RBS™

Regional Express

Hold (from Buy)

TP A$1.22 (from A$1.26)

Change of recommendation

Pel Air creates further lift

REX posted a strong 1H result with underlying PBT of A$18.1m ahead of our expected A$16.4m. This was driven by improved pricing in RPT operations and the strong performance of Pel Air as it benefited from contract commencements in the period. While the outlook is positive for Pel Air, REX's RPT operations are under some pressure due to the impact of the carbon tax, slowing passenger demand and possibly impending industrial action by REX's pilots. Given these risks to the main Group earner, we downgrade our recommendation to Hold.

RBS Refiner

Price (close 28 Feb)	A$1.100
3M high/low	A$1.145/1.000
Market cap	A$121.64m
Av (12M) turnover	A$0.04m
Freefloat	100%
Reuters	REX.AX
Bloomberg	REX AU
Net debt (cash), FY11	A$9.97m
3yr EPS CAGR 12-14F	18.7%
Income (2013F div yield)	7.8%

Source: Bloomberg, RBS forecasts

RBS vs consensus

PBT (A$m)	RBS	Cons	% diff
FY12F	35.9	31.0	15.8%
FY13F	37.1	34.4	7.9%
FY14F	41.4	38.3	8.0%

Source: RBS forecasts, Bloomberg

Price performance

	(1M)	(3M)	(12M)
Price (A$)	1.12	0.98	1.07
Absolute (%)	-1.8	12.2	3.3
Rel to mkt*(%)	-1.2	6.9	17.0

*S&P/ASX200
Source: Bloomberg

Key events

Date	Event
TBA	JP66 tender result
Aug-12	FY12 result

Source: Bloomberg

Event: 1H12 result ahead of expectations on strong Pel Air performance

1H12A PBT of A$18.1m was ahead of our forecasts (RBSF A$16.4m) and up 71% on the pcp. The strong performance was driven by improved pricing in RPT operations (resulting in EBIT of A$19.9m, +36% on the pcp) while Pel Air (A$2.4m EBIT up from a A$0.8m loss in the pcp) benefited from the commencement of the Victorian Air Ambulance contract in the period. EBIT margin improved 4.5ppt on the pcp to 13.1% on the back of new contacts, pricing increases and an ongoing focus on cost control (CASK increased 8%) which should help returns lift to more normal levels over FY12 (FY12F ROIC +5.4ppt to 15%). Cash flow was reasonably strong and with earnings momentum and lower capex anticipated in the short to medium term, we expect ongoing growth in distributions (RBSF full-year distribution 7.6cps).

Forecasts: Our FY12F PBT increases 15% to A$35.9m

With underlying PBT ahead of expectations, our FY12F PBT increases 15% to A$35.9m while FY13 and FY14 increase a more moderate 3-5% as we factor in risks around REX’s RPT operations (ie, lower load factor and yield growth). No guidance was provided for FY12 earnings with management referring once again to the volatility of market conditions. However, with the outlook improving for Pel Air and REX’s RPT operations still enjoying strong margins, management restated that it expects all subsidiaries in the Group to be profitable in FY12.

Valuation: Blended valuation increases but target price reflects additional risks; Hold

While the outlook is improving for Pel Air, the immediate outlook appears less rosy for REX’s RPT operations, with REX’s pilots voting to take industrial action over their wage claim and increasing taxes, declining pax and a high fuel price likely to impact negatively on earnings growth for that business. Reflecting changes to forecasts, our blended valuation (based on a DCF value, PE, EV/EBITDAR and PB multiples) rises to A$1.74 (from A$1.58) while our TP declines to A$1.22 (from A$1.26), reflecting a 30% discount to our valuation for lack of liquidity and the risks to earnings noted above (up from a 20% discount purely for lack of liquidity). Given these risks, we reduce our recommendation to Hold. Key upside risks to our TP include REX winning additional tenders and faster-than-expected growth in RPT operations, while downside risks include a return to softening economic conditions that would negatively affect demand and yields, a decline in the A$ given the exposure to US$ costs, and a sustained increase in the oil price above our forecast.

Key forecasts

year to Jun	FY10A	FY11A	FY12F	FY13F	FY14F
EBITDAR (A$m)	43.00	42.60	58.80	58.50	61.60
Reported PTP (A$m)	24.50	23.90	35.90 ▲	37.10 ▲	41.40 ▲
Normalised net profit (A$m)¹	19.30	17.40	25.90 ▲	26.00 ▲	29.00 ▲
Norm fully diluted EPS (c)¹	17.41	15.66	23.38 ▲	23.52 ▲	26.21 ▲
Dividend per share (c)	6.60	7.10	7.60	8.60	9.60
Normalised PE	6.32	7.02	4.70	4.68	4.20
EV/EBITDAR (x)	3.19	3.09	2.00	1.70	1.32

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

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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	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue	227.4	239.1	276.1	284.9	293.5
Cost of sales	n/a	n/a	n/a	n/a	n/a
Gross profit	**227.4**	**239.1**	**276.1**	**284.9**	**293.5**
Operating costs	-193.2	-205.2	-223.7	-232.3	-238.0
EBITDA	**34.2**	**33.9**	**52.4**	**52.6**	**55.5**
DDA & Impairment (ex gw)	-9.99	-11.2	-15.9	-15.6	-15.5
EBITA	**24.2**	**22.7**	**36.5**	**36.9**	**40.0**
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
EBIT	**24.2**	**22.7**	**36.5**	**36.9**	**40.0**
Net interest	0.35	1.16	-0.60	0.19	1.35
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
Reported PTP	**24.5**	**23.9**	**35.9**	**37.1**	**41.4**
Taxation	-5.21	-6.43	-10.1	-11.1	-12.4
Minority interests	0.00	0.00	0.00	0.00	0.00
Other post-tax items	5.33	0.17	0.31	0.00	0.00
Reported net profit	**24.6**	**17.6**	**26.2**	**26.0**	**29.0**
Tot normalised items	5.33	0.17	0.31	0.00	0.00
Normalised EBITDA	34.2	33.9	52.4	52.6	55.5
Normalised EBIT	24.2	22.7	36.5	36.9	40.0
Normalised PTP	24.5	23.9	35.9	37.1	41.4
Normalised net profit	19.3	17.4	25.9	26.0	29.0

Balance sheet

A$m, year ended June	FY10A	FY11A	FY12F	FY13F	FY14F
Cash & market secs (1)	10.3	19.0	30.3	45.1	60.7
Other current assets	20.5	20.4	26.6	27.5	28.3
Tangible fixed assets	174.8	185.7	182.8	180.7	179.3
Intang assets (incl gw)	7.30	7.47	7.47	7.47	7.47
Oth non-curr assets	5.87	6.94	6.94	6.94	6.94
Total assets	**218.8**	**239.6**	**254.2**	**267.7**	**282.7**
Short term debt (2)	0.00	1.86	1.95	1.95	1.95
Trade & oth current liab	41.7	48.6	48.7	47.8	46.5
Long term debt (3)	26.0	27.1	24.1	21.1	18.1
Oth non-current liab	0.43	1.16	1.69	1.69	1.69
Total liabilities	**68.2**	**78.8**	**76.5**	**72.6**	**68.3**
Total equity (incl min)	150.6	160.8	177.7	195.1	214.5
Total liab & sh equity	**218.8**	**239.6**	**254.2**	**267.7**	**282.7**
Net debt	15.7	9.97	-4.21	-22.0	-40.6

Cash flow statement

A$m, year to June	FY10A	FY11A	FY12F	FY13F	FY14F
EBITDA	34.2	33.9	52.4	52.6	55.5
Change in working capital	1.16	1.12	-7.35	-1.81	-2.11
Net interest (pd) / rec	0.35	1.16	-0.60	0.19	1.35
Taxes paid	-7.58	1.02	-10.2	-11.1	-12.4
Other oper cash items	2.33	-1.59	2.27	0.00	0.00
Cash flow from ops (1)	**30.4**	**35.6**	**36.5**	**39.8**	**42.3**
Capex (2)	-61.9	-29.2	-13.0	-13.5	-14.1
Disposals/(acquisitions)	2.54	6.62	0.00	0.00	0.00
Other investing cash flow	0.00	0.00	0.00	0.00	0.00
Cash flow from invest (3)	**-59.4**	**-22.5**	**-13.0**	**-13.5**	**-14.1**
Incr / (decr) in equity	-0.38	3.00	-1.46	0.00	0.00
Incr / (decr) in debt	24.3	0.00	-3.00	-3.00	-3.00
Ordinary dividend paid	0.00	-7.32	-7.81	-8.51	-9.63
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-0.12	0.01	0.00	0.00	0.00
Cash flow from fin (5)	**23.8**	**-4.32**	**-12.3**	**-11.5**	**-12.6**
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**-5.14**	**8.71**	**11.3**	**14.8**	**15.6**
Equity FCF (1+2+4)	-31.5	6.40	23.5	26.3	28.3

Source: Company data, RBS forecasts

Five key takeaways from the result

- 1H12A PBT of A$18.1m was ahead of our forecasts (RBSF A$16.4m) and up 71% on the pcp. The strong performance was driven by improved pricing in RPT operations (EBIT of A$19.9m was up 36% on the pcp) and a better-than-expected result from Pel Air (A$2.4m EBIT up from a A$0.8m loss in the pcp) on the back of the Victorian Air Ambulance contract and other charter operations.

- Free cash flow was reasonably strong at A$10.0m due to the improved earnings performance and lower capex obligations during the period. However, higher receivables soaked up cash in the period and it will be interesting to see if this reverses in 2H. With earnings growing strongly and lower capex anticipated in the short to medium term, we expect ongoing growth in distributions (RBSF full-year distribution 7.6cps).

- Margins are starting to improve again on the back of new contact commencements, pricing increases (average ticket price increased 13% on the pcp), and an ongoing focus on cost control (CASK increased 8%). With the King Airs for the Air Ambulance contract now in service and contributing earnings, and EBIT margin increasing 4.5ppt to 13.1%, we expect returns to normalise over FY12 (FY12F ROIC +5.4ppt to 15%).

- While the outlook is improving for Pel Air, the immediate outlook appears less rosy for REX's RPT operations, with REX's pilots voting to take industrial action over their wage claim and increasing taxes, declining pax and a high fuel price likely to impact negatively on earnings for that business. Given the impact pilot and other strikes had on QAN's operations, this is a key development to watch.

- 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 improving for Pel Air and REX's RPT operations still enjoying industry leading margins, management restated that it expects all subsidiaries in the Group to be profitable in FY12.

Table 1 : Summary profit and loss and earnings forecast changes

	1H12 result					FY12F			FY13F			FY14F		
	1H11A	**1H12A**	**% chg**	**RBSF**	**% diff**	**Prev**	**New**	**% chg**	**Prev**	**New**	**% chg**	**Prev**	**New**	**% chg**
Revenue	119.1	139.1	16.7%	138.0	0.8%	273.0	276.1	1.1%	285.9	284.9	-0.3%	295.6	293.5	-0.7%
Operating costs	99.0	109.8	10.9%	111.2	-1.2%	220.6	217.2	-1.6%	230.2	226.2	-1.7%	237.6	231.8	-2.4%
EBITDAR	20.1	29.3	45.4%	26.8	9.1%	52.4	58.9	12.5%	55.7	58.6	5.3%	58.1	61.7	6.2%
Operating leases	4.4	3.2	-27.8%	3.2	-0.6%	6.5	6.5	-0.3%	6.1	6.1	0.0%	6.2	6.2	0.0%
EBITDA	15.7	26.1	66.0%	23.6	10.4%	45.9	52.4	14.3%	49.6	52.6	6.0%	51.9	55.5	6.9%
Depreciation	-5.5	-7.9	42.4%	-7.0	12.6%	-14.0	-15.9	13.2%	-14.0	-15.6	11.9%	-14.0	-15.5	10.7%
EBIT	10.2	18.2	78.9%	16.6	9.5%	31.8	36.5	14.7%	35.6	36.9	3.6%	37.9	40.0	5.5%
Net interest	0.4	-0.1	nm	-0.2	-37.5%	-0.6	-0.6	3.8%	0.2	0.2	-17.7%	1.5	1.3	-9.3%
PBT	10.6	18.1	70.7%	16.4	9.9%	31.2	35.9	14.9%	35.9	37.1	3.5%	39.4	41.4	5.0%
Tax	-2.9	-5.0	71.0%	-4.9	1.5%	-9.4	-10.1	7.3%	-10.8	-11.1	3.5%	-11.8	-12.4	5.0%
NPAT	7.7	13.1	70.5%	11.5	13.5%	21.9	25.9	18.2%	25.1	26.0	3.5%	27.6	29.0	5.0%
Significant items	-1.1	-0.3	-72.7	0.0	nm	0.0	-0.3	nm	0.0	0.0	nm	0.0	0.0	nm
Reported NPAT	6.5	12.7	95.3%	11.5	10.9%	21.9	25.5	16.8%	25.1	26.0	3.5%	27.6	29.0	5.0%
Normalised EPS (cps)	6.8	11.7	73.0%	10.3	14.5%	19.8	23.4	18.2%	22.7	23.5	3.5%	25.0	26.2	5.0%
DPS (cps)	0.0	0.0	nm	0.0	nm	7.6	7.6	0.0%	8.6	8.6	0.0%	9.6	9.6	0.0%
EBITDA margin (%)	13.2%	18.7%	5.6ppt	17.1%	1.6ppt	16.8%	19.0%	2.2ppt	17.4%	18.5%	1.1ppt	17.6%	18.9%	1.4ppt
EBIT margin (%)	8.5%	13.1%	4.5ppt	12.0%	1.0ppt	11.7%	13.2%	1.6ppt	12.5%	13.0%	0.5ppt	12.8%	13.6%	0.8ppt
NPAT margin pre sigs (%)	6.4%	9.4%	3.0ppt	8.3%	1.1ppt	8.0%	9.4%	1.4ppt	8.8%	9.1%	0.3ppt	9.3%	9.9%	0.5ppt
Tax rate (%)	27.6%	27.7%	0.1ppt	30.0%	(2.3ppt)	30.0%	28.0%	(2.0ppt)	30.0%	30.0%	0.0ppt	30.0%	30.0%	0.0ppt

Source: Company data, RBS forecasts

Divisional breakdown

- REX's RPT operations saw 1H12 EBIT increase 36% on the pcp (to A$20m), driven by improved pricing (RASK +on a lower ASK base (ASKs -1.3% 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 5.6% led by higher staffing and engineering expenses. We expect ongoing capacity rationalisation over 3Q and 4Q and yield improvement as REX prepares for the introduction of the carbon tax and the removal of the enroute rebate subsidy (estimated to add A$4-6 per ticket to REX's airfares).

- Pel Air saw a strong return to profitability (EBIT of A$2.4m, up from an A$0.8m loss in the pcp) on the back of the commencement of the Victorian Air Ambulance (AV) contract and fly-in/fly-out activity. The AV contract is reportedly performing to expectations while Pel Air commenced a new three-year contract with the Department of Defence for target towing in October 2011 which should also provide a small boost to earnings.

- AAPA narrowed its loss in 1H12 (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.

Key trends to focus on

- **Developments in relation to pilot negotiations**. Wage negotiations have broken down after 14 months of talks with REX's latest offering of CPI -0.5% + gift shares and profit share below the Australian Federation of Air Pilots' demand of CPI +2% and the pilots have recently voted to take industrial action. Such action could take the form of refusal to work on RDOs, uniform variations, stop-work meetings and not accepting aircraft with minimum equipment list items; and tankering of fuel. Given the impact pilot and other strikes had on QAN's operations, this is a key development to watch.

- **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**. 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 earnings contribution from any of these opportunities into our numbers to date and as such any wins present upside risk to our forecasts.

Valuation increases but so do the risks; Reduce to Hold

As a result of changes to forecasts, our blended valuation (DCF and 0.9x book, 4.3x EV/EBITDAR, 4.5x PE multiples) increases to A$1.74 (from A$1.58) while our target price declines to A$1.22 (from A$1.26). Our target price reflects a 30% discount to our valuation for lack of liquidity and risks to earnings as a result of: 1) pending industrial action; 2) inability to pass through tax increases; and 3) a potentially softening domestic traffic environment (up from a 20% discount purely for lack of liquidity). Given these risks, we reduce our recommendation to Hold. Key upside risks to our valuation and target price include REX winning additional tenders and faster-than-expected growth in RPT operations, while downside risks include a return to softening economic conditions that would negatively affect demand and yields, a decline in the A$ given the exposure to US$ costs, and a sustained increase in the oil price above our forecast.

REX – financial summary

Year to 30 Jun (A$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS
Income statement	**2010A**	**2011A**	**2012F**	**2013F**	**2014F**
Divisional sales	224.4	230.6	270.6	279.4	288.0
Total revenue	227.4	239.1	276.1	284.9	293.5
EBITDA	34.2	33.9	52.4	52.6	55.5
Depreciation	-10.0	-11.2	-15.9	-15.6	-15.5
EBITA	24.2	22.7	36.5	36.9	40.0
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0
EBIT	24.2	22.7	36.5	36.9	40.0
Associate income	0.0	0.0	0.0	0.0	0.0
EBIT(incl associate profit)	24.2	22.7	36.5	36.9	40.0
Net interest expense	0.3	1.2	-0.6	0.2	1.3
Pre-tax profit	24.5	23.9	35.9	37.1	41.4
Income tax expense	-5.2	-6.4	-10.1	-11.1	-12.4
After-tax profit	19.3	17.4	25.9	26.0	29.0
Minority interests	0.0	0.0	0.0	0.0	0.0
NPAT	19.3	17.4	25.9	26.0	29.0
Significant items	5.3	0.2	0.3	0.0	0.0
NPAT post abnormals	24.6	17.6	26.2	26.0	29.0

Cash flow statement	2010A	2011A	2012F	2013F	2014F
EBITDA	34.2	33.9	52.4	52.6	55.5
Change in working capital	1.2	1.1	-7.4	-1.8	-2.1
Net interest (pd)/rec	0.3	1.2	-0.6	0.2	1.3
Taxes paid	-7.6	1.0	-10.2	-11.1	-12.4
Other oper cash items	2.3	-1.6	2.3	0.0	0.0
Cash flow from ops (1)	30.4	35.6	36.5	39.8	42.3
Capex (2)	-61.9	-29.2	-13.0	-13.5	-14.1
Disposals/(acquisitions)	2.5	6.6	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from invest (3)	-59.4	-22.5	-13.0	-13.5	-14.1
Incr/(decr) in equity	-0.4	3.0	-1.5	0.0	0.0
Incr/(decr) in debt	24.3	0.0	-3.0	-3.0	-3.0
Ordinary dividend paid	0.0	-7.3	-7.8	-8.5	-9.6
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	-0.1	0.0	0.0	0.0	0.0
Cash flow from fin (5)	23.8	-4.3	-12.3	-11.5	-12.6
Forex and disc ops (6)					
Inc/(decr) cash (1+3+5+6)	-5.1	8.7	11.3	14.8	15.6
Equity FCF (1+2+4)	-31.5	6.4	23.5	26.3	28.3

Balance sheet	2010A	2011A	2012F	2013F	2014F
Cash & deposits	10.3	19.0	30.3	45.1	60.7
Trade debtors	9.5	10.0	14.6	15.1	15.6
Inventory	7.7	10.4	12.0	12.4	12.7
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	7.3	7.5	7.5	7.5	7.5
Other intangible assets					
Fixed assets	174.8	185.7	182.8	180.7	179.3
Other assets	9.1	6.9	6.9	6.9	6.9
Total assets	218.8	239.6	254.2	267.7	282.7
Short-term borrowings	0.0	1.9	1.9	1.9	1.9
Trade payables	18.3	19.4	19.0	19.6	20.2
Long-term borrowings	26.0	27.1	24.1	21.1	18.1
Provisions	0.4	0.5	0.5	0.5	0.5
Other liabilities	23.5	29.9	30.9	29.4	27.5
Total liabilities	68.2	78.8	76.5	72.6	68.3
Preference shares					
Hybrid equity					
Share capital	74.7	74.7	74.7	74.7	74.7
Other reserves	0.0	-0.2	-0.9	0.2	1.3
FCTR					
Unrealised gains/losses					
Retained earnings	76.0	86.3	103.9	120.3	138.5
Other equity	0.0	0.0	0.0	0.0	0.0
Total equity	150.6	160.8	177.7	195.1	214.5
Minority interest	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	150.6	160.8	177.7	195.1	214.5
Total liabilities & SE	218.8	239.6	254.2	267.7	282.7

Closing price (A$)	1.10	Price target (A$)	1.22
Valuation metrics			
Preferred methodology	DCF/multiples	Val'n (A$)	$ 1.74
DCF valuation inputs			
Rf	5.25%	10-year rate	5.25%
Rm-Rf	6.00%	Margin	2.0%
Beta	1.65	Kd	7.25%
CAPM (Rf+Beta(Rm-Rf))	15.1%	Ke	15.1%
E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A$m)	218.5
Equity (E/EV)	75.0%	Minority interest (A$m)	0.0
Debt (D/EV)	25.0%	Net debt (A$m)	-4.2
Interest rate	7.25%	Investments (A$m)	0.0
Tax rate (t)	30.0%	Equity market value (A$m)	222.7
WACC	12.6%	Diluted no. of shares (m)	110.6
		DCF valuation (A$)	**2.01**

Multiples	2011A	2012F	2013F	2014F
Enterprise value (A$m)	131.6	117.4	99.6	81.0
EV/Sales (x)	0.6	0.4	0.4	0.3
EV/EBITDA (x)	3.9	2.2	1.9	1.5
EV/EBIT (x)	5.8	3.2	2.7	2.0
PE (normalised) (x)	7.0	4.7	4.7	4.2
PEG (normalised) (x)	2.8	1.9	1.9	1.7

At target price	2011A	2012F	2013F	2014F
EV/EBITDA (x)	4.3	2.5	2.1	1.7
PE (normalised) (x)	7.8	5.2	5.2	4.6

Comparable company data (x)		2012F	2013F	2014F
Qantas Airways	EV/EBITDA	3.8	3.3	2.8
Year to 30 Jun	EV/EBIT	13.5	9.9	6.7
	PE	13.5	8.8	5.9
	PEG	1.5	1.0	0.7
Virgin Australia Holdings	EV/EBITDA	4.7	4.3	3.6
Year to 30 Jun	EV/EBIT	12.1	9.2	6.5
	PE	12.3	8.6	5.8
	PEG	1.6	1.2	0.8

Per share data	2011A	2012F	2013F	2014F
No. shares	112.9	112.1	112.0	112.0
EPS (cps)	15.8	23.7	23.5	26.2
EPS (pre-goodwill) (c)	15.8	23.7	23.5	26.2
EPS (normalised) (c)	15.7	23.4	23.5	26.2
Dividend per share (c)	7.1	7.6	8.6	9.6
Dividend payout ratio (%)	46.0	33.0	37.1	37.1
Dividend yield (%)	6.5	6.9	7.8	8.7

Growth ratios	2011A	2012F	2013F	2014F
Sales growth	2.8%	17.4%	3.3%	3.1%
Operating cost growth	3.4%	10.9%	4.0%	2.5%
EBITDA growth	-0.9%	54.8%	0.3%	5.5%
EBITA growth	-6.1%	60.9%	1.2%	8.4%
EBIT growth	-6.1%	60.9%	1.2%	8.4%
NPAT growth	-9.7%	48.4%	0.5%	11.4%
Normalised EPS growth	-10.0%	49.3%	0.6%	11.4%

Operating performance	2011A	2012F	2013F	2014F
Asset turnover (%)	25.1	27.4	26.8	26.2
EBITDA margin (%)	14.7	19.4	18.8	19.3
EBIT margin (%)	9.8	13.5	13.2	13.9
Net profit margin (%)	7.6	9.6	9.3	10.1
Return on net assets (%)	14.1	20.6	18.9	18.7
Net debt (A$m)	10.0	-4.2	-22.0	-40.6
Net debt/equity (%)	6.2	-2.4	-11.3	-18.9
Net interest/EBIT cover (x)	-19.6	60.8	-194.8	-29.7
ROIC (%)	9.8	15.4	14.9	16.2

Internal liquidity	2011A	2012F	2013F	2014F
Current ratio (x)	0.8	1.1	1.5	1.8
Receivables turnover (x)	23.6	22.0	18.8	18.8
Payables turnover (x)	10.4	11.4	11.7	11.7

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, underpeformance 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 29 Feb 2012)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	584 (4)	520 (3)
Hold	345 (3)	288 (3)
Sell	84 (1)	76 (1)
Total (IB%)	1013 (3)	884 (3)

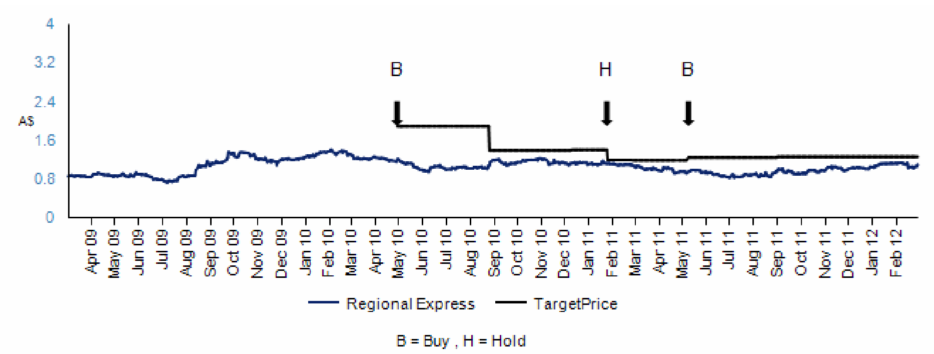
Source: RBS

Trading recommendations (as at 29 Feb 2012)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	3 (33)	3 (33)
Trading Sell	1 (0)	1 (0)
Total (IB%)	4 (25)	4 (25)

Source: RBS

Regional Express (RIC: REX.AX, Rec: Hold, CP: A$1.100, TP: A$1.218)



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 A$ given the exposure to US$ costs, and a sustained increase in the oil price above our forecast.

Source: RBS

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