


Regional Express

REX AU / REX.AX

1H13 RESULTS NOTE

Market Cap US\$147.9m <small>A\$144.3m</small>	Avg Daily Turnover US\$0.04m <small>A\$0.04m</small>	Free Float 40.0% <small>110.2m shares</small>	Current Target A\$1.19 Previous Target A\$1.27 Up/downside -1.9%	SHORT TERM (3 MTH) TRADING BUY TRADING SELL	LONG TERM OUTPERFORM NEUTRAL UNDERPERFORM
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Share price info

Share price perf. (%)	1M	3M	12M
Relative	0.4	-11	-3.9
Absolute	3.9	2.1	12.3

Major shareholders

	% held
Kim Hai Lim	16.4
Joe Tiau Tjoa	14.4
Thian Soo Lee	6.8

Unable to escape pressures

REX's 1H result highlighted the pressures from price competition in the domestic market that resulted in an inability to pass on cost increases. The near-term outlook is challenging, although with the share price movement post the result we still see potential upside to our valuation.

1H13 PBT of A\$11.8m was 9% below our forecast as REX was largely unable to pass on the additional costs incurred from the carbon tax and the withdrawal of en-route rebates provided by the government. Charter work also slowed compared to the pcp and will decline further with a contract loss in the 2H. We lower our FY13 PBT forecast by 17% to A\$21m, a reduction of 39% on FY12. However, we retain our Outperform rating given there remains potential upside to our target price of A\$1.20 following the share price reaction today.

1H13 result

1H13 PBT of A\$11.8m declined 35% on the pcp due to the flow-on impact of the domestic capacity war on REX. Revenue was down as a result, while cost increases from the carbon tax and the loss of en-route rebates were unable to be recovered due to the competitive environment.

Weakness in charter work

Charter revenue declined 10% due to a slowing in charter work and a strong pcp. The loss of the Ivanhoe contract from March will negatively impact the business and we forecast a 13% decline in FY13 revenue. The ramp-up in revenue from AAPA was also below our expectations (-6% on the pcp), although the new contract signed (providing for 80 new cadets pa) should provide growth from FY14.

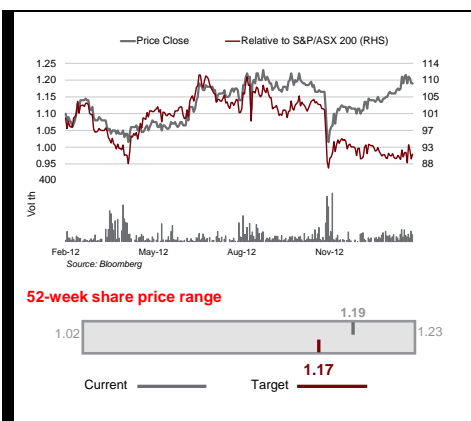
Positive despite downgrade

Management downgraded FY13 PBT guidance to a decline of 35-40% (from 25-35%). We have reduced our PBT forecast (A\$20.9m) to the lower end of that range (-39%) given the increasing pressures on the business. However, we continue to think REX is a well-run airline with significantly better returns than its larger competitors. We still see potential upside to our lowered target price of A\$1.20 and maintain our Outperform rating.

Results comparison

FYE June (A\$m)	1H FY13	1H FY12	pcp % chg	hoh % chg	FY13 est	FY12 act	yoy % chg	Prev. FY13F	Comments
Revenue	135.4	139.1	-2.7	0.51	265.4	273.8	-3.0	274.8	Revenue down due to demand declines and charter work slowdown
Operating costs	-116.0	-113.0	2.6	4.40	-229.5	-223.5	2.7	-234.7	Increase in fuel costs vs pcp
EBITDA	19.4	26.1	-25.7	-17.82	36.0	50.2	-28.4	40.1	Revenue environment not strong enough to offset cost increases
EBITDA margin (%)	14.3	13.4			13.6	18.4	-26.1	14.6	
Depn & amort.	-7.9	-7.9	0.4	0.43	-15.0	-15.8	-4.8	-15.0	
EBIT	11.4	18.2	-37.0	-26.96	20.9	34.4	-39.2	25.0	Revenue environment not strong enough to offset cost increases
Interest expense	-0.7	(0.8)	-13.6	-48.54	(2.4)	(1.5)	58.1	(2.4)	Minimal debt on balance sheet
Interest & invt inc	1.0	0.7	55.4	108.6	2.4	1.6	51.2	2.5	
Associates' contrib	0.0	0.0	n/a	n/a	0.0	0.0	n/a	0.0	
Exceptionals	0.5	0.3	48.5	314.6	0.0	0.4	-100.0	0.0	
Pretax profit	11.8	18.1	-34.6	-20.60	20.9	34.5	-39.3	25.2	Management guiding to FY13 PBT declining 35-40% vs FY12
Tax	3.2	5.0	-35.4	-26.52	5.8	9.4	-38.8	7.6	
Tax rate (%)	27.4	27.7			27.5	27.3	0.9	30.0	
Minority interests	0.0	0.0	n/a	n/a	0.0	0.0	n/a	0.0	
Net profit	9.0	13.4	-32.4	-14.64	15.2	25.5	-40.5	17.6	
Core net profit	8.6	13.1	-34.3	-18.11	15.2	25.1	-39.5	17.6	
EPS (cps)	8.3	12.0	-30.9	-13.47	13.9	23.1	-39.9	16.2	
Core EPS (cps)	7.8	11.7	-33.6	-17.86	13.9	22.8	-38.9	16.2	

SOURCE: CIMB, COMPANY REPORTS



Financial Summary

	Jun-11A	Jun-12A	Jun-13F	Jun-14F	Jun-15F
Revenue (A\$m)	230.6	267.9	259.6	270.5	281.6
Operating EBITDA (A\$m)	34.40	50.24	35.47	39.91	42.06
Net Profit (A\$m)	17.59	25.50	14.79	17.87	18.78
Normalised EPS (A\$)	0.16	0.23	0.13	0.16	0.17
Normalised EPS Growth	(7.7%)	42.9%	(40.4%)	20.8%	5.1%
FD Normalised P/E (x)	7.44	5.23	8.78	7.27	6.91
DPS (A\$)	0.071	0.090	0.071	0.076	0.081
Dividend Yield	5.97%	7.56%	5.97%	6.39%	6.81%
EV/EBITDA (x)	4.20	2.31	3.14	2.80	2.93
P/FCFE (x)	10.17	3.77	12.74	29.10	NA
Net Gearing	6.2%	(9.1%)	(10.6%)	(9.9%)	(3.9%)
P/BV (x)	0.84	0.74	0.72	0.68	0.64
Recurring ROE	11.4%	14.9%	8.2%	9.5%	9.5%
% Change In Normalised EPS Estimates			(16.1%)	(19.6%)	(20.5%)
Normalised EPS/consensus EPS (x)			0.84	0.81	0.78

SOURCE: CIMB, COMPANY REPORTS

Earnings forecast changes – PBT reduced by 17% ▶

With increasing competitive pressures and the loss of the Ivanhoe contract within Pel-Air in March 2013, we have lowered FY13F PBT by 17% to A\$20.9m. FY14F and FY15F PBT have fallen by a similar amount (17-18%) due to the flow-on impact of the changes made in FY13. Our dividend forecasts have been reduced by 19-21% over FY13-FY15 as we reflect a dividend payout ratio of 45-51% (in line with previous years).

Figure 1: Result summary and earnings forecast changes

	CIMB					FY13			FY14			FY15		
	1H12A	1H13A	% chg	1H13F	1HA v CIMB	Prev	New	% chg	Prev	New	% chg	Prev	New	% chg
Revenue	139.1	135.4	-2.7%	141.6	-4.4%	274.8	265.4	-3.4%	286.3	276.4	-3.5%	298.0	287.5	-3.5%
Operating Costs	108.7	112.4	3.4%	118.0	-4.7%	227.4	222.2	-2.3%	235.7	230.8	-2.1%	249.8	244.7	-2.0%
EBITDAR	30.4	23.0	-24.2%	23.6	-2.5%	47.4	43.3	-8.7%	50.6	45.6	-10.0%	48.2	42.8	-11.3%
Operating leases	4.3	3.6	-15.4%	3.6	0.0%	7.3	7.3	0.0%	5.0	5.0	0.0%	0.0	0.0	#DIV/0!
EBITDA	26.1	19.4	-25.7%	20.0	-2.9%	40.1	36.0	-10.2%	45.7	40.6	-11.0%	48.2	42.8	-11.3%
Depreciation	-7.9	-7.9	0.4%	-7.2	9.8%	-15.0	-15.0	0.0%	-14.7	-14.7	0.6%	-15.3	-15.5	1.1%
EBIT	18.2	11.4	-37.0%	12.7	-10.1%	25.0	20.9	-16.4%	31.0	25.9	-16.5%	32.9	27.3	-17.0%
Net interest	-0.1	0.4	-457.3%	0.3	33.4%	0.1	0.0	-122.0%	0.8	0.4	-49.4%	0.9	0.3	-61.5%
PBT	18.1	11.8	-34.6%	13.0	-9.2%	25.2	20.9	-17.0%	31.8	26.3	-17.3%	33.8	27.6	-18.2%
Tax	-5.0	-3.2	-35.4%	-3.9	-17.2%	-7.6	-5.8	-23.9%	-9.5	-7.9	-17.3%	-10.1	-8.3	-18.2%
NPAT	13.1	8.6	-34.3%	9.1	-5.8%	17.6	15.2	-14.0%	22.2	18.4	-17.3%	23.6	19.3	-18.2%
Significant items	0.3	0.5	48.5%	0.0	nm	0.0	0.0	nm	0.0	0.0	nm	0.0	0.0	nm
Reported NPAT	13.4	9.0	-32.4%	9.1	-0.8%	17.6	15.2	-14.0%	22.2	18.4	-17.3%	23.6	19.3	-18.2%
Normalised EPS (cps)	11.7	7.8	-33.6%	8.3	-5.8%	16.2	13.9	-14.0%	20.4	16.8	-17.3%	21.7	17.7	-18.2%
DPS (cps)	0.0	0.0	nm	0.0	nm	9.0	7.1	-21.1%	9.5	7.6	-20.0%	10.0	8.1	-19.0%
EBITDA margin (%)	18.7%	14.3%	(4.4pp)	14.1%	0.2pp	14.6%	13.6%	(1.0pp)	15.9%	14.7%	(1.3pp)	16.2%	14.9%	(1.3pp)
EBIT margin (%)	13.1%	8.5%	(4.6pp)	9.0%	(0.5pp)	9.1%	7.9%	(1.2pp)	10.8%	9.4%	(1.5pp)	11.0%	9.5%	(1.5pp)
NPAT margin pre sigs (%)	9.4%	6.3%	(3.1pp)	6.4%	(0.1pp)	6.4%	5.7%	(0.7pp)	7.8%	6.7%	(1.1pp)	7.9%	6.7%	(1.2pp)
Tax rate (%)	27.7%	27.4%	(0.3pp)	30.0%	(2.6pp)	30.0%	27.5%	(2.5pp)	30.0%	30.0%	(0.0pp)	30.0%	30.0%	0.0pp

SOURCES: CIMB FORECASTS, COMPANY REPORTS

Target price lowered to A\$1.20 ▶

With the earnings changes, our target price has reduced from A\$1.29 to A\$1.20, reflecting a 20% discount to our blended valuation due to liquidity issues. Despite the near-term challenges we continue to believe REX is well run, generating returns far in excess of its larger competitors, and the core of its business (operating on licensed routes) remains intact without much risk to this changing. Therefore, we see fundamental valuation upside following the negative share price reaction after the result.

Risks to our valuation and target price include a further weakening in the domestic market, further losses in the charter business, and a persistent increase in the fuel price.

Figure 2: REX FY14F blended valuation

Methodology	Valuation Comment (A\$)
DCF	1.13
P/B	1.88 Based on long run average 1.1x P/NTA
P/E	1.25 Based on long run average 7.4x EPS
EV/EBITDAR	1.73 Based on long run average 4.5x EV/EBITDAR
Average	1.50 Blended valuation
Target price	1.20 Reflects 20% discount for lack of liquidity

SOURCES: CIMB

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range	90 – 100	80 – 89	70 – 79	Below 70 or No Survey Result
Description	Excellent	Very Good	Good	N/A

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Spitzer Chart for stock being researched (2 year data)



Distribution of stock ratings and investment banking clients for quarter ended on 31 January 2013		
918 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	52.6%	8.6%
Neutral	34.6%	4.2%
Underperform/Sell/Trading Sell	12.7%	8.4%

Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Korea Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Recommendation Framework #2 **

Stock

OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.

NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10% both over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

*** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2011.

AAV - not available, ADVANC - Excellent, AMATA - Very Good, AOT - Excellent, AP - Very Good, BANPU - Excellent, BAY - Excellent, BBL - Excellent, BCH - Good, BEC - Very Good, BECL - Very Good, BGH - not available, BH - Very Good, BIGC - Very Good, BTS - Very Good, CCET - Good, CK - Very Good, CPALL - Very Good, CPF - Very Good, CPN - Excellent, DELTA - Very Good, DTAC - Very Good, GLOBAL - not available, GLOW - Very Good, GRAMMY - Excellent, HANA - Very Good, HEMRAJ - Excellent, HMPRO - Very Good, INTUCH - Very Good, ITD - Good, IVL - Very Good, JAS - Very Good, KAMART - not available, KBANK - Excellent, KK - Excellent, KTB - Excellent, LH - Very Good, LPN - Excellent, MAJOR - Very Good, MCOT - Excellent, MINT - Very Good, PS - Excellent, PSL - Excellent, PTT - Excellent, PTTGC - not available, PTTEP - Excellent, QH - Excellent, RATCH - Excellent, ROBINS - Excellent, RS - Excellent, SC - Excellent, SCB - Excellent, SCC - Excellent, SCCC - Very Good, SIRI - Very Good, SPALI - Very Good, STA - Very Good, STEC - Very Good, TCAP - Very Good, THAI - Very Good, THCOM - Very Good, TISCO - Excellent, TMB - Excellent, TOP - Excellent, TRUE - Very Good, TUF - Very Good, WORK - Good.