

An extraordinary success story as...

Rex rises from the Ansett ashes

By David Fullbrook
in Singapore

A Singaporean entrepreneur has transformed an Australian regional operator, Regional Express (Rex), from nothing into profit, expansion and a public listing in three years. Executive chairman, Lim Kim Hai, a self-confessed aviation industry novice who does not even know what type of plane his airline flies, attributes the turnaround to an eye for details, challenging managers and the commitment of the airline's frontline staff.

Lim, and business partner Lee Thian Soo, saw an opportunity to make a full-service carrier serving New South Wales, South Australia and Tasmania by bringing together the respected Hazelton and Kendell regional airlines from the wreckage of the Ansett Group, which collapsed in 2002.

Their hard-nosed approach has brought results. Net profits jumped 10-fold from A\$1 million (US\$740,000) to A\$11.3 million in the fiscal year ending June 30, 2005. Capitalising on that, Rex launched a share offer in October last year, which was 2.5 times oversubscribed.

However, that initial interest has not supported share prices, despite a thumbs up from analysts. Rex shares debuted at A\$0.95, climbing to A\$1.18 in late November, but have since fallen and were A\$1.06 at press time amid thin trade.

This year, Lim expects Rex, Australia's largest independent regional operator, to deliver profits of about A\$22 million, compared with a gross profit of A\$13.7 million in fiscal 2005. Small change compared to the profits big carriers like Qantas Airways or Singapore Airlines (SIA) earn, but a far more impressive return given that Rex's assets are worth only A\$50 million against billions for industry leviathans.

He is looking for profits to hit 12% of



**Regional Express (Rex):
rapid success**

turnover, up from 11% in the financial year that wrapped up in June 2005, against eight percent typical for leading carriers like Qantas or SIA. "We will improve profits every year. This year is still a year of high growth compared to last year," said Lim.

Last September, Rex bought a 50% stake in Sydney-based freight and charter operator Pel-Air, followed by a friendly takeover of Dubbo-based Air Link in November. Both continue to operate as independent entities. But they give the group greater purchasing power, while also helping to spread some costs.

Nevertheless growth for growth's sake is not Lim's aim. "What I have set out to do is to make us a very good airline in the space we operate in, operationally, in terms of revenue. Growth is not our objective, excellence is."

With a behemoth like Qantas on the block, Rex cannot afford to relax. On the

**'Growth is not our objective,
excellence is.'**

Lim Kim Hai
Executive chairman
Regional Express

few routes they compete directly, Rex tries to price 8% to 10% below Qantas. It also aims to build loyalty, especially with its business passengers, through a strong commitment to reliability. Lim claims a cancellation rate of 0.1%. He would rather operate a flight with only a few seats sold than cancel.

"The reason we entered Australia was because we perceived an unfair advantage. Ansett had collapsed. The government was anxious to salvage at least a small part of that, offering various benefits and advantages. Here were basically two airlines [Hazelton and Kendell], with 30 and 15 years experience, which were proven and reasonably profitable before they joined Ansett," he said.

But there were also a lot of hidden problems that only began to surface later, forcing Lim to step out of semi-retirement and into the driving seat in 2003. "I tried as quickly as possible to identify the most critical areas. When the boss himself becomes intimately involved in the details, the resistance managers put up will go away very quickly. The managers are very adept at giving you reasons why you cannot do things," he said.

Lim is unimpressed with the Australian industry's managerial corps, which he describes as "mediocre" at best. Commercial acumen is in short supply, he added.

"The long-term solution is to bring in newer managers who have a more corporate or commercial view of things and then wait for them to pick up enough experience to take over from the managers holding back progress. It will give you very good results if you can take the time and discipline to go through [with it]," he said.

To cut through internal politics and show managers they can do better, Lim looks closely at the details to understand even minor aspects of the company's business and discover better ways of doing things that often save money and add value.

For example, he expects to save a few hundred thousand dollars a year by ordering uniforms from China. But that saving has to be earned by spending time and money visiting factories, checking samples for poor cutting or stitching and ensuring uniforms fit properly.

"We have a productivity committee, not

'They are small ones, I can't remember their names, I'm not passionate about planes'

Lim Kim Hai

a cost-cutting committee. We usually have around 20 company-wide initiatives ongoing at any one time. No departmental manager can block these," said Lim.

As an engineer, working with underwater weapons for Singapore's Ministry of Defence for a decade, he feels at home with details. Partner Lee takes care of the fuzzy things. "I'm a more disciplined, organised, details person. He is not very detailed, but good with the intangible aspects of things," said Lim.

Lim is not eager for any more airline ventures, whether in Australia or closer to home.

"I would never want to do anything in this part of the world, Southeast Asia, East Asia. The regional politics make it very difficult for an independent carrier to succeed. It is not my business philosophy to do something that everybody else is chasing. If everybody

else is chasing something it is probably the worse business to be in," he said.

Not that Lim, whose other interests include property, biotech and online gaming, is desperate to bail out of Rex, despite the bumpy ride. He clearly enjoys the challenge, one he feels is not yet over. "I am passionate about doing a good job and passionate about completing a job," he said.

He refuses to exit his investment until he is sure the carrier's future is secure. His focus will remain on improving the commercial aspects. Replacing the fleet is not high on the agenda. In fact, he is hard pressed to recall exactly what aircraft the airline operates.

"They are small ones, I can't remember their names, I'm not passionate about planes," he said.

For the record Rex operates 26 Saab 340s and three Metro 23s on 33 regional routes in southeastern Australia from Sydney, Melbourne and Adelaide.

"I think we will do what makes sense. For the time being there is not a compelling case for regional jets in the space we operate," added Lim. ■



Just ask Qantas

Qantas Airways has marked a new era in regional air travel with the start of deliveries of seven new Bombardier Q400 turboprops. As the world's most technologically advanced turboprop, the Q400 provides the lowest operating costs of any regional aircraft plus superior passenger comfort and unparalleled jet-like speed. No wonder Qantas, one of the world's leading airlines, selected the Q400 for its regional airline QantasLink. www.Q400.com

QSERIES
turboProfits

BOMBARDIER