

6 December 2005

REX | \$1.15

Analyst | Ken Fleming
 (613) 6224 8511
 ken.fleming@tricom.com.au

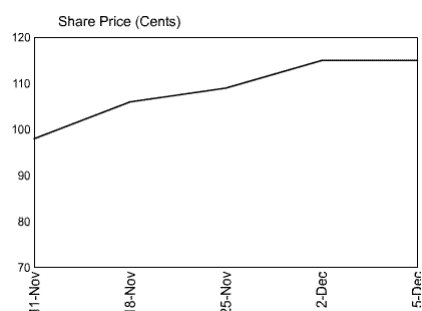
Max Wheeler
 (613) 6224 9899

Fully diluted shares
 on issue | 115.0M
 Market cap | A\$132.3M

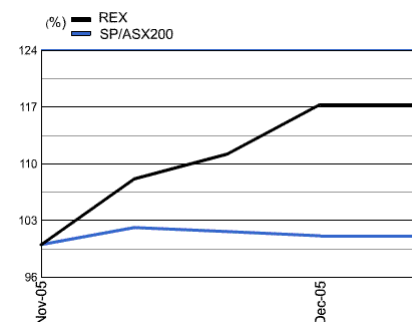
Performance & Valuation

Last Price | \$1.15
 52 wk hi/low | \$1.18 / \$0.95
 12 mth price target³ | \$1.56
 Valuation | \$1.40
 Valuation methodology | DCF

Share price performance



REX versus SP/ASX200



Regional Express Holdings Ltd

Acquisition of Air Link

Key points

- REX announced on 30 November 2005, that it had acquired Air Link Airlines for \$3M (net assets).
- However, REX also bought the lease out over the Beech 1900D for an (estimated) \$2.3M, which meant all up it paid \$5.3M (\$5M after adding back \$0.3M in cash with Air Link).
- Air Link is based in Dubbo, NSW and services a number of regional routes in NSW, including Dubbo, Bourke, Cobar and Mudgee.
- REX competes with Air Link on the Dubbo-to-Sydney route, but all other routes serviced by Air Link extend REX's market reach.
- Dubbo is also a principle route for NSW public servants, and is similarly serviced by QantasLink. Thus, from three players down to two.
- Air Link has nine aircraft: one Beech 1900D, three Cessna 310's and five Piper Navajo Chieftains. It also operates a charter business.
- We estimate on conservative arithmetic, REX paid an enterprise multiple of 5X FY07.

Comment

On raw arithmetic and without fleshing out all possible cost synergies, the estimated acquisition multiple in FY07 is above that of REX (5x, c/f REX 3.4x). However, the strategy includes: rounding out and expanding services to its core market; removing a competitor on a major route and better positioning itself to attract increased traffic from the NSW Government. Moreover, the cost reflects the value of the assets (largely aircraft).

The synergies are numerous and include the obvious candidates, such a lower fuel costs; administration; sales, marketing and training. Benefits will also flow from ticket integration and consolidation of facilities at Sydney Airport and Dubbo. There is also the additional redundancy of engineering capabilities as there is engineering licensed coverage of Saabs at Air Link in Dubbo.

Investment View

We remain very positive on REX and believe the acquisition has substantial strategic merit. Our preliminary assessment post the acquisition moves our valuation up to \$1.40 and a share price target to \$1.56.

Earnings Summary

Y/E Jun	2005A	2006F	2007F
Revenue - A\$M	137.1	150.6	163.1
EBITDA - A\$M	16.2	24.0	29.6
NPAT (reported) A\$M	13.5	19.8	19.5
NPAT (normalised) A\$M ¹	13.5	19.8	19.5
EPS (diluted) - cents ²	16.9	17.2	16.9
EPS (diluted) - % chg	n/a	2.0	(1.6)
PER (diluted) - x ²	6.8	6.7	6.8
DPS - cents	0.0	0.0	4.0
Dividend Yield - %	0.0	0.0	3.5
Franking - %	0	0	0

Notes:

- Normalised earnings is pre goodwill, amortization and after adding back non-recurring items.
- Based on normalized earnings.
- Price target is calculated by moving current valuation one year forward.

Final results analysis & outlook

Regional Express Holdings Ltd | 6 December 2005

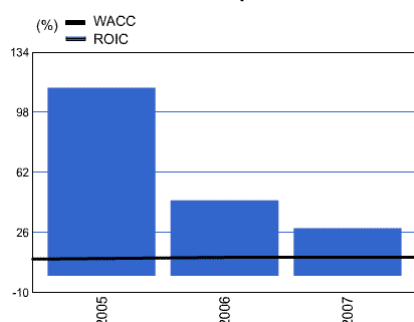


Valuation

Methodology: DCF¹
Key assumptions

Beta	1.3
WACC %	11.2
Forecast period years	10.0
Risk premium %	5.5
PV cash flows \$M	152.1
less net debt/(add cash) \$M	(9.4)
add equity adjustments ²	0.0
Total	161.5
Fully diluted shares on issue M ²	115.0
Value per share \$	1.40

Return on invested capital



Ratio analysis

Year end Jun	05A	06F	07F
Revenue growth %	0.0	9.9	8.3
EBITDA growth %	n/a	48.2	23.4
EBITDA margin %	11.8	15.9	18.2
EBIT margin %	9.0	13.1	13.7
Tax rate %	0.0	8.0	30.0
ROA %	31.0	24.1	21.0
ROE %	96.8	36.2	23.7
Net debt/equity %	0.5	(19.0)	(36.1)
Net interest cover x	17.7	NaN	n/a
Capex to deprec'n %	397.4	122.2	78.6
NTA per share \$	0.23	0.64	0.79

Multiple analysis

Year end Jun	05A	06F	07F
Market cap M	132		
Net debt (cash) \$M	(9.4)		
Options \$M	0.0		
Enterprise value \$M	122.9		
EV/EBITDA x	7.6	5.1	4.1
EPS c	16.9	17.2	16.9
P/E x	6.8	6.7	6.8
Cashflow / Share c	(7.4)	19.5	23.3
Price / NTA x	4.9	1.8	1.5

Shares outstanding

Year end Jun	05A	06F	07F
Basic M	80.0	115.0	115.0
Other M	0.0	0.0	0.0
Fully diluted M	80.0	115.0	115.0

Notes:

1. Discounted cash flow. 2. Equity adjustments and shares on issue include all notes and options on issue (if in the money or deemed appropriate).

Year end Jun	2005A	2006F	2007F
Profit & Loss Summary A\$M			
Operating revenue	137.1	150.6	163.1
Invest & other income	0.0	0.0	0.0
EBITDA	16.2	24.0	29.6
Depreciation/Amort	(3.8)	(4.3)	(7.3)
EBIT	12.4	19.7	22.4
Net Interest	(0.7)	0.5	1.3
Pre-tax profit	11.7	19.6	23.7
Tax expense	0.0	(1.6)	(7.1)
Minorities/Assoc./Prefs	1.8	1.8	2.9
NPAT	13.5	19.8	19.5
Non recurring items	0.0	0.0	0.0
Reported profit	13.5	19.8	19.5
add goodwill/non recurring	0.0	0.0	0.0
Adjusted profit	13.5	19.8	19.5
Cashflow Summary A\$M			
EBITDA	16.2	24.0	29.6
Working capital changes	0.0	(0.7)	(0.1)
Interest and tax	(0.6)	(0.9)	(2.8)
Other operating items	(21.5)	0.0	0.0
Operating cashflow	(5.9)	22.4	26.8
Required capex	(15.1)	(5.3)	(5.7)
Maintainable cashflow	(21.0)	17.1	21.1
Dividends/Other	0.0	0.0	(2.3)
Acq/Disp	6.4	(38.1)	0.0
Other investing items	4.2	0.0	0.0
Free cashflow	(10.4)	(21.0)	18.8
Equity	0.0	35.0	0.0
Debt inc/(red'n)	4.6	(14.0)	(18.8)
Balance Sheet A\$M			
Cash & deposits	4.5	14.4	33.2
Inventories	3.0	3.6	3.8
Trade debtors	7.3	7.4	7.3
Other curr assets	4.5	4.5	4.5
Total current assets	19.3	29.9	48.8
Prop., plant & equip.	24.5	63.6	62.0
Non-curr intangibles	0.0	0.0	0.0
Non-curr investments	1.9	3.7	6.6
Other non-curr assets	4.6	4.6	4.6
Total assets	50.3	101.8	122.0
Trade creditors	12.4	12.4	12.5
Curr borrowings	0.5	0.5	0.5
Other curr liabilities	13.5	14.3	17.3
Total current liab.	26.4	27.2	30.2
Borrowings	4.1	0.0	0.0
Other non-curr liabilities	1.2	1.2	1.2
Total liabilities	31.7	28.4	31.4
Minorities/Convertibles	0.0	0.0	0.0
Shareholders equity	18.6	73.4	90.6

Final results analysis & outlook

Regional Express Holdings Ltd | 6 December 2005



Year end Jun	2005A	2006F	2007F
Divisional Summary A\$M			
Revenue			
Division 1	137.1	150.6	163.1
EBITDA			
Division 1	16.2	24.0	29.6
Margin %			
Division 1	11.8	15.9	18.1

Some arithmetic

The company provided some historic arithmetic, which we have adjusted to calculate forward estimates. Our three major adjustments include:

- the removal of the lease expense on the Beech 1900D (we understand it was valued at \$2.3M and have assumed an interest rate of 8.75%);
- an estimate of EBITDAR, which meant making certain assumptions regarding depreciation; and
- cost savings we calculate could be achieved during FY07.

Company data on Air Link

Y/E June	FY04	FY05
Profit & loss	\$M	\$M
Income		
RPT Income	4.4	5.1
Other income	1.9	1.4
	6.3	6.5
Expenditure		
Fuel	(1.1)	(1.3)
Manpower	(1.3)	(1.4)
Other exp (inc maintenance)	(3.7)	(3.5)
	(6.2)	(6.2)
EBITA	0.1	0.3

Source: REX

Our valuation arithmetic and estimates of earnings following full consolidation:

Tricom consolidated arithmetic

Y/E June	FY06F	FY07F
	NPAT (\$M)	NPAT (\$M)
REX	19.7	18.5
Air Link	0.1	1.0
Total	19.8	19.5
Shares on issue (M)	115.0	115.0
EPS (pre Air Link) (cps)	17.1	16.1
EPS (post Air Link) (cps)	17.2	17.0
PER (post Air Link) (x)	6.7	6.8

Acquisition arithmetic

Y/E June	Air Link	
	FY06F	FY07F
EBITDAR (\$M) ^{1,3}	0.6	1.0
Paid (\$M) ²	5.3	5.3
Cash (\$M)	0.3	0.3
EV (\$M)	5.0	5.0
EV/EBITDAR (X)	8.5	5.0

Source: REX, Tricom Equities

Notes: 1. Tricom has estimated Air Link's depreciation and leasing expenses. 2. Payment was \$3M for the net assets, plus (we understand) \$2.3M to pay out a lease over one Air Link aircraft. 3. We have assumed a range of cost synergies taking impact predominantly in FY07. These include, single gate at Sydney Airport, ticketing, administration, bulk fuel purchase, training etc.

Important Notice

Analyst Certification

As at the time of writing this report, the author holds shares in Regional Express Limited (REX), which were acquired as part of the REX IPO, in November 2005.

Provider of this publication

This publication has been prepared by Tricom Equities Limited (ABN 92 067 161 755) (***Tricom***) (AFSL 238148). Tricom makes the statements in this Important Notice Section for itself and on behalf of each of its related bodies corporate and their respective officers, agents and employees from time to time (collectively, the ***Tricom Group***). This publication is provided only on the following basis. If you retain and use this publication, each member of the Tricom Group relies on your acceptance on this basis.

Information in this publication

References in this publication to data may rely on third parties over which Tricom has no control and for which Tricom accepts no responsibility. Whilst all of the information and statements contained in this publication have been prepared with all reasonable care, no responsibility or liability is accepted by any member of the Tricom Group for any errors or omissions or misstatements however caused or arising.

Any opinions, forecasts or recommendations reflect the judgment and assumptions of Tricom on the basis of information as at the date of publication and may later change without notice.

This publication is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any securities recommendation contained in this publication is unsolicited general information only. Tricom is not aware that any recipient intends to rely on this publication and Tricom is not aware of the manner in which a recipient intends to use it. In preparing this publication, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors must obtain specific individual financial advice from their investment advisor to determine whether recommendations contained in this publication are appropriate to their personal investment objectives, financial situation or particular needs before acting on any such recommendations.

Investment in securities involves risk. Past performance of securities is no assurance of future performance. Investors should take advice on the basis of current information relevant to their particular circumstances, and have regard to the risk that the future performance of investments will differ from past performance.

This publication is not for public circulation or reproduction whether in whole or in part and is not to be disclosed to any person other than the intended recipient, without obtaining the prior written consent of Tricom.

All intellectual property rights in this report are, and at all times remain, the property of Tricom Equities Limited, unless otherwise attributed.

Liability for this publication

Each member of the Tricom Group excludes to the full extent permitted by law all liability of whatever kind, whether in negligence, tort, contract or under fiduciary duties strict liability or otherwise, for any loss or damage of any kind (including without limitation indirect, incidental or consequential loss or damage, whether reasonably foreseeable or not) however arising in relation to the publication of this document, including any reliance on it or making any transaction in respect of any securities or strategy mentioned in it.

Tricom's Interests

Tricom Equities Limited is the Lead Manager and Underwriter to the initial public offering of Reginald Express Holdings Limited (REX) on 9 November 2005. Tricom underwrote the offer of \$35,000,000 of new shares in REX. For these roles Tricom is receiving a fee of 5% (\$1,750,000). Other than the abovementioned, the Tricom Group has no other associations or relationships, and will receive no other remuneration, commissions or fees in relation to the financial products mentioned in this report.

Each member of the Tricom Group may, from time to time hold positions in any securities included in this report (or derivatives of them) and may buy or sell such securities or derivatives or engage in other transactions involving such securities or derivatives, as principal or as agent for clients. A member of the Tricom Group from time to time may earn brokerage, fees or other benefits from securities mentioned in this publication or derivatives of them. These will be disclosed, as required, in the ordinary course of providing financial services.

No member of the Tricom Group has, or will receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any recommendation contained in this report. A member of the Tricom Group or a consultant to it may, from time to time perform paid services for the companies whose securities are the subject of recommendations in this report. Under no circumstance, however, has any member of the Tricom Group been influenced, either directly or indirectly, in making any recommendation contained in this report.

Other important information

This Important Notice must be read in conjunction with the Legal Notice which can be located at <http://www.tricom.com.au>. Further information is available on request.

© Tricom Equities Limited 2005