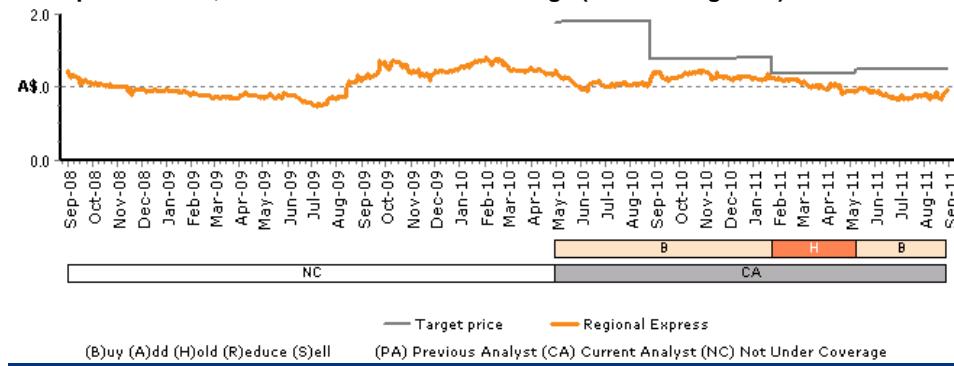
Source: RBS

Valuation and risks to target price

Regional Express (RIC: REX.AX, Rec: Buy, CP: A\$0.965, TP: A\$1.264): Our target price for REX is based on a blended DCF/multiples valuation. Key downside risks to our target price include a return to softening economic conditions that would have a negative impact on 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 30 Aug 2011)



Trading recommendation history (as at 31 Aug 2011)

Date	Rec	Analyst
31 Aug 2011	n/a	

Source: RBS

Michael Newbold, CFA started covering this stock on 28 Apr 10. New recommendation structure from 7 November 2005. Source: RBS

Regulatory disclosures

Global disclaimer

© Copyright 2011 The Royal Bank of Scotland N.V. and affiliated companies ("RBS"). All rights reserved.

This material was prepared by the legal entity named on the cover or inside cover page. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to may not be suitable for the specific investment objectives, financial situation or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither RBS nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without RBS's prior express consent. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors.

Australia: Any report referring to equity securities is distributed in Australia by RBS Equities (Australia) Limited (ABN 84 002 768 701, AFS Licence 240530), a participant of the ASX Group. Any report referring to fixed income securities is distributed in Australia by The Royal Bank of Scotland NV (Australia Branch) (ABN 84 079 478 612, AFS Licence 238266). Australian investors should note that this document was prepared for wholesale investors only.

Canada: The securities mentioned in this material are available only in accordance with applicable securities laws and may not be eligible for sale in all jurisdictions. Persons in Canada requiring further information should contact their own advisors.

EEA: This material constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the material. Any recommendations contained in this document must not be relied upon as investment advice based on the recipient's personal circumstances. In the event that further clarification is required on the words or phrases used in this material, the recipient is strongly recommended to seek independent legal or financial advice.

Denmark: Royal Bank of Scotland N.V. is authorised and regulated in the Netherlands by De Nederlandsche Bank. In addition, Royal Bank of Scotland N.V. Danish branch is subject to local supervision by Finanstilsynet, The Danish Financial Supervisory Authority.

Hong Kong: This document is being distributed in Hong Kong by, and is attributable to, RBS Asia Limited which is regulated by the Securities and Futures Commission of Hong Kong.

India: Shares traded on stock exchanges within the Republic of India may only be purchased by different categories of resident Indian investors, Foreign Institutional Investors registered with The Securities and Exchange Board of India ("SEBI") or individuals of Indian national origin resident outside India called Non Resident Indians ("NRIs"). Any recipient of this document wanting additional information or to effect any transaction in Indian securities or financial instrument mentioned herein must do so by contacting a representative of RBS Equities (India) Limited. RBS Equities (India) Limited is a subsidiary of The Royal Bank of Scotland N.V..

Italy: Persons in Italy requiring further information should contact The Royal Bank of Scotland N.V. Milan Branch.

Japan: This report is being distributed in Japan by RBS Securities Japan Limited to institutional investors only.

South Korea: This document is being distributed in South Korea by, and is attributable to, RBS Asia Limited (Seoul) Branch which is regulated by the Financial Supervisory Service of South Korea.

Malaysia: RBS research, except for economics and FX research, is not for distribution or transmission into Malaysia.

Netherlands: the Authority for the Financial Markets ("AFM") is the competent supervisor.

Russia: This Material is distributed in the Russian Federation by RBS and "The Royal Bank of Scotland" ZAO (general banking license No. 2594 issued by the Central Bank of the Russian Federation, registered address: building 1, 17 Bolshaya Nikitskaya str., Moscow 125009, the Russian Federation), an affiliate of RBS, for information purposes only and is not an offer to buy or subscribe or otherwise to deal in securities or other financial instruments, or to enter into any legal relations, nor as investment advice or a recommendation with respect to such securities or other financial instruments. This Material does not have regard to the specific investment purposes, financial situation and the particular business needs of any particular recipient. The investments and services contained herein may not be available to persons other than 'qualified investors' as this term is defined in the Federal Law "On the Securities Market".

Singapore: Any material in connection with equity securities is distributed in Singapore by The Royal Bank of Scotland Asia Securities (Singapore) Pte Limited ("RBS Asia Securities") (RCB Regn No. 198703346M) under MICA (P) 155/08/2011. Singapore recipients should contact RBS Asia Securities at +65 6518 8888 for additional information. This material and the securities, investments or other financial instruments referred to herein are not in any way intended for, and will not be available to, investors in Singapore unless they are accredited investors, expert investors and institutional investors (as defined in Section 4A(1) of the Securities and Futures Act (Cap. 289) of Singapore ("SFA")). Further, without prejudice to any of the foregoing disclaimers, where this material is distributed to accredited investors or expert investors, RBS Asia Securities is exempted by Regulation 35 of the Financial Advisers Regulations from the requirements in Section 36 of the Financial Advisers Act (Cap.110) of Singapore ("FAA") mandating disclosure of any interest in securities referred to in this material, or in their acquisition or disposal. Recipients who are not accredited investors, expert investors or institutional investors should seek the advice of their independent financial advisors prior to making any investment decision based on this document or for any necessary explanation of its contents.

Thailand: Pursuant to an agreement with Asia Plus Securities Public Company Limited (APS), reports on Thai securities published out of Thailand are prepared by APS but distributed outside Thailand by RBS Bank NV and affiliated companies. Responsibility for the views and accuracy expressed in such documents belongs to APS.

Turkey: The Royal Bank of Scotland N.V. is regulated by Banking Regulation and Supervision Authority (BRSA).

UAE and Qatar: This report is produced by The Royal Bank of Scotland N.V. and is being distributed to professional and institutional investors only in the United Arab Emirates and Qatar in accordance with the regulatory requirements governing the distribution of investment research in these jurisdictions.

Dubai International Financial Centre: This material has been prepared by The Royal Bank of Scotland N.V. and is directed at "Professional Clients" as defined by the Dubai Financial Services Authority (DFSA). No other person should act upon it. The financial products and services to which the material relates will only be made available to customers who satisfy the requirements of a "Professional Client". This Document has not been reviewed or approved by the DFSA.

Qatar Financial Centre: This material has been prepared by The Royal Bank of Scotland N.V. and is directed solely at persons who are not "Retail Customer" as defined by the Qatar Financial Centre Regulatory Authority. The financial products and services to which the material relates will only be made available to customers who satisfy the requirements of a "Business Customer" or "Market Counterparty".

United States of America: This document is intended for distribution only to "major institutional investors" as defined in Rule 15a-6 under the U.S. Exchange Act of 1934 as amended (the "Exchange Act"), and may not be furnished to any other person in the United States. Each U.S. major institutional investor that receives these materials by its acceptance hereof represents and agrees that it shall not distribute or provide these materials to any other person. Any U.S. recipient of these materials that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this document, should contact and place orders solely through a registered representative of RBS Securities Inc., 600 Washington Boulevard, Stamford, CT, USA. Telephone: +1 203 897 2700. RBS Securities Inc. is an affiliated broker-dealer registered with the U.S. Securities and Exchange Commission under the Exchange Act, and a member of the Securities Investor Protection Corporation (SIPC) and the Financial Industry Regulatory Authority (FINRA).

- Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at research.rbsm.com.

Disclosures regarding companies covered by us can be found on our research website at research.rbsm.com.

Our policy on managing research conflicts of interest can be found at <https://research.rbsm.com/Disclosure/Disclosure.AspX?MI=2>.

Should you require additional information please contact the relevant research team or the author(s) of this report.