

Source: The Rivkin Report, 29 Oct 07.

REGIONAL EXPRESS – RUNNING THE GAUNTLET

If there is one sector that gets beaten up by stronger oil prices it is airlines and REX is no exception, especially given it has hedging strategies in place that limit the positive impact of the stronger AUD\$.

In response to the sky rocketing oil price, REX has taken the lead within the Australian airline sector and increased its fuel surcharge. This allows the airline to pass on higher fuel prices transparently, without changing its ticket prices. The fuel surcharge will increase from \$24 to \$27 per ticket.

When announcing the change, REX pointed out that its average ticket price (including fuel surcharge) is still 15% below levels of 5 years ago. Now that is impressive management of costs.

The REX share price has been labouring under the weight of the strong oil price but the business should be fine, it has solid management, no debt and the industry remains in consolidation mode with REX an obvious target or predator.

Subscribers should own this one anywhere from \$2 to \$2.60 so a broad range. As we write the stock is \$2.50 (ex its recent 6c div), the short term outlook remains uncertain while the medium term still looks positive.

REX remains a buy/hold at the current \$2.50 level.

The Rivkin Report investment Team