Best Under A Billion

The Savior From Singapore

With a gimlet-eyed obsession with costs, LIM KIM HAI put troubled Australian airline Rex on a flight path to profits. By Lucinda Schmidt

Hard-nosed: "I look at everything from a business perspective."

THERE ARE EXECUTIVE CHAIRMEN—AND THEN THERE is Lim Kim Hai. He works from an office in Singapore, spending at least 12 hours a day poring over the tiniest details of his company. But the company, Australian regional airline operator Rex, is headquartered in faraway Sydney and doesn't operate outside of Australia. If it's not exactly management by remote control, it's certainly management by e-mail: He sends 80 Rex-related messages a day and receives 250. "It is very intensive," he says. Every three months he flies to Sydney for a week of back-to-back meetings until the wee hours of each morning. "You have to be a bit more disciplined, but it's a very effective way of running the company," he explains.

Under his stewardship, Rex—short for Regional Express Holdings—has survived two near-death experiences and now flies more than 1 million passengers a year on 35 routes. Its bread and butter is ferrying businesspeople from small regional centers such as Bathurst and Broken Hill to Australia's big cities for meetings. And, even better, on 28 of those routes there are no competitors. For the year ended June 30 the company expected a net profit of close to last year's $20 million. In comparison, budget airline Virgin Blue, more than ten times as big as Rex, recently downgraded its net profit estimate to between $17 million and $35 million. Rex's revenue, however, was expected to slip from last year's $202 million; for the first nine months of the fiscal year revenue was down 11%. Rex is one of 18 Australian companies on the FORBES ASIA list of the Best 200 Companies in the region with annual revenue of under $1 billion.

Just how Rex has managed to maintain profits in one of the toughest global aviation markets in decades—and during a five-year drought that has crippled many of its small-town customers—has a lot to do with the steely determination of Lim. He owns 65% of the publicly listed Rex with his business partner, Lee Thian Soo, their spouses and others.

The secret, says Lim, 53, a trained defense engineer who is also executive chairman of Singapore biomedical company Lynk Biotechnologies, is hundreds of changes forced through by the ominously named "Productivity Committee," which he heads. "I am a very hard-nosed businessman, and I look at everything from a business perspective," he says, adding that having no previous aviation experience is an advantage because he wouldn't be held hostage by managers who insisted this was the way things had always been done.

Here's an example. When Lim took control of Rex in 2003 the airline wasn't collecting excess baggage charges. It took him almost two years to persuade Rex staff that collecting the fee would not cause huge queues and disrupt the airline's flight schedule. Today, he says proudly, excess baggage fees account for more than $1 million in revenue each year—and passengers have an incentive to pack light. "So a trivial reform like that has a big impact," he says. "Multiply that example by 100 or 1,000, and that's what I have done to change Rex."

At first Lim got push-back on pretty much everything, but he usually got his way. Of the 27 senior managers in the head office when he took over, only 4 remained a year later. "Every single cent in the company comes from us," he says. "We have an absolute right to carry out the business the way we see fit."

"He grabbed Rex by the scruff of the neck and applied some really strict financial measures to it," says aviation analyst Peter Harbison, of the Centre for Asia Pacific Aviation in Sydney. "It's all down to Kim Hai—he is brutally business-oriented, and sadly most people in the airline industry are not. They think it's about flying planes; it's not. It's about making money."

A key to Rex's success, says Harbison, is its fleet of 50 Saab 340 turboprop planes. They're all more than 12 years old and not worth much on paper, having been written down on the books to zero—so even when they're sitting idle on the ground they don't cost much. "A nice shiny new jet ties up $30 million to $40 million," he says, but adds that Rex's aging fleet is also a negative because it will eventually have to be replaced. It also means that Rex has almost no debt, one reason, says Lim, that the airline has weathered the global financial crisis better than most.

The small 34-seat planes allow Rex to deliver what their business customers demand above all else: frequency. Its 270 pilots handle 1,300 flights a week, mainly trips of roughly an hour. Rather than one or two flights a day in a 50- or 70-seat plane, Rex will schedule several daily flights—including an early-morning one for business commuters. "The worst thing you can do in a regional port is have one flight leaving in the middle of the day," says Jim Davis, Rex's managing director, adding that Rex keeps at least one plane overnight at most of the airports it flies to so it's ready for an early departure. Once a flight has a regular load factor of 70%, Rex will schedule another one. "We get a bit of pain, the load factor drops, but then it gradually builds up on both flights," says Davis, an ex-pilot who worked his way up the management ranks at Rex and now oversees the operations and safety side of the business out of Sydney.

Over the past seven years that steady strategy has allowed Rex to double its passenger numbers. It also lowered its fares to generate volume—though as Lim points out, its fares are generally higher than international airlines on a price-per-kilometer-flown basis.

It's not a bad effort for an airline that rose from the ashes of Ansett Airlines, which collapsed in September 2001. Ansett owned two regional airlines, Hazelton and Kendell, both with decades of history before Ansett bought them. When investment bankers came through Singapore hawking Ansett's assets, Lim and his co-investors snapped up 32% of Kendell/Hazelton and merged them to form Regional Express Holdings in August 2002. "We enjoy sometimes going against the trend," says Lim, noting that Australian investors were spooked by the Ansett collapse, creating an overly negative environment and fire sale prices, and the Australian government was offering incentives to keep the airlines afloat. His plan was for Rex to be a passive investment to fund his semiretirement.

Less than a year later Rex had run out of money and the board asked Lim and his partners to cough up another $10 million in exchange for full control. If that sounds like throwing good money after bad, Lim says that's not how he saw it. "We considered our original investment [he won't disclose the amount] to be completely lost, so we looked at this as a fresh investment." Also, the airline was operationally sound, making 50,000 flights a year across four states; NSW, Victoria, South Australia and Tasmania.

The real problem, Lim realized, lay in wasteful management—and that he could fix. Gradually, he combed through every facet of the business, cutting fat. Pilots were asked to buy as much aviation fuel as possible in capital cities rather than in more expensive regional airports, and had their fuel purchases audited. In the first year, Rex's fuel bill dropped $100,000. Instead of a sandwich, a slice of cake and a drink, passengers now get a hot drink and a small snack—reducing catering costs from $6 a person to $1.70. (Lim thought about cutting out the drink, says Davis, "but country people really like a cup of tea.")

By 2004 the previous year's $23 million loss had turned into a small profit. In late 2005 it listed on the Australian stock exchange (the $1 shares are now trading around $1.05). But in 2007 came a second near-death experience—or third if you count the Ansett collapse. Faced with an acute pilot shortage in Australia, pilots for smaller airlines such as Rex grabbed higher-paid jobs at bigger competitors, such as Qantas' rapidly expanding budget airline, Jetstar. Over 2007–08 Rex lost half its pilots. "Rex was almost destroyed; it was a horrible experience, a nightmare for us," says Lim, who immediately started plans for a company-owned pilot-training scheme—complete with golden handcuffs to make sure the trainees stay with Rex for at least six years. In May of this year Rex launched its Australian Airline Pilot Academy in Wagga Wagga, southwest of Sydney. As well as training 20 pilots a year for Rex, the plan is to offer places to another 170 foreign cadets, mainly from China and India.

Rex is broadening beyond passenger airline services in other ways, too. Its Pel-Air subsidiary recently won a ten-year contract to run the Victorian government's air ambulance service. Pel-Air also has a lucrative contract with the Royal Australian Air Force. And last year Rex expanded into a fifth state, Queensland, with charter services for a mining company and regular passenger services—business it hopes to expand in Queensland and South Australia.

Despite speculation that Lim wants to sell some of his shares, he says he has no plans to exit. "If I exit, I need to know where I'm reinvesting—and there isn't a better place than Rex," he says. "I know all the risks, and to me it looks like a good business proposition." F

ACTIVE INVESTOR
Lim Kim Hai

ROSLAN RAHMAN / AFP / GETTY IMAGES

HOLDINGS: Besides Rex, owns most of Lynk Biotechnologies and 30% of mobile games supplier WooWorld, both in Singapore.

CAREER PATH: Defense engineer for ten years, specializing in underwater warfare, and then started a business consultancy.

CAUTION: "The airline industry should not exist. The risk/reward ratio is wrong—a huge capital investment for low returns, with huge fluctuations of risk. I've made money, but I wouldn't invest in any other airline."