

# From near-crash to a regional success story

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REGIONAL Express executive chairman Lim Kim Hai is the first to admit he had no idea what he was getting into when he came down to Australia almost a decade ago to see whether he could fix a loss-making airline.

The fledgling Rex was an amalgam of Ansett subsidiaries Kendell and Hazelton airlines that had been put together by enterprising staff from the wreckage of the parent company.

Original chief executive Michael Jones formed Australia-wide Airlines to get the airlines operational again and months of work paid off when the newly named Rex took to the air in August 2002.

The airline launched in a blaze of optimism but a difficult economy, and by the time founding shareholders Mr Lim and partner Lee Thian Soo stepped in the following year, it had lost \$30 million in 11 months on turnover of \$80m.

Mr Lim had made what he thought would be a passive investment in the airline, with no previous experience in aviation, after seeing a business model that looked good on paper. The Singaporeans quickly determined the airline was headed for disaster and resigned from the board in early 2003, before being convinced by minority shareholders to return later that year.

Mr Lim admits he had no idea of the difficulties and complexity of an often brutal industry.

"I think we can sum it by two phrases: I was stupid and I was naive," he recalled recently. "I didn't know at all how treacherous aviation is and I thought it was just another business."

He flew down to Australia in June 2003 to make a life-and-death assessment about whether Rex's investors would take a more hands-on approach to running the company or simply walk away.

"What I found, of course, was that financially it was not good, it was losing \$2m to \$3m a month, so it was bleeding quite heavily," he said.

"What I also saw was the operations part of it was not too bad.

"We had about 50,000 flights a year, about 1000 flights every week, taking off relatively punctually. So things were operating

## The operations part of it was not too bad

LIM KIM HAI  
REX EXECUTIVE CHAIRMAN

fairly well, except it was not making money — the important part of the equation was missing but all the other parts were relatively in an OK condition."

The Singaporean businessman was astute enough to realise that to build up an airline up from scratch to the position Rex had reached would be extremely difficult and he was impressed by the passion of the staff.

He decided with Mr Lee to invest money and give it a try.

"Nobody else wanted to put money into this airline so we had to dig deep into our pockets," he said. "I told all of our shareholders, since we are funding the operations from now on, even though we are non-aviation people, we'll run it our way and run it like how we would run any business, with a lot of business common sense."

The turning point came in the second financial year when Rex made a small profit of \$1m and

demonstrated that it could work.

For Mr Lim it was a steep learning curve in what he believes is one of the most complex industries in the world.

"Running a successful airline, it's not just about two or three brilliant strategies or ideas," he said. "It really is the grind of getting thousands of things right, one at a time.

"It's the grind of just keep going, keep improving and keep fixing things that are not going too well.

"And eventually you see the light if you have the time to spare and the circumstances allow you."

Move on a decade, and Rex last weekend celebrated its 10th birthday in Wagga Wagga as Australia's biggest independent regional airline, with a fleet of more than 40 Saab 340 aircraft operating about 1300 weekly flights to 35 destinations in five states.

It has become a diverse group after absorbing air freight and charter operator Pel-Air Aviation and Dubbo-based regional airline Air Link, and has its own pilot school, the Australian Airline Pilot Academy.

Its \$25.5m annual net profit last financial year was bigger than the net results at either Virgin Australia or Qantas, and it was 45 per cent higher than the previous year.

Pre-tax profit rose 45.6 per cent to a record \$35.1m as the group benefited from a Victorian air ambulance contract held by subsidiary Pel-Air and increased fly-in, fly-out work at Air Link.

Rex also stood out from the pack by declaring a fully franked dividend of 9c a share as total revenue increased 14.5 per cent to \$273.1m against a 14.4 per cent increase in fuel costs and a 10.7 per cent rise in other costs.

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Lim Kim Hai learned the hard way that aviation is different from other businesses

SAM MOOY

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The group is debt-free apart from project financing for the Victorian air ambulance contract, and boosted cash held from \$19m at the end of fiscal 2011 to \$43.3m. It also put to bed 18 months of industrial negotiations to reach enterprise agreements with all employees.

As deputy chairman John Sharp said last week, it was a decade that had not been without challenges but had delivered "fantastic outcomes" for employees, in terms of continued jobs, and the communities Rex serviced.

But passenger numbers continued to decline, down 2.6 per cent to 1.17 million, and load factors fell marginally to 59.6 per cent.

Mr Lim attributes this to economic conditions and changed operating environment.

He said some discretionary travel had been reduced and business travel had also been affected as companies tightened their belts and turned to alternatives such as videoconferencing.

"So I don't see a general structural change as far as Rex is concerned. It's just a reaction to the economic conditions, a reaction to increased fares because of the more expensive operating environment," he said.

Nonetheless, Mr Lim is pessimistic about the future.

Rex is one of the few airlines to give a profit guidance and has warned that deteriorating economic conditions and continued high fuel prices will slash the current financial year's pre-tax profit by 15-25 per cent.

Mr Lim is a vocal critic of the "triple whammy" of the carbon tax, additional security charges and the removal of en-route rebates, which he estimates will rip about \$4m from the airline's bottom line.

He does not expect Rex to be caught up in the fight between Qantas and Virgin, although he sees that as developing into "quite a bloodbath" as Virgin gathers strength and Tiger Australia continues to expand.

But it is the economic "perfect storm" that worries him the most.

"I am personally extremely pessimistic about the global economic situation given that all the economic powerhouses — China, Japan, Europe and the US — do not seem to have any silver lining," Mr Lim said.

"And I personally think this time round it's going to be worse than 2008 when we had the global financial crisis.

"In 2008, it was crisis of the banks and all the governments in the world were united in stepping in and inflating the economies to overcome this very sharp crisis. But this time around, it's the governments that are in trouble and they are faced with a situation where I find it very hard to see a good outcome.

"They know that they have to be fiscally disciplined, they want to do the right thing, they want to be responsible and yet many of the countries are in such a bad shape that the people cannot take any more pain and they will revolt if governments become more and more tough."

Mr Lim has also been closely watching the situation in China and its impact on the mining sector.

"We see now from so many of the indicators that China is really slowing down quite rapidly," he said. "In fact, the GDP numbers that have been bounced around from China do not tell the whole story. We still see about 7 per cent and we think 7 per cent is good but, in fact, if we study carefully the 7 per cent is mainly in the housing and construction (sectors). If you look at manufacturing and export, it is probably flat."

Mr Lim says the decision by

Rex to diversify its activities through Pel-Air and Dubbo-based regional carrier AirLink will help it weather the storm.

He also sees some advantage for the carrier in that miners tend to downsize aircraft in bad times to the kind of planes it operates.

In addition to its traditional regular public transport operations, Rex also has an air ambulance contract with the Victorian government, fly-in, fly-out operations that are "still a very good business for us", some dedicated freight work, a flying school and a defence business.

Mr Lim sees the Australian Airline Pilot Academy, set up after the pilot shortage before the GFC and which also trains overseas cadets, as a key ingredient for the airline's long-term survival because of its ability to supply a constant stream of captains that will "future-proof" the airline.

"We are actually fairly diverse in our activities, probably the most diverse aviation group in Australia, even though we are doing it on a very small scale," he said. "I've been careful to ensure that in everything we do we leverage off what we think is our core competence.

"And we define our core competence as our ability to do aviation, especially regional aviation, in a very safe and organised manner."

That reputation took a battering in 2009 with the ditching of a Pel-Air Westwind jet conducting a medical evacuation flight off Norfolk Island after it ran out of fuel. While a report found that the flight crew made mistakes, *Four Corners* this week revealed a previously unpublished Civil Aviation Safety Authority special audit that uncovered more than 30 breaches at Pel-Air.

The airline voluntarily grounded its Westwind fleet, but CASA put restrictions on its licence that it had to work through in stages before being allowed to return to full operational status.

Mr Lim said the airline had used the incident as an opportunity to improve itself and to introduce better safety systems and standards across all its business units.

He said a panel to oversee safety compliance would be too big for the company and would equate to 300 people if extrapolated to an airline the size of Qantas.

"It's an incident that happened," he said. "We have to live with the consequences, we have to live with the criticisms.

But we think that we have actually changed tremendously, not only in Pel-Air but right across the group — ambulance, defence (support) and the school as well. The standards have all moved up towards the airline standards."

The airline's ageing fleet is an issue. Mr Lim said about half the fleet was third-generation Saabs, which had a lifespan of 15 years, and the others probably had about 10-15 years.

He said it would probably come down to two options — older versions of planes that were still readily available and well supported, or a potential new turboprop with next-generation technology.

"The reason why we do not want to move away from the Saab is that even with Dash 8s and the ATR the technology is not much of an improvement over our Saabs," he said.

"So we are really going into something that is newer but not better and to us it doesn't make sense.

"But if in the next 10 years there is a manufacturer that does something that is a quantum leap in technology and presents a lot of technical and economic advantage, then we could move into the new fleet type."