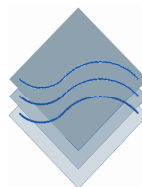


27 August 2008

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## REGIONAL EXPRESS HOLDINGS (REX)

### Aviation Turbulent, but REX strong.

**ASX Code:** REX.ASX  
**Current Price:** \$1.22  
**Market Capitalisation:** \$147,930,980

#### Event:

Regional Express reported FY08 results on 27 August 2008.

#### Company Overview:

REX is the largest independent regional airline in Australia and holds a monopoly over a majority of the routes it operates in (33 of its 39 routes are solely operated by REX). The company also operates charter and freight flights around Australia through its wholly owned subsidiaries Pel-Air and Airlink. The company's strategy is to achieve passenger and revenue growth through the maximization of seat capacity and flight frequency on high load routes whilst upholding a view of affordable consumer prices.

#### Key Points:

- **Net Profit after Tax.** NPAT for FY08 increased by 3% to \$24.3 million compared FY07 of \$23.6 million. This result can be attributed to stronger revenue on the back of higher passenger growth (5.6% in FY08) and a continued focus on containing costs. REX declared a fully franked final dividend of 6.6 cents per share which is in line with FY07. At current levels, the yield is 5.41% (fully franked).
- **Earnings per share.** Diluted EPS of 20.3 cps for FY08 compared to 20.4cps in FY07.
- **Costs.** Costs reduction has continued to be a key focus of REX. During 1H08, costs increased 11% but have been scaled back to an increase of 2.3% over 2H08. In 4Q08, costs increased by 0.5%. In addition, REX fuel costs as a percentage of total costs are amongst the lowest in the industry at 23% compared with an industry average of 31.5% for a mix of domestic and international airlines. It should be noted that REX do not hedge the price of fuel.
- **Balance sheet strength.** REX cash balance has fallen from ~\$18 million in FY07 to ~\$15.1 million in FY08 (lower cash balance due to company's share buyback – approximately \$4.3 million worth of shares purchased). REX also noted that its total assets grew by 4.4% to \$164.4 million and long term debt has been completely eliminated. The only debts on the balance sheet relate to Pel-Air leases over a number of aircraft assets. It should be noted that these leases are secured over the assets being funded. Net assets have also grown by 9.9% from the previous period to \$112.7 million.
- **Key operational statistics.** REX remains the number one airline to have the highest on-time departures and lowest cancellation rates in the Australian airline industry. REX posted positive results for 4Q08 with an increase in NPAT by 31.7% over previous quarter. This can be largely attributable to the continued emphasis on cost reductions, increasing passenger numbers, continued network contraction and higher fuel levies to partially offset the impacts of higher fuel prices. It should be noted that REX achieved a 31.7% increase in NPAT in 4Q08 in an environment where the oil price hit a record USD140 per barrel and where all of REX's major competitors recorded substantial declines in profits. With regard to these key results, REX continues to show strong growth in an increasingly volatile environment.

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- **FY09 Earnings Outlook.** REX expects earnings to remain stable over FY09 given oil prices and AUD/USD exchange rate remains within current levels. REX expects pilot attrition to ease from record levels of 50% in FY09 as pilots from the AAPA (Australian Airline Pilot Academy) begin to enter service. With easing pilot attrition, REX may resume previously-suspended network services. In addition, REX continue to upgrade the fleet with more fuel efficient aircraft to minimise the impact of any further increases in fuel prices.

REX currently has a further 7.6 million shares to buyback as part of the company's capital management strategy. At current prices, the share buyback would cost REX ~\$9.29 million. With the cash balance at 30 June 2008 being ~\$15.1 million, REX would still have a reasonable cash position supported by a strong positive cashflow after the completion of the buyback. With management expecting flat earnings growth for FY09, **EPS** growth for FY09 is expected to be approximately 6.5% – 10% per annum, mainly as a result of the share buyback. At the lower end of the EPS growth estimate, the implied FY09 P/E is ~5.6x.

## Disclosure

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