Regional Express Holdings Limited

Initiation of coverage – Flying under the radar

A monopoly over a majority of its flight routes, a significant fall in operating costs and an ungeared balance sheet places the company in a favourable position to benefit from improved economic conditions and growth in passenger numbers. We initiate coverage on REX with a BUY recommendation with the stock currently trading on an undemanding FY10 EBITDA multiple of 3.2x and at a 41.1% discount to our DCF valuation of $2.19 per share.

Key Financial Information

Y/E June		2008A	2009A	2010F	2011F	2012F
Revenue	$m	259.3	247.4	254.2	260.2	284.0
EBITDA	$m	40.4	36.6	41.6	43.3	47.7
Reported NPAT	$m	25.0	23.0	22.0	24.1	27.2
Normalised NPAT	$m	24.4	20.9	22.0	24.2	27.3
EPS (adj)	CPS	20.9	18.5	19.4	21.4	24.1
EPS Growth	%	2.3%	-11.2%	4.7%	10.2%	12.9%
PER	x	6.2	7.0	6.7	6.0	5.3
EV/EBITDA	x	3.3	3.6	3.2	3.1	2.8
DPS	c	6.6	0.0	6.0	7.0	8.0
Yield	%	5.1%	na	4.7%	5.4%	6.2%

Strong business model

Formed in 2002 from the merger of Kendall and Hazelton airlines, Regional Express Holdings (REX) is Australia's largest independent regional airline. Its business model is built around servicing 31 small regional routes, of which REX is the sole provider of services on 25 routes, representing approximately 74% of current Available Seat Kilometres (ASK's). This monopoly position places REX in a favourable position as passenger numbers increase.

Well positioned to expand

Following a sharp decline in capacity in 2H09 to combat the drop off in demand, REX has recently resumed its Melbourne-Griffith service and also begun a service between Townsville and Mackay demonstrating a recovery in demand for its services. Whilst we have assumed a conservative ASK CAGR of 2.6% between 2009-2012, we believe there is significant room for capacity to increase in excess of this rate, particularly in the near term.

Costs on the decline

The higher AUD/USD will have a positive impact on REX's profitability due to significant fuel purchases, aircraft leasing costs and fleet expansion all paid for in USD. Our FY10 forecasts assume an average jet fuel spot price of US$0.55c/litre (currently US$0.5237) and an AUD/USD of 0.85. A 2.5c movement in the jet fuel price and a 1c movement in the AUD/USD both have a 1% impact on our EBITDA forecasts implying earnings upside should oil prices and the AUD/USD remain at current levels.

Pel-Air and AAPA to provide incremental growth.

We expect REX's freight and charter business, Pel-Air, and the recently formed Australian Airline Pilot Academy (AAPA) to provide incremental growth as Pel-Air expands into the medivac and mining sectors through additional contract wins and AAPA gains traction in the training of both domestic and international pilots.

Initiate with a BUY and a valuation of $2.34 per share

We initiate coverage on REX with a BUY recommendation with the stock trading at a 41.1% discount to our DCF valuation of $2.19 per share. In our opinion, the current implied FY10 multiples (PE: 6.7x and EV/EBITDA: 3.2x) do not reflect its competitive position, balance sheet capacity (net cash position) and growth opportunities. In addition, we consider there is upside to our conservative forecasts with REX's declining cost profile and network expansion.

BALNAVE SECURITIES

BUY

Price: A$1.29

Code: REX

Stock Data

Market Capitalisation	$146.3
Issued Capital	113.4m
Volume (monthly average)	1.7m
12-month low	$0.73
12-month high	$1.40

Market Data

Small Ordinaries	2581.5
S&P ASX 200	4792.8
All Ordinaries	4801.8

Valuation & Pricing Data

DCF Valuation	$2.19
EBITDA Multiple	$2.43
PE Multiple	$2.09
12 Month price Target	$1.94

Share Price Drivers

Q1 results	↑↓
New routes/contracts	↑
AGM comments	↑↓
Evidence AAPA gaining traction	↑
Re-instatement of dividend	↑

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EXECUTIVE SUMMARY

Hazelton and Kendall were profitable businesses within the Ansett Group

Regional Express Holdings (REX) was established in 2002 when a consortium acquired Hazelton Airlines and Kendall Airlines from the administrators of the collapsed Ansett Group. The company listed in November 2005 raising $35m at $1.00 per share to expand the fleet and acquire Pel-Air and Air Link.

REX has a monopoly over a significant percentage of its business

REX focuses on smaller regional routes in NSW, Victoria, SA and QLD, flying 1300 flights per week across 31 routes and does not compete with Qantas and Jetstar on the competitive trunk routes. The company has a monopoly over more than 70% of its routes, with competition on only 25 of the 31 routes it currently flies. A majority of the routes REX "owns" are unlikely to have competition enter as the traffic typically does not justify more than one player.

Well placed for a turnaround in operating conditions

Recent cost initiatives, an abating pilot attrition rate and an expanded fleet has REX well positioned to benefit from improving economic conditions and increasing passenger numbers. REX recently commenced a Townsville-Mackay route and re-commenced its Melbourne Griffith service – a strong signal that demand is recovering.

Medivac and mining to provide growth and diversification

Pel-Air's shift toward medical evacuation services is gaining momentum with the company recently being named as the preferred tenderer for the Ambulance Victoria contract beginning in 2011. In addition, the company has been making inroads into the mining sector with recent contract wins in QLD and SA. With a number of opportunities currently being tendered for, we expect Pel-Air to provide earnings diversification as it moves to approximately 20% of group revenue.

Pilot Academy solves pilot attrition issue and likely to become a stand alone profit centre

REX's Australian Airline Pilot Academy (AAPA) is likely to be a key growth driver for the group in coming years as new pilot training facilities in Wagga Wagga are completed and enrolments begin to ramp up to capacity of 200 cadets per annum. With a budgeted spend on the new facilities of $12.0m and aircraft/simulators of $6-7m, we would expect the business to generate $3-4m in EBITDA in time, based on the academy operating at 50% capacity.

REX will be a beneficiary of the rising AUD/USD

A strengthening AUD/USD will benefit REX having significant USD expenses in aircraft leasing, it Engine Care Maintenance Program, some engineering expenses and aircraft fuel. Our forecasts have assumed an AUD/USD of $0.85 and with each 1 cent move having a 1% impact on EBITDA there is upside to our forecasts should the currency remain at current levels.

Balance sheet will allow for low risk business expansion

REX is in a very strong capital position. Cash as at 30 June was $15.5m and debt was only negligible at $1.66m leaving the company very well capitalised. NTA as at 30 June 2009 was $1.04 per share with the bulk of the asset value being in cash, aircraft of $80.5m and PP&E of $45.8m, which includes parts and head office land and buildings.

Upside exists to our forecasts

We have forecast subdued EPS growth in FY10 (4.7%) reflecting the clouded economic outlook in the short term. Earnings upside exists however, if passenger numbers increase and REX adds to its capacity as a result. Additional contract wins for Pel Air and evidence of further enrolments at AAPA will also add to earnings in the near term.

Stock is undervalued

We value REX on a DCF basis at 2.19 per share, a 70% premium to the current share price. Our valuation implies a FY10 PER of 11.2x. We believe the stock is attractive (FY10 PER of 6.7x and an EV/EBITDA multiple of 3.2x) with the current price not reflecting the groups competitive position, balance sheet capacity (net cash position) and growth opportunities.

COMPANY OVERVIEW

Background

Regional Express Holdings (REX) was established in 2002 from the merger of two long established regional airlines, Hazelton Airlines and Kendall Airlines, which were both part of the Ansett Group. Upon the collapse of Ansett in 2001, these airlines were acquired and merged by a consortium and commenced operations as Regional Express in August 2002.

REX is Australia's largest independent regional airline

REX listed on the ASX in November 2005 at $1.00 per share with a market capitalisation of $115m. Since listing, REX has made a number of acquisitions, including Air-Link (2005) and regional freight business, Pel Air (50% in 2005 and 50% in 2007).

More recently, the company established the Australian Airline Pilot Academy (AAPA) to facilitate the training of new pilots for internal recruitment and for other airlines.

REX's key business is the operation of flight services throughout regional Australia, under the brand Regional Express, predominantly from Sydney, Melbourne and Adelaide. Passenger revenue accounts for 83% of revenue (2009), with the balance earned from charter services (14.7%), freight (0.4%) and other (2.4%). We expect REX's charter business to increase to 20%+ of the revenue as medivac and mining service contract work is expanded.

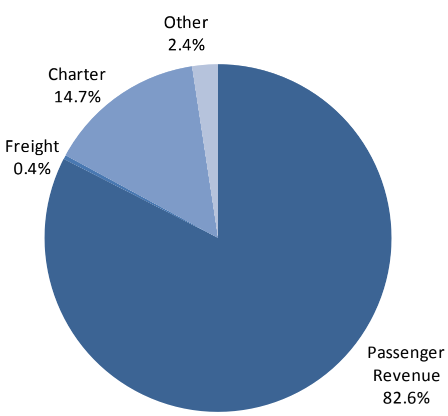
Charter services and the pilot academy are expected to contribute to a changing earnings profile

The Company's key costs include employee costs (REX employs approximately 932 staff, including 255 pilots), flight and port operation costs (including aircraft leasing), and fuel costs and engineering & maintenance costs.

In 2004, REX established a Productivity Committee with the aim of generating $2.0m in savings per annum through a combination of reducing costs and efficiency improvements across the business. In FY09 the Productivity Committee generated realised savings of $4.1m.

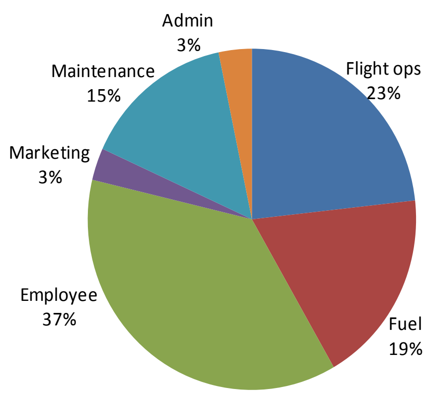
REX maintains a close eye on costs through the Productivity Committee

Chart 1: FY09 revenue breakdown



Source: Company reports

Chart 2: FY09 cost breakdown



Source: Company reports

Regional Express

Operational Overview

Currently, Regional Express operates more than 1300 flights per week across 31 routes. Flights are mainly operated from Sydney, Melbourne and Adelaide to regional destinations in SA, NSW and Victoria. The company recently re-entered the Queensland market with flights beginning on 01 October between new established hub, Townsville, and Mackay.

REX's focus is on routes with no or little competition

One of the key success factors for Regional Express is that it does not operate on the main trunk routes, focusing on regional routes with little or no competition. The airline is the sole operator of 25 of its 31 routes. This monopoly position underpins the Regional Express business with these routes accounting for approximately 74% of capacity (measured in Available Seat Kilometres or ASK's).

Where competition is established, it will typically involve one or two other carriers and in all cases, Regional Express maintains a strong market share. The table below outlines Regional Express' 10 largest routes which account for circa 50% of ASK's.

Table 1: Top 10 routes FY2009

Route	Competitors (number)	Estimated Market Share
Adelaide - Port Lincoln	None	100%
Melbourne – Burnie	None	100%
Sydney – Dubbo	Qantas Link	47%
Sydney – Wagga	Qantas Link	38%
Adelaide – Whyalla	None	100%
Sydney – Albury	Qantas Link/Virgin Blue	25%
Adelaide - Mount Gambier	None	100%
Sydney – Lismore	None	100%
Sydney – Griffith	None	100%
Sydney - Orange	None	100%

Source: Regional Express Holdings Ltd

REX's monopoly position across the bulk of its services is a function of the routes being unable to support multiple operators. In many cases, commercial sense generally rules resulting in one service provider on most routes, however, in some instances, state governments intervene to provide protection to the local communities by providing licenses on certain intrastate routes. REX currently holds 8 NSW intrastate Air Transport Licenses which account for approximately 22% of current capacity.

Licenses are held for 8 routes in NSW until March 2013

The Air Transport Licenses were renewed for 5 years in March 2008 and expire on 29 March 2013. Given the poor history of the Australian airline industry and industry economics, it is unlikely in our opinion that these routes will be opened up or contested in the short-medium term.

For a detailed outline of current flight schedule for REX, see Appendix 1.

Table 2 below outlines the key operating statistics for REX between 2006-2009. As the numbers demonstrate, REX has established a track record of effectively managing Available Seat Kilometres (ASK's) so that capacity meets demand.

Operating statistics reflect a well run business

Since 2006, the average load factor has been maintained at a reasonable level versus the airline's earlier years of operation (2003: 47%, 2004: 62%, 2005: 65%). In FY2009, in response to the economic downturn, capacity was decreased to 731m ASK's and an average load factor of 66.1% was achieved.

Table 2: Key operating statistics 2006-2009

Year	Operating Revenue ($M)	Passengers	ASKs (M)	Average Fare ($) (ex Fuel Levy)	Load Factor (%)	Revenue / ASK (c)	Total Cost / ASK (c) (exc Fuel)
2006	174.3	1,195,344	684	119.3	66.9	24.2	18.6
2007	207.1	1,416,250	782	118.5	68.3	25.6	18.6
2008	254.8	1,495,852	814	116.3	68.1	26.0	19.0
2009	243.6	1,303,934	731	120.6	66.1	28.0	21.0

Source: Regional Express Holdings Ltd

REX, also carefully manages the yields of each flight so that the average fare of the flight reflects the prevailing demand for seats on the flight. A dedicated team using powerful yield management software constantly monitors the demand patterns and adjusts the availability of different fare levels accordingly. A 12.8% decline in passenger numbers and only a 3.3% decline in passenger revenue in FY09 reflects the success in managing the average fare, which increased to $120.6.

Sales and Distribution

Sales are made predominantly over the internet with 65% of fares sold online directly from customers or through agents booking online. Online sales have increased from approximately 20% when the airline was first established and being a low cost distribution channel, has resulted in distribution costs falling significantly over the years.

The company operates a call centre based in Orange, NSW, which has 25 staff. Direct sales over the telephone account for approximately 10% of sales, while physical travel agent sales represent approximately 25%.

Fleet and Maintenance

The fleet operated by REX is currently made up of a combination of 42 owned and leased Saab 340's, which are 34-seat, turboprop planes. The company shifted to a single type fleet in 2008, which has enabled REX to maximise cost efficiency in relation to maintenance, repairs and safety.

Table 3: Regional Express fleet summary

Regional Express	2009	2010F	2011F
Owned			
Saab 340 A	1	1	0
Saab 340 B	17	17	17
Leased			
Saab 340 B	5	6	6
Saab 340 B Plus	17	25	25
Total	**40**	**49**	**48**

Source: Regional Express Holdings Ltd

Having taken delivery of 2 new Saab 340B Plus planes recently, the Company will take delivery of a further six before 30 June 2010, completing a 25, 340B Plus order made in 2007. In addition to being more fuel efficient, the 340B Plus aircraft incorporates a noise reduction system.

Fleet expansion will be completed in FY10

The Saab aircraft are purchased second hand with the Saab 340 no longer manufactured. There are over 400 Saab 340 aircraft still in existence and engines and spares are readily available and still being produced by the manufacturer.

A typical Saab 340 has an economic life of about 50,000 hours and each REX Saab flies approximately 1,250 hours per year. We estimate that the current fleet has a life of approximately 13-15 years.

REX undertakes maintenance of its fleet from its maintenance centre in Wagga Wagga. The Company has in-house capability to undertake its own:

In-house maintenance is a key advantage for the group

- 30,000 cycle checks – these are extensive checks after an aircraft has landed 30,000 times;
- "C" checks – these are very extensive checks after an aircraft has flown 4,000 hours; and
- 4-year checks – these are major overhauls and must take place once every four years.

The in-house expertise in the maintenance of the Saabs is one of the reasons why REX has an exceptionally low percentage of cancelled flights due to minimal maintenance problems.

In addition to the in-house capabilities, REX has an Engine Care and Maintenance Plan (ECMP) agreement with General Electric for the Saab's CT7 turbo-prop power plant for the supply of parts and major engine overhauls. This is a "power by-the-hour" programme whereby a fee is paid for each hour that an engine is used and thereafter all prescribed repairs and overhaul are performed by General Electric.

The Company also maintains engineers on the tarmac in Sydney, Melbourne and Adelaide to undertake line maintenance and to assist in turnarounds. This ensures that simple faults are dealt with promptly and downtime is minimised.

Pel-Air

Pel-Air is a long established (1984) freight and charter company that was acquired by REX in 2007 after an initial 50% investment in 2005. The business employs approximately 100 staff and has a fleet of 31 aircraft including 22 jet and turbo-prop aircraft that are currently operational.

Initially specializing in freight transportation (overnight express mail, newspapers, components and spare parts etc) on the east coast of Australia, Pel-Air has gradually diversified into a number of areas including;

Significant expansion for Pel-Air expected in the coming years

- **Flight services to the Australian Defence** Force – A longstanding contract (since 1996) with the ADF was recently renewed until 2011. The contract is to provide the ADF with jet aircraft services for ADF training support and involves the provision of target towing, low level attack simulation, radar controller training, Air Force pilot combat training and the carriage of military personnel.
- **Medical evacuation services** - Pel-Air undertakes medical evacuation services throughout Australasia and the Pacific in conjunction with Careflight International, an internationally known and recognised medical evacuation service organisation.
- **Flight services to mining companies** – Pel-Air provides freight and specialist passenger services to mining companies with remote operations.

A number of medivac and mining opportunities are being explored

Pel-Air was recently selected as preferred tenderer for the Ambulance Victoria contract based in Melbourne (beginning in 1 July 2011). The contract is quite significant and will alter the earnings profile of the group in 2012. We estimate on a full year basis, that this contract alone will lift Charter revenue to approximately $60m (20% of total revenue in FY12).

REX will purchase $24m in new aircraft (4 King Air 350's) to be largely debt financed to service the contract, which involves REX receiving a fixed monthly fee and a variable charge based on flying hours.

The contract win bodes well for similar up-coming tenders for contracts in NSW, QLD and NT. Any of these contracts (particularly NSW or QLD) would have a similar impact on revenue and earnings for the group.

Recent contract wins in the mining sector include a significant Fly-in/Fly-out service for Barrick Gold's Osborne mine in QLD, which will be serviced from a base in Townsville. Pel-Air was also awarded the Jacinth-Ambrosia Project Fly-in/Fly-out contract. Clients of these charter services are generally charged on a per trip or per hour basis (depending on the aircraft and regularity of service) with a fuel cost adjustment built into the price to limit any adverse impact from fluctuating fuel prices.

Air Link

Airlink was established in 1971 as a charter operation based in Dubbo and was acquired by REX in November 2005. Until recently Air Link operated regional passenger services in western NSW. Following a review, REX decided to cease passenger transport services and focus the business on its charter service and third party aircraft maintenance.

Australian Airline Pilot Academy

AAPA has considerable potential to become a significant contributor to the group

The Australian Airline Pilot Academy (AAPA) was established to offer an intensive 8 month training program that enables students to graduate with a Commercial Pilots Licence (amongst other training programs). REX elected to set-up AAPA to cater to the needs of REX as well as other airlines.

Originally located in Mangalore, Victoria, it re-located to Wagga Wagga in April 2009 where REX recently commenced work on a new $12m campus. On completion, the academy will have the capacity to produce more than 200 professional pilots per year for Regional Express, as well as other airlines operating in Asia Pacific markets, including China. The academy has 63 cadets currently enrolled, with 44 already graduated and a further 19 still undergoing flying training.

The AAPA has the potential to become a significant division for REX. The fee for the course duration is $80,000, comprising an initial $20,000 deposit (payable within the first 2 months) and the balance payable upon completion. In the case of a cadet on a scholarship, the $60,000 balance is covered by REX, with $20,000 waived upon completion of at least 7 years service. The remaining $40,000 is recovered from the pilots over a period of 6 years service.

AAPA is expected to double its fleet in FY10, with the group scheduled to take delivery between January and June 2010 of a further 8 Piper Warriors and 2 Piper Seminoles. It is also expected that AAPA will acquire another simulator in FY10 to add to its existing King Air 300 simulator.

SWOT Analysis

Strengths

- **Market position** - Strong market share on all routes including monopoly over 70%+ of routes, with some underpinned and protected by government legislation. Market position further enhanced by the company's strong relationship with local governments and communities as well as limited effective substitutes.

- **Experienced management** - Management are impressive having established a track record of being able to deliver positive results through effectively managing capacity and demand, reducing costs and expanding the business through the identification of new routes and new business opportunities.

- **Balance sheet** – REX has no net debt with $15.5m in cash (as at 30 June 2009), which positions the company well in terms of fleet expansion, capital management initiatives or acquisitions.

- **Brand** – REX has a highly recognizable brand.

- **Regional growth exposure** - REX is well placed to benefit from the sea change/ tree change shift.

- **Pilot recruitment** – The establishment of the Australian Airline Pilot Academy in 2008 provides REX with an "in-house" supply of pilots.

Weaknesses

- **Industry** (perceptions) – Due to the negative history of the Australian airline industry, REX will continue to trade at a discount relative to the market.

- **Operating costs** – Limited control over costs such as jet fuel prices and airport costs.

- **Fleet life –** The Saab 340 is no longer manufactured and therefore will need to be replaced in 15 years time.

Opportunities

- **New routes** - Identification of new routes, particularly in QLD (such as the recently announced Townsville to Mackay service).

- **New contracts** - Expansion opportunities for Pel-Air across the mining, medivac and defence sectors.

- **AAPA** - Significant opportunity to develop a world class training facility attracting international cadets.

- **Industry consolidation** – there remains a number of potential acquisition opportunities for REX.

Threats

- **Cost increases** - Higher oil prices (increases in prices in the past have been able to be passed on in the form of fuel levy) and higher airport fees.

- **Economic decline in key regions** - Drought and natural disasters that impact regional communities.

- **Regulatory risk** - NSW government policy change in relation to monopoly routes and additional safety compliance costs imposed by the Civil Aviation Safety Authority. Relocating of regional services from Sydney Airport to Bankstown.

THE REGIONAL AVIATION MARKET

Regional industry remains fragmented with numerous niche operators outside of the main service providers, Qantaslink and REX.

Regional airline services are services within regional areas of Australia and between regional centres and the capital cities. In addition to REX, which we estimate has approximately 12.5% market share of all regional passengers, the other main regional airlines operating in Australia include:

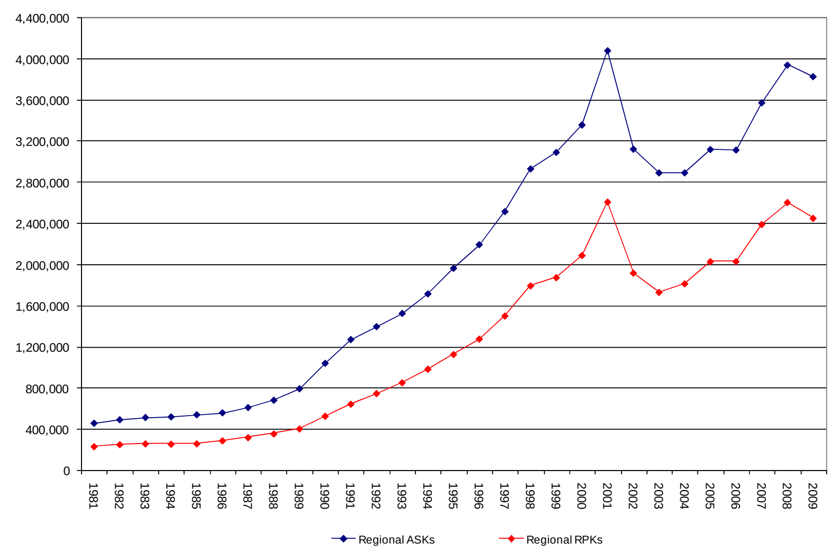
- **Qantaslink** – a Qantas owned subsidiary for regional routes throughout Australia with an estimated market share of between 60-65%. Qantaslink operates three regional airlines – Airlink, Eastern Australian Airlines and Sunstate Airlines. Qantaslink competes with REX on five routes.
- **Skywest Airlines** – a Perth based airline that is the sole permitted operator on a number of coastal routes in WA.
- **Airnorth** – a Darwin based airline that operates services between the Northern Territory and destinations in QLD and WA.
- **Brindabella** – a Canberra based airline that operates services to NSW regional cities and between Northern NSW and Brisbane
- **Aeropelican** – a NSW based airline operating in Northern NSW.
- There are a further 15-20 smaller regional airlines spread across Australia.

The regional airline industry was spawned out of Australia's geography and sparse population making ground transportation to many regional cities difficult and very time consuming.

The graph below shows the growth trends in terms of capacity for regional air services in Australia from 1980 to 2008. The significant rise in capacity, measured in ASKs, for regional air services in 1999 and 2000 correlates with the introduction of regional jet services by Kendell Airlines and the reclassification of some of these services from domestic to regional.

Following 2001/2002 terrorism events and SARS in 2003, regional capacity recovered with a decline occurring in the 2009 fiscal year in response to the economic downturn.

Chart 2: Australian regional capacity between 1981-2008 ('000s kms)



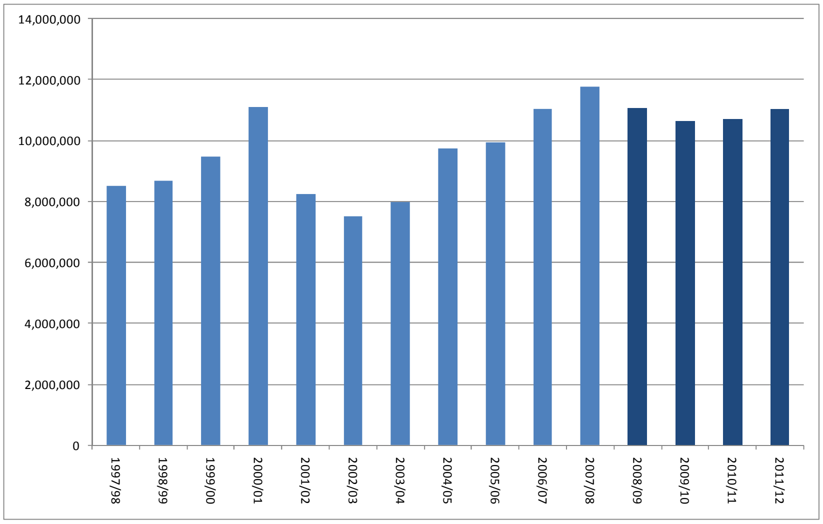
Source: Bureau of Infrastructure, Transport and Regional Economics

In terms of the regional passenger numbers, there was a steady increase in passengers between 2004-2008, being a function of economic growth, sea change/tree change, capacity increases and affordable airfares.

We estimate that 2009 passenger numbers declined by 5.8% due to the decline in capacity (2.8%) and general economic conditions. We have remained cautious on the outlook for 2010 and have forecast a further decline in passenger numbers by 4.0% resulting from the uncertain economic outlook and higher interest rate environment. We expect a mild recovery of 0.8% in 2011 followed by a firmer increase of 3.8%in 2012.

We expect REX passenger numbers to increase reflecting its increasing capacity, despite our expectation of a decline in industry numbers

Chart 3: Australian regional passengers between 1987-2012



Source: Bureau of Infrastructure, Transport and Regional Economics and Balnave Securities

Regulatory Issues

The Australian airline industry is extensively regulated and carriers are subject to significant legislative provisions which cover the following:

- right to own and operate
- air safety
- competition
- noise levels and other pollution and environmental concerns

Essential Regional Services

While the Commonwealth Government does not exercise direct economic controls such as pricing, capacity and market entry controls over interstate air services following deregulation, the states retain the power to impose economic and/or public interest regulatory controls on intrastate air services. All states have exercised such powers to a greater or lesser degree.

In New South Wales, air service operators on routes where annual passenger carriage does not exceed 50,000 per annum are licensed by the Minister for Transport in conjunction with the Air Transport Council. In these cases the Minister will issue only one licence for such routes.

Larger routes are not regulated and are open to competition. REX is the only licensee of 8 of the routes it operates in New South Wales. All of Rex's New South Wales route licences were renewed on 30 March 2008 and expire on 29 March 2013.

In addition, Rex operates a number of other routes around its network which are exclusively serviced by the airline but which are not exclusively licensed to REX. See Appendix 1 a full listing of REX routes.

Air Safety

Matters with respect to air safety are highly regulated and regional air service operators like REX must satisfy the Civil Aviation Safety Authority (CASA) that they meet all regulatory requirements on the conduct of air services, and the training and proficiency of flight crews and on the maintenance and airworthiness of all the aircraft operated.

In order to operate, REX is required to hold an Air Operator's Certificate (AOC) issued under the provisions of the Civil Aviation Act 1988 and Civil Aviation Regulations 1988 and orders made under them. The AOC specifies all routes flown and all aircraft operated on those services.

In order to carry out maintenance on aircraft and aircraft components, REX is required to hold a Certificate of Approval (COA) issued by CASA. The COA covers how maintenance is to be conducted and by whom and in what facilities. All aircraft operated by REX have been registered and have valid Certificates of Airworthiness issued by CASA for all the operations undertaken. Regular audits are conducted by CASA on all activities associated with the operation. In addition, REX has its own internal audit and quality assurance system.

FINANCIALS

FY09 Results Summary

Profit and Loss (YE 30 June)	FY08	FY09	% Change
($M)			
Passengers	1,495,582	1,303,934	-12.8%
ASK's (m)	814	731	-10.2%
Load factor (%)	68.1	66.1	-2.0
Average fare ($)	141.3	156.7	10.9%
Revenue			
Passenger Revenue	211.3	204.3	-3.3%
Freight	0.9	0.9	-1.3%
Charter	40.4	36.3	-10.2%
Other	6.6	5.9	-10.2%
Total Revenue	259.3	**247.4**	-4.6%
Expenses			
Flight & port operation costs	-49.6	-49.0	-1.2%
Fuel costs	-45.9	-38.9	-15.2%
Salaries & employee related costs	-73.9	-78.1	5.7%
Selling & marketing costs	-6.8	-6.4	-5.3%
Engineering & maintenance	-35.7	-31.5	-11.6%
Office & Admin	-6.5	-6.5	-0.7%
Other	-0.6	-0.4	-28.6%
Total Expenses	**-218.9**	**-210.8**	-3.7%
EBITDA ($m)	**40.4**	**36.6**	-9.4%
EBITDA margin (%)	15.6%	14.8%	
Depreciation and Amortisation	-8.1	-9.3	13.7%
EBIT	**32.2**	**27.3**	-15.2%
Net Interest	0.9	0.3	-62.4%
Underlying NPBT	33.1	27.7	-16.5%
Tax	-8.1	-6.9	-15.1%
Reported NPAT	24.4	23.0	-5.6%
Underlying NPAT	**25.0**	**20.9**	-16.4%
EPS (¢) –normalised	**20.9**	**18.5**	-11.2%
Source: Company reports			

Commentary

- Overall the result was positive in light of the difficult operating conditions including record oil prices and pilot attrition rates (albeit easing) in 1H09 and slowing demand in 2H09 as a result of the financial crisis.
- Passenger numbers were 12.8% lower on the pcp with the second half falling sharply. Q3 and Q4 passenger numbers declined 19.8% and 14% respectively.
- Capacity was reduced inline with falling demand, with ASK's reducing 10.2%, while the load factor decreased 2 percentage points to 66.1%.
- Pilot attrition eased to 6% in 2H09 due to the contraction in the global aviation industry and together with 28 recruits from AAPA, the company's ranks ended the year at full strength.
- Passenger revenue declined by only 3.3% due to the increase in the average fare,

however overall revenue fell by 4.6% with the financial crisis impacting on charter and freight revenue.

- The Productivity Committee achieved realised savings of $4.1m, which was above expectations. This, along with the reduction in capacity resulted in a decline in expenses of 4.0%, however the cost per ASK increased by 10.5% overall.
- Reported NPAT fell just 5.6% after the inclusion of net abnormal gain of $2.1m, made up of a gain on sale of aircraft of $3.4m and a foreign exchange loss of $0.42m.
- Underlying NPAT declined by 16.4%, however EPS fell by just 11.2% to 18.5c as a result of the buy-back of 3.7m shares during the year.
- Operating cashflow was strong, up 15.5% to $29.8m (pcp: $25.8m).
- During the year, the company added 6 Saab 340B plus aircraft and sold 3 Saab 340A aircraft offshore for a net spend of $8.6m.
- Capital expenditure of $9.1m on largely aircraft maintenance was in line with our expectations.
- Cash as at 30 June was $15.5m and debt was only a negligible $1.66m leaving the company very well capitalised.
- NTA as at 30 June 2009 was $1.04 per share with the bulk of the asset value being in cash of $15.5m, aircraft of $80.5m and PPE (parts and head office land and buildings) of $45.8m.

Earnings Forecasts

Profit and Loss (YE 30 June)	FY09A	FY10F	FY11F	FY12F
($M)				
Passengers	**1,303,934**	**1,306,649**	**1,320,738**	**1,369,162**
ASK's (m)	731	785	807	812
Load factor (%)	66.1	67.0	67.3	67.3
Revenue	**247.4**	**254.2**	**260.2**	**284.0**
Expenses	-210.8	-212.6	-216.9	-236.4
EBITDA ($m)	**36.6**	**41.6**	**43.3**	**47.7**
EBITDA margin (%)	14.8%	16.4%	16.6%	16.8%
Depreciation and Amortisation	-9.3	-9.9	-10.3	-10.8
EBIT	27.3	31.7	33.0	36.8
Net Interest	0.3	0.7	1.1	1.7
Underlying NPBT	27.7	32.4	34.1	38.5
Tax	-6.9	-9.0	-9.9	-11.2
Reported NPAT	23.0	22.0	24.1	27.2
Underlying NPAT	**20.9**	**22.0**	**24.2**	**27.3**
EPS (¢) –normalised	18.5	19.4	21.4	24.1

Source: Company report s and Balnave Securities

We have maintained conservative forecasts for FY10-FY12 given the uncertainty surrounding the economic outlook. We have forecast only a marginal increase in NPAT of 5.2% in FY10 with a stronger increase in of 10.2% to occur in FY11 as demand for services increases with a recovering economy. We expect a 12.9% increase in NPAT in FY12 following the commencement of the Ambulance Victoria contract on 01 July 2011.

Our forecasts reflect the following key assumptions:

- A 1% increase in passenger numbers in FY10 driven by the new Townsville to Mackay route and the re-commencement of the Melbourne-Griffith route. We also assume FY11 and FY12 passenger growth of 1.1% and 3.7% respectively.
- A significant increase in revenue in FY12 with the company commencing its Ambulance Victoria contract on 01 July 2011. We have forecast this contract to contribute $15m in revenue per annum.
- EBITDA margins to lift in FY10 to 16.4% as a result of the company's lower cost base, significantly lower oil costs (particularly in 1H) and currency impact on lease payments and the ECMP maintenance contract with GE. In FY11 and FY12, we anticipate margins to continue to firm as the Productivity Committee continue to extract efficiencies out of the business.
- Capex in FY10 is expected to be high with $22m to be spent on new aircraft. $18m for 3 King Air 300's for the Ambulance Victoria contract and $4m for the expansion of the AAPA fleet. This will be in addition to $11m maintenance capex. In FY11, $6m is required for new aircraft (Ambulance Victoria) and $9.0m on maintenance capex. We expect the company will fund these new aircraft from a combination of existing cash resources and bank financing.
- Depreciation to increase as a result of the net increase in aircraft in FY09 and FY10.
- An effective tax rate of 29% reflecting utilisation of tax losses remaining in Hazelton.
- Our FY10 forecasts assume an average jet fuel spot price of US$0.55c/litre (currently $0.5237) and an AUD/USD of 0.85. A 2.5c movement in the jet fuel price and a 1c movement in the AUD/USD both have a 1% impact on our EBITDA forecasts.

VALUATION

We derive a $2.19 per share valuation for REX using a DCF valuation methodology.

Our valuation yields a total enterprise value of $234.4m, comprising an equity value of $248.2m compared to the current market capitalisation of approximately $146.3 million.

Our DCF valuation for REX represents a 70% premium to the current market price.

To determine our capitalization of earnings valuations we have applied a 20% discount to the Small Industrials average EBITDA multiple and PE ratio.

Valuation Summary		Valuation	Premium to CMP (%)
Discounted Cashflow		**2.19**	**70%**
EBITDA Multiple		2.41	87%
PE Multiple		2.09	62%
Weighted Average Valuation		**2.23**	**73%**
DCF Valuation			
Beta			1.7
Ke (%)			16.6
Kd (%)			7.5
WACC (%)			15.7
Terminal Growth Rate (%)			3.0
Business Value ($M)			234.4
Less Net Debt/(Cash) ($M)			-13.8
Equity Value ($M)			248.2
Number of shares (M)			113.4
Value per share ($)			**2.19**
EBITDA Multiple	**FY10 EBITDA ($M)**	**Multiple (x)**	**Valuation**
EBITDA	41.6	6.2	259.5
Net Debt ($M)			-13.8
Equity Valuation ($M)			273.3
Value per Share ($)			**2.41**
PE Multiple			**FY10**
Forecast Normalised EPS (c)			19.4
PE Multiple (x)			10.8
Value per Share ($)			**2.09**
Source: Balnave Securities			

FINANCIAL SUMMARY

Regional Express Holdings	Price	1.29		Year end 30 June
	Market Cap	146.3		

Profit & Loss ($m)	2009A	2010F	2011F	2012F
Sales Revenue	**247.4**	**254.2**	**260.2**	**284.0**
EBITDA	**36.6**	**41.6**	**43.3**	**47.7**
Depreciation	-9.1	-9.8	-10.2	-10.7
Amortisation	-0.1	-0.1	-0.1	-0.1
EBIT	**27.3**	**31.7**	**33.0**	**36.8**
Net Interest Expense	0.3	0.7	1.1	1.7
NPBT	**27.8**	**31.0**	**34.1**	**38.5**
Tax expense	-6.9	-9.0	-9.9	-11.2
NPAT - underlying	**20.9**	**22.0**	**24.2**	**27.3**
Significant items	2.1	0.0	0.0	0.0
Reported NPAT	**23.0**	**22.0**	**24.2**	**27.3**

Cash Flow ($m)	2009A	2010F	2011F	2012F
Operating EBITDA	**36.6**	**41.6**	**43.3**	**47.7**
- Interest & Tax Paid	-6.6	-8.3	-8.8	-9.5
+/- change in Work. Cap.	1.6	4.2	0.5	-1.0
- other	-1.8	-0.5	-0.5	-0.5
Operating Cashflow	**29.8**	**37.1**	**34.6**	**36.7**
- Capex	-9.1	-11.0	-9.0	-9.0
- Aquisitions/divestments	-8.6	-18.5	-6.0	-10.0
- other	1.5	1.5	0.0	0.0
Free Cashflow	**13.6**	**9.0**	**19.6**	**17.7**
- Ord Dividends	-7.4	0.0	-6.8	-7.9
- Equity /other	-4.1	0.0	0.0	0.0
Net Cashflow	**2.1**	**9.0**	**12.7**	**9.8**
Cash at beginning of period	15.1	15.5	24.5	37.2
+/- borrowings / other	-1.8	0.0	0.0	0.0
Cash at end of period	**15.5**	**24.5**	**37.2**	**47.0**

Balance Sheet	2009A	2010F	2011F	2012F
Cash	15.5	34.5	47.2	57.0
Inventories	7.5	8.9	9.1	9.9
Debtors	11.1	11.4	11.7	12.8
PPE	126.4	145.4	140.7	161.2
Intangibles	7.3	7.2	7.1	7.0
Other assets	3.0	3.0	3.0	3.0
Total Assets	**170.7**	**210.5**	**218.9**	**250.9**
Borrowings	1.7	13.4	3.3	15.1
Trade Creditors	31.1	37.1	38.1	39.0
Other Liabilities	12.6	12.6	12.6	12.6
Total Liabilities	**45.3**	**63.1**	**54.0**	**66.7**
NET ASSETS	**125.4**	**147.4**	**164.8**	**184.2**

Board of Directors / Substantial Shareholders		
Board of Directors	**Shareholding**	**%**
Lim Kim Hai - Executive Chairman	18.5	16.3%
The Hon. John Sharp - Deputy Chairman	0.4	0.4%
James Davis - Managing Director	0.2	0.2%
Russell Hodge - Independant Director	1.1	1.0%
David Miller - Executive Director	0.1	0.1%
Lee Thian Soo - Non-Executive Director	11.4	10.1%
Substantial Shareholders	**Shareholding**	**%**
Kim Hai Lim	18.5	16.3%
Joe Tiau Tjoa	16.2	14.3%
Thian Soo Lee	7.7	6.8%
Joo Chye Chua	7.5	6.6%
Hui Ling Tjoa	5.8	5.1%
Top 20 Shareholders	**86.4**	**76.2%**

Valuation ratios	2009A	2010F	2011F	2012F
EPS (cps)	18.5	19.4	21.4	24.1
P/E (x)	7.0	6.7	6.0	5.3
PER Rel - All Ind.	-44%	-53%	-54%	-51%
PER Rel - Small Ind.	-47%	-56%	-55%	-53%
Enterprise Value ($m)	132.5	132.5	132.5	132.5
EV / EBITDA (x)	3.6	3.2	3.1	2.8
EV / EBIT (x)	4.8	4.2	4.0	3.6
DPS (cps)	0.0	6.0	7.0	8.0
Dividend Yield (%)	na	4.7%	5.4%	6.2%
Franking (%)	100%	100%	100%	100%
CFPS (cps)	26.5	32.7	30.5	32.4
P / CFPS (x)	4.9	3.9	4.2	4.0

Profitability ratios	2009A	2010F	2011F	2012F
EBITDA Margin (%)	17.9	20.2	20.6	22.1
EBIT Margin (%)	11.0	12.5	12.7	13.0
ROE (%)	16.9	15.1	14.9	15.0
ROA (%)	13.4	12.5	14.1	14.1
ROIC (%)	13.1	13.5	13.7	14.4

Balance Sheet ratios	2009A	2010F	2011F	2012F
Net Debt (cash)	-13.8	-21.1	-43.9	-42.0
Net Gearing (%)	0.0	0.0	0.0	0.0
Interest Cover (x)	na	na	na	na
NTA per share ($)	1.04	1.24	1.39	1.56
Price / NTA (x)	1.2	1.0	0.9	0.8
EFPOWA (m)	112.7	113.4	113.4	113.4

Growth ratios	2009A	2010F	2011F	2012F
Sales revenue ($m)	-4.6%	2.7%	2.4%	9.1%
EBITDA ($m)	-9.4%	13.7%	4.1%	10.1%
EBIT ($m)	-15.2%	15.9%	4.3%	11.5%
NPAT ($m)	-16.5%	5.4%	10.2%	12.9%
EPS (cps)	-11.2%	4.7%	10.2%	12.9%
DPS (cps)	-100%	na	16.7%	14.3%

Interim Analysis	1H09A	2H09A	1H10F	2H10F
Revenues	135.8	111.6	123.7	136.5
EBITDA	19.0	17.6	18.5	23.1
EBITDA margin (%)	14.0%	15.8%	15.0%	16.9%
EBIT	14.3	13.0	13.5	18.1
EPS	9.3	10.1	9.6	11.8
DPS	0.0	0.0	0.0	6.0

Valuation			2010F	2011F
Normalised EBITDA multiple (x)				
EBITDA ($m)			41.6	43.3
Target EBITDA multiple (x)			6.2	5.5
Net Debt (cash) ($m)			-13.8	-13.8
Implied Valuation			273.3	252.8
Per Share			**2.41**	**2.23**
Target PE Multiple				
EPS (c)			19.4	21.4
PE Target (x)			10.8	9.1
Per Share			**2.09**	**1.95**
Discounted Cash Flow				
Cost of equity	16.6%	WACC		16.6%
Cost of debt	7.5%	Terminal Growth Rate		3.0%
Net Debt/ Net debt + equity	0.0%	Per Share	$	2.19

APPENDIX 1: ROUTE SCHEDULE

Route	Date Commenced	Number of round trips per week	Competitors	Percentage
Adelaide to				
Broken Hill	1 August 2002	15	None	2.5%
Ceduna	1 August 2002	12	None	2.6%
Coober Pedy	1 August 2002	6	None	1.8%
Kangaroo Island	1 August 2002	26	None	1.2%
Mount Gambier	1 August 2002	29	None	3.9%
Port Lincoln	1 August 2002	61	None	6.1%
Whyalla	1 August 2002	33	None	3.0%
		182		21.3%
Melbourne to				
Albury	1 August 2002	23	None	2.4%
Burnie	1 August 2002	37	None	5.5%
Griffith	11 October 2009	6	None	1.0%
King Island	1 August 2002	7	None	0.7%
Merimbula	1 August 2002	7	None	1.3%
Mildura	1 August 2002	25	Qantas Link/Virgin Blue	4.8%
Mount Gambier	1 August 2002	18	None	2.6%
Wagga Wagga	1 August 2002	19	None	2.8%
		136		21.0%
Sydney to				
Albury	1 August 2002	27	Qantas Link/Virgin Blue	5.0%
Ballina	1 August 2002	22	Jetstar/Virgin Blue	5.3%
Bathurst	1 August 2002	19	None	1.2%
Broken Hill	1 August 2002	13	None	4.8%
Dubbo	1 August 2002	39	Qantas Link	4.7%
Grafton	25 February 2007	18	None	3.5%
Griffith	1 August 2002	30	None	5.7%
Lismore	1 August 2002	26	None	6.2%
Merimbula	1 August 2002	19	None	2.7%
Moruya	1 August 2002	15	None	1.5%
Narrandera	1 August 2002	24	None	4.2%
Orange	1 August 2002	25	None	2.1%
Parkes	1 August 2002	18	None	2.1%
Taree	25 February 2007	18	None	1.8%
Wagga Wagga	1 August 2002	31	Qantas Link	4.7%
		344		55.5%
Townsville to				
Mackay	01 October 2009	**17**	Qantas Link	2.2%
TOTAL		**675**		**100%**

APPENDIX 2: COMPANY HISTORY

Date	Event
13 August 2009	REX announced that it will commence services between Townsville and Mackay from Thursday 1 October 2009 consisting of 3 return flights every week day except Wednesday.
3 August 2009	REX announces it has been awarded the Iluka Resources Jacinth-Ambrosia charter contract. The initial term of the contract is for 3 years.
21 July 2009	REX announces that it has been selected as conditional preferred tenderer for the provision of Fixed Wing Patient Transport Services by the Victorian State Government.
29 May 2009	REX reports that it has been awarded the Osborne Mine Fly In/Fly Out charter contract.
28 April 2009	REX reports the discontinuation of all of its Metro 3 freight services. 20 pilots and 4 ground staff will no longer be required as part of the change. Remaining services will now be operated by Saab 340 aircraft.
19 March 2009	Regional Express announces the extension of its contract with Commonwealth Government to supply the Australian Defence Force with jet aircraft services for ADF training and support until 30 June 2011.
18 February 2009	Announces that REX subsidiary Australian Airline Pilot Academy will be relocated to Wagga Wagga. In preparation for the move, Rex announces the purchase of a modern hangar at Wagga Wagga airport as well as 2.4 ha of land that borders the Wagga Wagga airport for a total of $1.55m.
10 November 2008	Announces that Air Link will no longer operate on smaller routes currently serviced by smaller aircraft. Air Link is to continue operating its charter and third-party maintenance business.
03 November 2008	Announces purchase of 4 Saab 340 B Model aircraft that were previously operating under lease, which expired in October 2008. The acquisition was funded from operating cash flows.
07 October 2008	Announces it will boost number of flights between Griffith-Sydney
28 July 2008	Announces reduction in fuel levy by $4.00 to $40.00 per sector.
10 July 2008	REX announces sale of SAAB 340A VH-KEQ aircraft to Bridges Worldwide.
27 June 2008	Announces increase in fuel levy by $4.00 to $44.00 per sector.
06 June 2008	Stephen Jermyn stepped down as a Director of REX.
23 May 2008	Announces increase in fuel levy by $4.00 to $40.00 per sector.
09 May 2008	Announces increase in fuel levy by $3.00 to $36.00 per sector.
06 May 2008	Announces continued changes to network, withdrawing from Cooma-Sydney route and instigating a number of flight reductions due to continued pilot shortages.
23 April 2008	Robert Winnel stepped down as a Director of REX.
21 April 2008	Acquires remaining interest in joint venture pilot training academy based in Mangalore Airport to be renamed Australian Airline Pilot Academy. Second batch of 23 Cadets enrolled on 07 April with the first batch of 16 at flying stage. Announced that a new batch of 20 cadets scheduled to be enrolled every 3 months.
04 April 2008	Announces increase in fuel levy by $3.00 to $33.00 per sector.

31 March 2008	Rex and Air Link awarded 15 NSW intrastate Air Transport Licenses giving the Rex Group the sole right to operate on these routes. The licenses commence on 30 March 2008 and expire 29 March 2013. No route was contested.
08 February 2008	Suspension of Melbourne-Griffith route and a reduction in frequency of Griffith-Sydney due to continued pilot shortages. Continued suspension of Brisbane-Maryborough.
07 November 2007	Managing Director Geoff Breust resigns giving a four-week notice period. Jim Davis is appointed interim MD.
05 November 2007	Suspension of recently commenced Brisbane-Maryborough service due to ongoing pilot shortages.
03 October 2007	Announces launch of pilot cadet scheme.
01 August 2007	Announces it will commence services from Brisbane to Maryborough from 01 October 2007 marking the group's first service from Brisbane.
30 July 2007	Announces purchase of 5 Saab 340B Aircraft, previously on lease, for A$11.5m.
29 June 2007	Announces acquisition of remaining 25% of Pel Air. Acquisition was funded by issue of Rex shares in lines with Put and Call option deed.
04 June 2007	Adds new Griffith to Melbourne service
23 March 2007	Senior management changes announced, including appointment of Geoff Breust (formerly MD Corporate Affairs and Strategy) as MD of Rex and James Davis (formerly MD Operations) as Chief of Staff in the Chairman's Office.
02 January 2007	Rex announces the acquisition of a further 25% stake in Pel Air taking its holding to 75%. The acquisition cost of A$6.0m, was in line with the original share sale agreement and was funded from Rex's operating cashflows.
16 November 2006	Rex announces profit upgrade due to strong 1Q07 with profit guidance of a 20% increase for FY07 on the pcp.
28 September 2006	Rex announces the long term lease of 25, Saab 340B Plus aircraft (34-seat) over the next three years as part of its fleet modernisation programme. The transaction has enabled Rex to negotiate favourable leasing terms due to the size of deal.
24 August 2006	Announces that the proposed acquisition of Brisbane based Sunshine Express would not proceed. New conditions had been introduced by SE that were deemed not acceptable to Rex.
14 August 2006	REX to acquire Brisbane based Sunshine Express for a nominal amount following the regional airline coming into financial difficulty.
17 July 2006	Announces lease of one additional Saab 340B Plus and extension of lease over 4 other aircraft.
24 January 2006	Announces acquisition of 5 more aircraft including 4 Saab model aircraft and one Beech 1900D model aircraft. The acquisitions will result in the REX airlines fleet becoming a single type fleet with the phase out of the 19-seater Metro aircraft.
30 November 2005	Rex announces the acquisition of Airlink for $3.0m. NTA is $2.7m and forecast FY06 EBITA is $0.3m. Synergies are expected to result in an improved performance of the business above current levels.
09 November 2005	Rex lists on ASX

APPENDIX 3: DIRECTORS & MANAGEMENT

Lim Kim Hai	Executive Chairman	Mr Lim, based in Singapore, is the largest shareholder in REX. He has had considerable success in business having built a portfolio of successful businesses spanning a number of industries. Prior to this, he served for 10 years in the Ministry of Defence in Singapore having received 2 scholarships from the Singapore government to complete a degree in Electronic Engineering (Undergraduate and Masters) and a Masters in Public Administration. Mr Lim is the Chairman of Lynk Biotechnologies Private Ltd and WooWorld Private Ltd.
John Sharp	Deputy Chairman	The Honourable John Sharp was a member of the Commonwealth Parliament between 1984-1998 (including Federal Minister for Transport and Regional Deelopment) prior to establishing an aviation and transport consulting business, Thenford Consulting. Mr Sharp is currently Chairman of the Aviation Safety Foundation of Australia, a Director of Australian Aerospace and Skytraders, an air freight operation providing services to the Antarctic. He also is Chairman and Director of a number of private companies and charities.
James Davis	Managing Director	Mr Davis is a qualified Aeronautical Engineer and worked for 4 years with the Civil Aviation Authority before obtaining his Air Transport Pilots Licence. Since then he has flow professionally with airlines in Australia and overseas for 25 years. He joined Hazelton in 1999 as Flight Operations and Standards Manager and Deputy-Chief Pilot and was promoted to Chief Pilot in 2001 and held that position when Hazelton merged with REX in 2002. He has held a number of senior management positions with REX, including GM operations and Chief of Staff, before being appointed Managing Director in May 2008. He is Chairman of the Australian Airline Pilot Academy and sits on the Aviation Safety Forum, an advisory body to the CE of CASA.
Russell Hodge	CEO – Pel-Air Aviation	Mr Hodge has over 30 years experience in aviation regulation, compliance, aircraft financing, and the commercial operations of aircraft and airlines. Having practiced as a solicitor for almost 25 years, specializing in aviation and commercial law, Mr Hodge has been an executive director of Pel-Air Aviation Pty Ltd since 1994 and is currently safety and legal director. He was previously a director of the Regional Aviation Association of Australia.
David Miller	CEO – Air Link Pty Ltd	Mr Miller has significant industry experience, having commenced flying in 1985 and purchasing a 50% stake in Air Link in that year, He then purchased all the shares in Air Link whilst growing the business in regional NSW. Mr Miller has been a Director of the Regional Aviation Association of Australia since 1992 and has held the position of Chairman (4 years) and Vice-Chairman (for numerous terms).
Lee Thian Soo	Non-Executive Director	Mr Lee has extensive international business experience and is currently the Chairman and owner of several business based in South East Asia. These include an aviation components and service company, specializing in military aircraft and a medical equipment supply company. He is also is on the board of Lynk Biotechnologies Private Ltd and WooWorld Private Ltd.

APPENDIX 4: RISK ANALYSIS

Risk	Comment
Economic Sensitivity	The airline industry is a procyclical industry that exhibits considerable sensitivity to broad macroeconomic conditions. However, REX's unique operating market is generally less exposed to more discretionary elements of the airline industry such as tourism and leisure routes and is therefore less susceptible to economic conditions than mainstream trunk carriers. Nonetheless, with significant leverage to rural economic conditions, REX is also exposed to variation in agricultural and mining industries more acutely than trunk carriers.
Industry Life Cycle	The airline industry is generally considered to have reached maturity. Capacity has increased in recent times due to a number of factors including price competition and strong economic growth. Demand for regional destinations has increased due to growing regional populations as sea change/tree change trends continue to strengthen.
Potential Entrants	The limited size of regional routes generally limits the potential for additional entrants, with most routes only sustainable under a monopoly situation.
Political/Regulatory	Potential increases in compliance costs due to new security and safety requirements are possible. However, with several significant changes in these areas instituted post 9-11, the threat of large scale new regulatory requirements is relatively low.
Power of Buyers	There are few switching costs or minimal differentiation in the airline industry, however the power customers have in relation to REX is limited given the monopoly or duopoly position it occupies on many of its routes. Pricing power is limited due to competition or potential for competition should a particular route become too profitable.
Power of Suppliers	Limited power of suppliers in regards to aircraft with REX dealing in large second hand market and external maintenance conducted under contract. Somewhat exposed to pricing policies of airport owners.
Competitive Environment	REX operates as a monopoly or duopoly on almost all of its routes. As such, competitive forces are relatively weak with other regional operators lacking the scale and acumen to compete effectively on regional routes. On a number of larger routes REX faces competition from trunk carriers, however typically REX targets routes in which it has a strong competitive position.
Technological Change	As a mature industry, technological change in the airline industry is relatively slow. If alternative forms of transport were introduced, such as high speed trains, this could cause a threat to some of REX's routes. However, we believe that the current population would not warrant the infrastructure investment required for this to occur.
Social Change	Social change in the airline industry was certainly apparent after the September 11 terrorist attacks in the United States in 2001, which resulted in the collapse of a number of airlines. Should this or a safety issue emerge in the Australian airline industry, this may impact demand for REX's services.
Substitutes	Conventional substitutes for air travel such as private vehicles, buses, and trains are generally considered threats to regional airlines.

APPENDIX 5: TOP 20 SHAREHOLDERS

Shareholding	Number	Percentage
Kim Hai Lim	18,480,630	16.37%
Joe Tiau Tjoa	16,234,094	14.38%
Thian Soo Lee	7,722,181	6.84%
Joo Chye Chua	7,454,362	6.60%
Ming Yew See Toh & Hui Ing Tjoa	7,454,362	6.60%
Hui Ling Tjoa	5,755,513	5.10%
Lay Khim Ng	3,727,181	3.30%
Rex Investment Holdings Pty Ltd	3,580,275	3.17%
National Nominees Limited	3,065,205	2.71%
Citicorp Nominees	2,738,755	2.43%
Mirrabooka Investments Limited	2,000,000	1.77%
Thian Song Tjoa	1,507,046	1.33%
Equity Investments (ACT) Pty Limited	1,271,209	1.13%
Kok Leong Lee	1,050,000	0.93%
Jowong Pty Limited	900,000	0.80%
Mastar Pty Limited	850,000	0.75%
SCJ Pty Limited	800,000	0.71%
Gwynvill Trading Pty Limited	634,670	0.56%
Strategic Value Pty Limited	604,171	0.54%
Kerk Chuan Seah	561,616	0.50%
TOTAL	**86,391,270**	**76.52%**

Key shareholders:	Number	Percentage
Kim Hai Lim	18,480,630	16.37%
Joe Tiau Tjoa	16,234,094	14.38%
Thian Soo Lee	7,722,181	6.84%
Joo Chye Chua	7,454,362	6.60%
Ming Yew See Toh & Hui Ing Tjoa	7,454,362	6.60%
Hui Ling Tjoa	5,755,513	5.10%

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Stock Recommendations:

BUY - Minimum expected upside is 20% over 12 months.

ACCUMULATE – Minimum expected upside over 12 months is below 20% but above 10% over 12 months.

HOLD - Expected upside is below 10% over 12 months.

REDUCE - Applied when there is expected downside on the stock over 12 months.

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