

## Buy (from Hold)

TP A\$1.46 (from A\$1.22)

### Change of recommendation

#### RBS Refiner

Price (close 31 Aug)	A\$1.18
3M high/low	A\$1.200/1.050
Market cap	A\$130.01m
Av (12M) turnover	A\$0.03m
Freefloat	100%
Reuters	REX.AX
Bloomberg	REX AU
Net debt (cash) FY12	A\$(16.13)m
3yr EPS CAGR 13-15F	1.0%
Income (2014F div yield)	9.3%

Source: RBS forecasts, Bloomberg

#### Price performance

	(1M)	(3M)	(12M)
Price (A\$)	1.18	1.08	0.95
Absolute (%)	0.0	9.8	23.6
Rel to mkt*(%)	-1.1	3.7	23.0

\*S&amp;P/ASX200

Source: Bloomberg

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# Regional Express

## Flying above the turbulence

REX delivered a strong FY12 result, with underlying PBT of A\$35m, up 41% on the pcp. While FY13 is expected to be a tougher year due to legislative changes and an uncertain economic environment, we believe REX is well equipped to deal with the challenges and expect returns to remain strong. Trading on an 8.5% FY13F yield and 5.7x FY13F EPS with risks of industrial action now behind it, we believe REX remains cheap and upgrade to Buy, with a A\$1.46 target price.

### Event: FY12 result lives up to expectations

REX's FY12 underlying PBT of A\$34.5m was largely in line with our forecast (RBSF A\$35.9m) and up 41% on the pcp. The strong performance was driven by improved pricing in regular passenger transport operations (EBIT of A\$37.1m, +28% on the pcp), a strong result in charter operations (A\$4.2m EBIT, up from a A\$0.1m loss in the pcp) and a reduced loss in training (A\$0.1m loss vs A\$0.4m in the pcp). Free cash flow was the highlight, increasing 181% on the pcp and leading to a 27% increase in DPS to 9c. While we expect earnings to decline moderately in FY13, with capex requirements to remain moderate in the short to medium term and REX's net cash position still strong, we foresee ongoing growth in distributions (RBS FY13F 10.0cps).

### Forecasts: FY13 to be tough, but REX can tough it out

With legislative changes including the carbon tax, the removal of the en-route subsidy scheme and increased security requirements at airports likely to cost REX between A\$4m and A\$5m in FY13, management has guided to a 15-25% decline on FY12 reported PBT in FY13. This implies FY13F PBT of A\$26.3m-29.8m. We view conditions as less dire than management suggests and we believe price increases and service rationalisation in RPT operations should absorb some of this impact. With cost control an ongoing feature, and potential upside from outstanding FIFO tenders and other revenue initiatives, we reduce our FY13 PBT forecast to A\$32.4m, above guidance, but down on our previous expectation.

### Valuation: Too cheap to ignore; upgrade to Buy

We have long said that 2012 was going to be REX's year and the company delivered on our expectations. While we believe FY13 is likely to be tougher for REX, we think it remains a highly profitable and well-run airline, with a competitive advantage in its niche markets and industry-leading returns. In our view, REX still looks cheap, trading on an 8.5% FY13F yield and 5.7x FY13F EPS (versus the small industrials at 4.8% and 11.5x, respectively), and we upgrade to our recommendation Buy. On the back of changes to our forecasts, and a roll-forward of our model, our blended valuation increases to A\$1.83 (from A\$1.74), while our target price increases to A\$1.46 (from A\$1.22). Our target price reflects a 20% discount to our valuation for lack of liquidity and risks to earnings as a result of: 1) a potential inability to fully pass through cost impacts from recent regulatory changes; and 2) a potentially softening domestic traffic environment.

#### Key forecasts

year to Jun	FY11A	FY12A	FY13F	FY14F	FY15F
EBITDAR (A\$m)	43.20	57.60	51.70	55.50	52.90
Reported PTP (A\$m)	24.40	34.50	32.40 ▼	36.60 ▼	36.60 ▼
Normalised net profit (A\$m) <sup>1</sup>	17.80	25.10	22.70 ▼	25.60 ▼	25.60 ▼
Norm fully diluted EPS (c) <sup>1</sup>	16.00	22.76	20.82 ▼	23.51 ▼	23.47 ▼
Dividend per share (c)	7.10	9.00	10.00 ▲	11.00 ▲	11.10
Normalised PE	7.37	5.18	5.67	5.02	5.03
EV/EBITDAR (x)	3.24	1.98	2.06	1.61	1.54

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

<sup>1</sup>. Pre non-recurring items and post preference dividends

Source: Company data, RBS forecasts

Accounting standard: IFRS

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Important disclosures can be found in the [Disclosures Appendix](#).

# RBS Equities Forecasts: Regional Express

## Income statement

A\$m, year to June	FY11A	FY12A	FY13F	FY14F	FY15F
Revenue	239.6	273.8	280.0	289.7	297.5
Cost of sales	n/a	n/a	n/a	n/a	n/a
<b>Gross profit</b>	<b>239.6</b>	<b>273.8</b>	<b>280.0</b>	<b>289.7</b>	<b>297.5</b>
Operating costs	-205.2	-223.5	-233.5	-239.4	-248.5
<b>EBITDA</b>	<b>34.4</b>	<b>50.2</b>	<b>46.5</b>	<b>50.3</b>	<b>49.0</b>
DDA & Impairment (ex gw)	-11.2	-15.8	-15.0	-15.3	-14.9
<b>EBITA</b>	<b>23.2</b>	<b>34.4</b>	<b>31.4</b>	<b>35.0</b>	<b>34.1</b>
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
<b>EBIT</b>	<b>23.2</b>	<b>34.4</b>	<b>31.4</b>	<b>35.0</b>	<b>34.1</b>
Net interest	1.16	0.05	1.01	1.63	2.50
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-0.00	0.00	-0.00	0.00	0.00
<b>Reported PTP</b>	<b>24.4</b>	<b>34.5</b>	<b>32.4</b>	<b>36.6</b>	<b>36.6</b>
Taxation	-6.59	-9.40	-9.73	-11.0	-11.0
Minority interests	0.00	0.00	0.00	0.00	0.00
Other post-tax items	-0.21	0.42	0.00	0.00	0.00
<b>Reported net profit</b>	<b>17.6</b>	<b>25.5</b>	<b>22.7</b>	<b>25.6</b>	<b>25.6</b>
Tot normalised items	-0.21	0.42	0.00	0.00	0.00
Normalised EBITDA	34.4	50.2	46.5	50.3	49.0
Normalised EBIT	23.2	34.4	31.4	35.0	34.1
Normalised PTP	24.4	34.5	32.4	36.6	36.6
Normalised net profit	17.8	25.1	22.7	25.6	25.6

## Balance sheet

A\$m, year ended June	FY11A	FY12A	FY13F	FY14F	FY15F
Cash & market secs (1)	19.0	43.3	47.7	62.0	66.4
Other current assets	20.4	25.2	25.8	26.6	27.4
Tangible fixed assets	185.7	176.7	179.7	175.3	181.4
Intang assets (incl gw)	7.47	7.40	7.40	7.40	7.40
Oth non-curr assets	6.94	7.05	7.05	7.05	7.05
<b>Total assets</b>	<b>239.6</b>	<b>259.6</b>	<b>267.6</b>	<b>278.3</b>	<b>289.6</b>
Short term debt (2)	1.86	2.04	2.04	2.04	2.04
Trade & oth current liab	48.6	52.8	51.0	50.1	50.9
Long term debt (3)	27.1	25.1	22.1	19.1	16.1
Oth non-current liab	1.16	2.93	2.93	2.93	2.93
<b>Total liabilities</b>	<b>78.8</b>	<b>82.9</b>	<b>78.1</b>	<b>74.2</b>	<b>72.0</b>
Total equity (incl min)	160.8	176.7	189.5	204.1	217.6
<b>Total liab &amp; sh equity</b>	<b>239.6</b>	<b>259.6</b>	<b>267.6</b>	<b>278.3</b>	<b>289.6</b>
Net debt	9.97	-16.1	-23.6	-40.8	-48.2

## Cash flow statement

A\$m, year to June	FY11A	FY12A	FY13F	FY14F	FY15F
EBITDA	34.4	50.2	46.5	50.3	49.0
Change in working capital	1.12	-3.77	-2.35	-1.78	0.03
Net interest (pd) / rec	1.16	-0.99	1.01	1.63	2.50
Taxes paid	1.02	-5.53	-9.73	-11.0	-11.0
Other oper cash items	-2.14	3.39	0.00	0.00	0.00
<b>Cash flow from ops (1)</b>	<b>35.6</b>	<b>43.3</b>	<b>35.4</b>	<b>39.2</b>	<b>40.6</b>
Capex (2)	-29.2	-10.3	-18.0	-10.9	-21.0
Disposals/(acquisitions)	6.62	3.54	0.00	0.00	0.00
Other investing cash flow	0.00	0.00	0.00	0.00	0.00
<b>Cash flow from invest (3)</b>	<b>-22.5</b>	<b>-6.74</b>	<b>-18.0</b>	<b>-10.9</b>	<b>-21.0</b>
Incr / (decr) in equity	3.00	-2.70	0.00	0.00	0.00
Incr / (decr) in debt	0.00	-1.86	-3.00	-3.00	-3.00
Ordinary dividend paid	-7.32	-7.81	-9.93	-11.0	-12.1
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	0.01	0.01	0.00	0.00	0.00
<b>Cash flow from fin (5)</b>	<b>-4.31</b>	<b>-12.4</b>	<b>-12.9</b>	<b>-14.0</b>	<b>-15.1</b>
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
<b>Inc/(decr) cash (1+3+5+6)</b>	<b>8.71</b>	<b>24.2</b>	<b>4.45</b>	<b>14.2</b>	<b>4.42</b>
Equity FCF (1+2+4)	6.40	33.1	17.4	28.2	19.5

Source: Company data, RBS forecasts

## Five key things to focus on regarding the result

- FY12A PBT of A\$35m was largely in line with our forecast (RBS A\$36m) and up 41% on the pcp. The strong performance was driven by improved pricing in RPT operations (EBIT of A\$37m +28% on the pcp), a strong result in charter operations (A\$4m EBIT up from a small loss in the pcp) on the back of the Victorian Air Ambulance contract and a reduced loss in training (A\$0.1m loss vs A\$0.4m in the pcp).
- Free cash flow was the highlight, increasing 181% on the pcp reflecting the improved earnings and significantly reduced capex in the period. Reflecting the strong operating cash flow, REX increased dividends to 9.0cps (vs RBSF 7.6c and from 7.1c – +27% on the pcp). While we expect earnings to decline moderately in FY13, with capex requirements to remain moderate in the short to medium term and REX's net cash position still strong, we expect ongoing growth in distributions (RBS FY13F 10.0cps).
- Margins improved markedly on the pcp on the back of new contact commencements, pricing increases (average ticket price grew 9.5% on the pcp) and an ongoing focus on cost control (CASK [excl fuel] rose 5.0%). With the King Airs for the Air Ambulance contract now in service and contributing earnings, EBIT margin grew 2.8ppt to 12.9%, while ROIC increased 5.2ppt (to 15.0%) and ROA 2.7ppts to 13.8%.
- REX's Aircraft Engineer, Airline Services Union and Pilot enterprise agreements have now been voted up by members, significantly reducing the risks to earnings that we feared from industrial action. For the pilots, we understand REX has agreed to a fixed 3.7% increase over the next three years plus profit share and share gift. We now factor in a 4% pa increase in employee costs over the next three years resulting from the new agreements.
- With legislative changes (costing A\$4m-5m) and uncertain economic conditions expected to affect earnings in FY13, management guided to FY13 PBT 15-25% below reported FY12 levels (implying PBT of A\$26.3m-29.8m). We believe that the outlook is less dire than management predicts, with price increases in RPT operations likely to absorb some of the cost impacts (we factor in 3.5% yield improvement versus the 5% average since FY05). With cost control an ongoing feature, and potential upside from outstanding tenders and other revenue initiatives, we reduce our FY13F PBT to A\$32.4m, above guidance, but down on our previous expectation.

**Table 1 : Result summary and earnings forecast changes**

	RBS					FY13F			FY14F		
	FY11A	FY12A	% chg	RBSF	% diff	Prev	New	% chg	Prev	New	% chg
<b>Revenue</b>	<b>239.6</b>	<b>273.8</b>	<b>14%</b>	<b>276.1</b>	<b>-1%</b>	<b>284.9</b>	<b>280.0</b>	<b>-2%</b>	<b>293.5</b>	<b>289.7</b>	<b>-1%</b>
Operating costs	196.4	216.0	10%	217.2	-1%	226.2	228.3	1%	231.8	234.1	1%
<b>EBITDAR</b>	<b>43.3</b>	<b>57.7</b>	<b>33%</b>	<b>58.9</b>	<b>-2%</b>	<b>58.6</b>	<b>51.8</b>	<b>-12%</b>	<b>61.7</b>	<b>55.6</b>	<b>-10%</b>
Operating leases	8.9	7.5	-16%	6.5	15%	6.1	5.3	-13%	6.2	5.3	-14%
<b>EBITDA</b>	<b>34.4</b>	<b>50.2</b>	<b>46%</b>	<b>52.4</b>	<b>-4%</b>	<b>52.6</b>	<b>46.5</b>	<b>-12%</b>	<b>55.5</b>	<b>50.3</b>	<b>-9%</b>
D&A	11.2	15.8	42%	15.8	0%	15.5	15.0	-3%	15.4	15.3	0%
<b>EBIT</b>	<b>23.2</b>	<b>34.4</b>	<b>48%</b>	<b>36.5</b>	<b>-6%</b>	<b>36.9</b>	<b>31.4</b>	<b>-15%</b>	<b>40.0</b>	<b>35.0</b>	<b>-13%</b>
Net interest	1.2	0.0	-96%	(0.6)	-108%	0.2	1.0	475%	1.3	1.6	26%
<b>PBT</b>	<b>24.4</b>	<b>34.5</b>	<b>41%</b>	<b>35.9</b>	<b>-4%</b>	<b>37.1</b>	<b>32.4</b>	<b>-13%</b>	<b>41.3</b>	<b>36.6</b>	<b>-11%</b>
Tax	6.6	9.4	43%	10.1	-7%	11.1	9.7	-13%	12.4	11.0	-11%
<b>NPAT</b>	<b>17.8</b>	<b>25.1</b>	<b>41%</b>	<b>25.9</b>	<b>-3%</b>	<b>26.0</b>	<b>22.7</b>	<b>-13%</b>	<b>28.9</b>	<b>25.6</b>	<b>-11%</b>
Significant items	(0.2)	0.4	-300%	0.3	36%	0.0	0.0	nm	0.0	0.0	nm
<b>Reported NPAT</b>	<b>17.6</b>	<b>25.5</b>	<b>45%</b>	<b>26.2</b>	<b>-3%</b>	<b>26.0</b>	<b>22.7</b>	<b>-13%</b>	<b>28.9</b>	<b>25.6</b>	<b>-11%</b>
Normalised EPS (c)	16.0	22.8	42.2%	23.4	-3%	23.5	20.8	-11%	26.2	23.5	-10%
DPS (c)	7.1	9.0	26.8%	7.6	18%	8.6	10.0	16%	9.6	11.0	15%
EBITDA margin	14.4%	18.4%	4.0ppt	19.0%	(0.6ppt)	18.5%	16.6%	(1.9ppt)	18.9%	17.4%	(1.5ppt)
EBIT margin	9.7%	12.6%	2.9ppt	13.2%	(0.6ppt)	13.0%	11.2%	(1.7ppt)	13.6%	12.1%	(1.6ppt)
NPAT margin pre sigs	7.4%	9.2%	1.7ppt	9.4%	(0.2ppt)	9.1%	8.1%	(1.0ppt)	9.9%	8.9%	(1.0ppt)
Tax rate	27.0%	27.3%	0.2ppt	28.0%	(0.7ppt)	30.0%	30.0%	0.0ppt	30.0%	30.0%	0.0ppt

Source: Company data, RBS forecasts

## Divisional summary

- REX's RPT operations saw 1H12 EBIT increase 28% on the pcp (to A\$37m), driven by improved pricing (RASK +7.4% on a lower ASK base (ASKs -0.8% on the pcp). Capacity declined despite the introduction of routes out of Newcastle as REX adjusted for lower expected passenger levels due to the slowdown in domestic traffic. Cost/ASK (excl. fuel) increased 5.0%, led by higher staffing and engineering expenses. We expect ongoing capacity rationalisation over FY13 and yield improvement, as REX accounts for the now imposed carbon tax and the absence of the en-route rebate subsidy (estimated to add A\$3-4 per ticket to REX's airfares), though costs are also expected to increase following the recent completion of the latest round of enterprise bargaining with various unions.
- Charter (Pel Air and Air Link) saw a strong return to profitability (EBIT of A\$4.2m, up from an A\$0.1m loss in the pcp) on the back of the commencement of the Victorian Air Ambulance (AV) contract and increased fly-in/fly-out activity. The AV contract is reportedly performing to expectations, while Pel Air secured a renewal of its contract with Ivanhoe Australia to supply FIFO services to its Osborne and Mount Dore mines.
- AAPA narrowed its loss in FY12 (to A\$0.1m) as it started training cadets from the Alpha Aviation Group (nine cadets graduating in the period). We expect AAPA's profitability to continue improving as more third-party cadets are enrolled in the programme and the facility starts to reach a critical mass.

## Valuation and target price rise, reflecting increased forecasts

FY12 was a strong year for REX and although we believe conditions are likely to be tougher in FY13, we are less pessimistic than management. With the risk of pilot industrial action now in the past and the passenger market holding up despite the economic uncertainty (enabling some pass through of the added costs of the carbon tax and removal of the en-route subsidy scheme), we believe REX remains in a strong competitive position and we upgrade our recommendation from Hold to Buy. REX remains cheap, in our view, yielding 8.5% fully franked on FY13 forecasts (vs the small industrials average at 4.8%) and trading at 5.7x FY12F EPS (vs 11.8x).

Changes to our forecasts and a roll-forward of our model see our blended valuation increase to A\$1.83 (from A\$1.74), while our target price rises to A\$1.46 (from A\$1.22). Our target price reflects a 20% discount to our valuation for lack of liquidity and risks to earnings as a result of: 1) a potential inability to fully pass through cost impacts from recent regulatory changes and; 2) a potentially softening domestic traffic environment.

Key upside risks to our 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 have a negative impact on demand and yields, a decline in the A\$ given the company's exposure to US\$ costs, and a sustained increase in the oil price above our forecast.

**Table 2 : REX blended valuation**

Methodology	Valuation	Comment
DCF	1.94	
P/B	1.84	Based on long-run average 1.1x P/NTA
PE	1.54	Based on long-run average 7.4x EPS
EV/EBITDAR	1.99	Based on long-run average 4.5x EV/EBITDAR
Average	1.83	Blended valuation
<b>Target price</b>	<b>1.46</b>	<b>Reflects 20% discount for lack of liquidity</b>

Source: RBS estimates

## REX – financial summary

Year to 30 Jun (A\$m)	AIFRS 2011A	AIFRS 2012A	AIFRS 2013F	AIFRS 2014F	AIFRS 2015F	Closing price (A\$)	1.18	Price target (A\$)	1.46	
<b>Income statement</b>						<b>Valuation metrics</b>				
Divisional sales	230.6	267.9	274.2	283.9	291.7	Preferred methodology	DCF/multiples	Val'n (A\$)	\$ 1.83	
Total revenue	239.6	273.8	280.0	289.7	297.5	<b>DCF valuation inputs</b>				
EBITDA	34.4	50.2	46.5	50.3	49.0	Rf	5.25%	10-year rate	5.25%	
Depreciation	-11.2	-15.8	-15.0	-15.3	-14.9	Rm-Rf	6.00%	Margin	2.7%	
EBITA	23.2	34.4	31.4	35.0	34.1	Beta	1.25	Kd	8.00%	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	CAPM (Rf+Beta(Rm-Rf))	12.7%	Ke	12.7%	
EBIT	23.2	34.4	31.4	35.0	34.1	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	187.6	
Associate income	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	75.0%	Minority interest (A\$m)	0.0	
EBIT(incl associate profit)	23.2	34.4	31.4	35.0	34.1	Debt (D/EV)	25.0%	Net debt (A\$m)	-23.6	
Net interest expense	1.2	0.0	1.0	1.6	2.5	Interest rate	8.00%	Investments (A\$m)	0.0	
Pre-tax profit	24.4	34.5	32.4	36.6	36.6	Tax rate (t)	30.0%	Equity market value (A\$m)	211.2	
Income tax expense	-6.6	-9.4	-9.7	-11.0	-11.0	<b>WACC</b>	11.0%	Diluted no. of shares (m)	109.1	
After-tax profit	17.8	25.1	22.7	25.6	25.6		<b>DCF valuation (A\$)</b>	<b>1.94</b>		
Minority interests	0.0	0.0	0.0	0.0	0.0					
NPAT	17.8	25.1	22.7	25.6	25.6	<b>Multiples</b>	<b>2012A</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Significant items	-0.2	0.4	0.0	0.0	0.0	Enterprise value (A\$m)	114.4	107.0	89.7	82.3
NPAT post abnormals	17.6	25.5	22.7	25.6	25.6	EV/Sales (x)	0.4	0.4	0.3	0.3
						EV/EBITDA (x)	2.3	2.3	1.8	1.7
						EV/EBIT (x)	3.3	3.4	2.6	2.4
						PE (normalised) (x)	5.2	5.7	5.0	5.0
						PEG (normalised) (x)	2.6	2.8	2.5	2.5
<b>Cash flow statement</b>	<b>2011A</b>	<b>2012A</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	<b>At target price</b>	<b>2012A</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
EBITDA	34.4	50.2	46.5	50.3	49.0	EV/EBITDA (x)	2.9	3.0	2.4	2.3
Change in working capital	1.1	-3.8	-2.3	-1.8	0.0	PE (normalised) (x)	6.4	7.0	6.2	6.2
Net interest (pd)/rec	1.2	-1.0	1.0	1.6	2.5	<b>Comparable company data (x)</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	
Taxes paid	1.0	-5.5	-9.7	-11.0	-11.0	Qantas Airways	EV/EBITDA	2.6	2.2	1.9
Other oper cash items	-2.1	3.4	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	8.7	5.9	4.8
Cash flow from ops (1)	35.6	43.3	35.4	39.2	40.6		PE	8.1	5.1	4.2
Capex (2)	-29.2	-10.3	-18.0	-10.9	-21.0		PEG	0.4	0.2	0.2
Disposals/(acquisitions)	6.6	3.5	0.0	0.0	0.0	Virgin Australia Holdings	EV/EBITDA	4.3	3.3	2.7
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	10.7	6.5	4.7
Cash flow from invest (3)	-22.5	-6.7	-18.0	-10.9	-21.0		PE	11.2	7.5	5.2
Incr/(decr) in equity	3.0	-2.7	0.0	0.0	0.0		PEG	7.4	4.9	3.4
Incr/(decr) in debt	0.0	-1.9	-3.0	-3.0	-3.0	<b>Per share data</b>	<b>2012A</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Ordinary dividend paid	-7.3	-7.8	-9.9	-11.0	-12.1	No. shares	111.3	110.0	110.0	110.0
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EPS (cps)	23.1	20.8	23.5	23.5
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	EPS (pre-goodwill) (c)	23.1	20.8	23.5	23.5
Cash flow from fin (5)	-4.3	-12.4	-12.9	-14.0	-15.1	EPS (normalised) (c)	22.8	20.8	23.5	23.5
Forex and disc ops (6)						Dividend per share (c)	9.0	10.0	11.0	11.1
Incr/(decr) cash (1+3+5+6)	8.7	24.2	4.5	14.2	4.4	Dividend payout ratio (%)	39.9	48.5	47.2	47.5
Equity FCF (1+2+4)	6.4	33.1	17.4	28.2	19.5	Dividend yield (%)	7.6	8.5	9.3	9.4
<b>Balance sheet</b>	<b>2011A</b>	<b>2012A</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	<b>Growth ratios</b>	<b>2012A</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Cash & deposits	19.0	43.3	47.7	62.0	66.4	Sales growth	16.2%	2.3%	3.5%	2.7%
Trade debtors	10.0	13.2	13.5	14.0	14.4	Operating cost growth	11.0%	4.6%	2.6%	3.9%
Inventory	10.4	11.9	12.2	12.6	13.0	EBITDA growth	46.0%	-7.5%	8.2%	-2.6%
Investments	0.0	0.0	0.0	0.0	0.0	EBITA growth	48.2%	-8.7%	11.3%	-2.6%
Goodwill	7.5	7.4	7.4	7.4	7.4	EBIT growth	48.2%	-8.7%	11.3%	-2.6%
Other intangible assets						NPAT growth	40.9%	-9.4%	12.9%	-0.2%
Fixed assets	185.7	176.7	179.7	175.3	181.4	Normalised EPS growth	42.2%	-8.5%	12.9%	-0.2%
Other assets	6.9	7.1	7.1	7.1	7.1	<b>Operating performance</b>	<b>2012A</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Total assets	239.6	259.6	267.6	278.3	289.6	Asset turnover (%)	26.8	26.0	26.0	25.7
Short-term borrowings	1.9	2.0	2.0	2.0	2.0	EBITDA margin (%)	18.8	17.0	17.7	16.8
Trade payables	19.4	19.6	20.0	20.7	21.3	EBIT margin (%)	12.9	11.5	12.3	11.7
Long-term borrowings	27.1	25.1	22.1	19.1	16.1	Net profit margin (%)	9.4	8.3	9.0	8.8
Provisions	0.5	2.0	2.0	2.0	2.0	Return on net assets (%)	19.5	16.6	17.1	15.7
Other liabilities	29.9	34.1	31.9	30.3	30.5	Net debt (A\$m)	-16.1	-23.6	-40.8	-48.2
Total liabilities	78.8	82.9	78.1	74.2	72.0	Net debt/equity (%)	-9.1	-12.4	-20.0	-22.2
Preference shares						Net interest/EBIT cover (x)	-702.6	-31.2	-21.5	-13.6
Hybrid equity						ROIC (%)	14.1	13.7	14.8	14.6
Share capital	74.7	72.0	72.0	72.0	72.0	<b>Internal liquidity</b>	<b>2012A</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Other reserves	-0.2	0.8	1.9	3.0	3.0	Current ratio (x)	1.2	1.4	1.7	1.8
FCTR						Receivables turnover (x)	23.1	20.5	20.6	20.6
Unrealised gains/losses						Payables turnover (x)	11.2	11.5	11.5	11.5
Retained earnings	86.3	104.0	115.7	129.2	142.6					
Other equity	0.0	0.0	0.0	0.0	0.0					
Total equity	160.8	176.7	189.5	204.1	217.6					
Minority interest	0.0	0.0	0.0	0.0	0.0					
Total shareholders' equity	160.8	176.7	189.5	204.1	217.6					
Total liabilities & SE	239.6	259.6	267.6	278.3	289.6					

Source: Company data, RBS forecasts

# Disclosure Appendix

## Recommendation structure

Absolute performance, short term (trading) recommendation (Australian coverage only): 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 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.

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.

Relative views: Our strategy teams and analysts may provide strategy views on sectors and/or markets. An Overweight, Underweight or Neutral view implies outperformance, underperformance or a neutral performance in an indicated relative context

## 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 03 Sep 2012)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	235 (1)	232 (1)
Hold	211 (2)	211 (2)
Sell	25 (0)	24 (0)
Total (IB%)	471 (1)	467 (1)

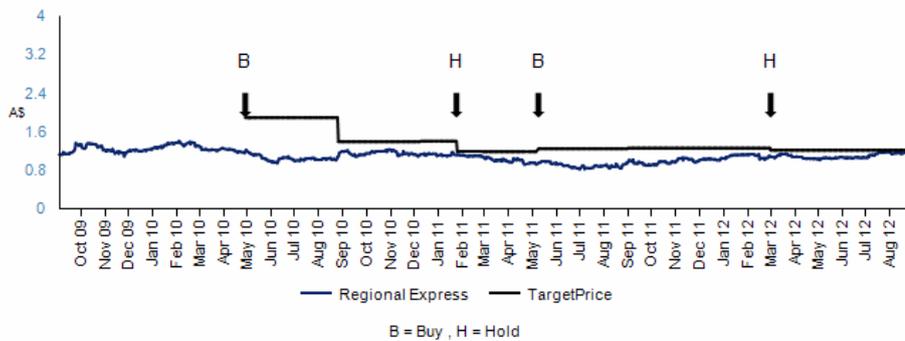
Source: RBS

### Trading recommendations (as at 03 Sep 2012)

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

Source: RBS

## Regional Express (RIC: REX.AX, Rec: Buy, CP: A\$1.180, TP: A\$1.461)



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

## Valuation and risks to target price

Our target price for REX is based on a blended DCF/multiples valuation. Key upside risks to our 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 have a negative impact on demand and yields, a decline in the AS\$ given the exposure to US\$ costs, and a sustained increase in the oil price above our forecast.

Source: RBS

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