Rex on a roll

Singaporean businessman, Lim Kim Hai, was a rookie airline boss when he and his partner, Lee Thian Soo, took over Australian regional carrier, Rex, in 2003. But in a year his hands-on style transformed a basket case into a profitable airline that can't get its hands on aircraft fast enough. Working outside the industry was the key to his success, he told CHARLES ANDERSON

Rex: a 50% increase in profit expected for 2006-07

As domestic outfits continue to fall by the wayside in Australia, Regional Express (Rex) is consolidating its position as the country's largest independent regional airline with an ambitious fleet renewal exercise that also gives it the flexibility to expand as opportunities arise.

Rex, formed through the amalgamation of the Hazelton and Kendell regional carriers soon after the collapse of their parent, the Ansett Group, in 2002, has snapped up the leases on 25 Saab 340Bs being freed by American Airlines' affiliate, American Eagle.

The aircraft, the only 340Bs on the market at the time of the signing, will arrive via Saab Leasing over the next three years. They will either replace the carrier's older Saab 340As or be used in addition to aircraft in its current 32-strong Saab fleet, depending on the demand for extra frequencies on current routes or the need to launch new ones.

The deal, which follows the acquisition of another six 340Bs earlier in 2006, will also make Rex one of the largest Saab operators in the world.

"Currently, we cannot get enough new Saabs into our fleet fast enough. Being able to upsize our fleet this way offers us a huge opportunity," said executive chairman, Singaporean Lim Kim Hai.

It also fits into the philosophy that has led to a continuing turnaround in profit at Rex since Lim and his fellow Lion City investor, Lee Thian Soo, took over hands-on management in 2003.

Their intervention followed a disastrous first year when, as passive investors, they saw the newly-formed carrier lose A$30 million (US$23.5 million). That was turned into a A$1 million profit in 2003-04 after Lim sacked the board and began looking at the nitty-gritty side of the business himself, cutting staff from 1,000 to 600 and introducing new operational efficiencies.

An A$7 million profit followed in 2004-05, increasing to A$15 million in 2005-06, alongside a successful public listing that year. He expects a 50% year-on-year increase for the financial year ending this June.

Lim said his company relies on cash to fund expansion and has no debt. His aim is to squeeze the best results possible out of existing operations before considering expanding into new routes, although he

The Lim philosophy

Lim Kim Hai is no fan of the way some airlines conduct their business, claiming that his experience operating outside the industry was key to turning Regional Express from a basket case into a profitable venture. And he has harsh words for those at the top elsewhere who, he claimed, let their egos rule their actions.

Rex executive chairman, Lim Kim Hai: had to re-invent 'hundreds of things'

"We looked at it like a business," said Lim, talking of the changes he made when taking over the running of Rex. "But traditional managers, with 10 or 20 years' experience in aviation, they looked at it like an airline. That's why there was no way a traditional manager was able to make it a success.

"I had to go in and re-invent hundreds of things and I would say 'why do I have to do this? Can't you guys who have been here for the last 30 years, see it?' That tells you how hard it is to do something new when you are so deeply ingrained.

"You will find, invariably, that a lot of [today's] airline success stories come from people who have not been in the airline business."

He also accused some airline bosses of having big egos. "They like to play with big toys, nice big planes," he said.

"Those are the two things that destroy airlines: people with big egos and the mind-set of traditional managers."

admits Rex, which currently operates some 1,200 flights a week to regional destinations surrounding Sydney, Melbourne and Perth, is considering a move into southern Queensland. Typically, Rex operates on one and half hour sectors.

"We are not really focused like a traditional airline which always thinks about growth. They can go too fast," said Lim, who came out of semi-retirement to add aviation to a list of investments, which includes interests in biotech and property companies.

"We want to be flexible, but you need a good organisation to scale up quickly, be it through pilots, mechanics or even planes."

Rex owns 15 of its aircraft outright and, with A$20 million in the bank, is able to move quickly. "There are times we decide we need a plane, we go and inspect it, pay cash and one month later the plane is in the country," said Lim.

It is also funding the remaining 50% buy-out of Pelair, a Sydney-based freight and charter operator, with cash. Rex bought another 25% in January and will pay for the final quarter this November. Pelair's operations, usually utilising Metro Fairchilds – some of which came from Rex – to carry cargo at night, are seen as complementary to Rex's main services. Rex also owns Air Link, a one-time small competitor operating out of Dubbo in New South Wales, again using Metros.

'We are not really focused like a traditional airline which always thinks about growth. They can grow too fast'
Lim Kim Hai

Load factors on Rex's 30-plus routes to towns typically with populations of 10,000 to 25,000 are targeted at between 65% to 70%. Extra capacity is brought in when they increase beyond that, through the addition of frequencies, but fares are also kept down to help fill the extra seats.

"We are not focused on growth, we are focused on profitability. We want an airline that is extremely profitable on margins. Our margins on revenues exceed 10% and very few airlines in the world can claim that," said Lim, whose airline has been flying for 15 years in its current and former guises.

Nor has fuel been hedged. Following Qantas's lead on fuel surcharges has proved sufficient. "Our experience has shown us that because we are so efficient in our fuel use, even today our fuel bill is only 20% of our overall costs," said Lim.

Rex's main competition comes from Qantas Airways' regional offshoot QantasLink, but that now only occurs on a handful of main routes as Qantas slowly withdraws from commuter services.

"We are in a quasi-monopolistic situation. But we don't operate like a monopoly. We do the opposite of what any monopoly would do," said Lim.

Lim was talking soon after the closure of Big Sky Express, the New South Wales operator, after safety concerns also grounded Transair, the Brisbane carrier that supplied Big Sky's Metros. That leaves Fokker operator, Skywest, in Perth, Macair which bases Saabs and Metros in Townsville, Cairns and Brisbane and Airnorth which recently announced plans to add an Embraer 190 jet to its mixed turbo fleet in Darwin, as the other carriers with some regional clout.

The Rex chairman sees further rationalisation as QantasLink slims its operations, leaving only a couple of major regional operators. "Regional aviation in Australia is untenable. Hardly anybody can make money. The small ones will just drop off. Qantas will also continue the withdrawal they have already started. Their cost base is very high," he said.

And when QantasLink does leave the scene, it can be to the advantage of the community, Lim argued, because rival frequencies in the same time slots can be changed to a greater number spread throughout the day by a single carrier.

Lim's staff field many calls from towns and cities hoping for an air link in a country where settlements are often far apart. "We have increased frequencies and, yes, we will expand. But we are always very conservative. So we will expand slowly and carefully."

Commuter boss calls for merger

Hong Kong Airlines and Hong Kong Express are each adding between four and six B737-800s this year as they phase out smaller commuter aircraft and beef up operations to mainland China and elsewhere.

The aircraft are arriving on lease arrangements organized through Hainan Airlines Group (HNA), which took a 45% share in each carrier last year. Hong Kong Airlines, the former CR Airways, already has four B737s on its books and has applied for rights to a further 15 to 20 Mainland and Southeast Asian destinations.

It is also considering adding Beijing and Shanghai to its roster, putting it in direct competition with Hong Kong giants Dragonair, which serves both cities, and Cathay Pacific Airways, which started passenger services to Shanghai in December. Hong Kong Airlines already flies to seven secondary Chinese cities and, according to local media reports, has plans for a 30 to 50-strong fleet within five years.

HNA, which late last year ordered 100 Embraer commuter jets for its own use on Mainland domestic routes, bought its stake in the then CR Airways from Robert Yip, who founded the carrier in 2001 with a single helicopter and later began Mainland services using 50-seat CRJ200s. The remaining 55% of Hong Kong Airlines is now held by local investor, Mung Kin Keung.

Hong Kong Airlines and Hong Kong Express are seen as rivals in the short-haul, Hong Kong to China business, even though they have rights to different cities. And Hong Kong Express founder and managing director, Andrew Tse, admits that having the same shareholder has caused some confusion in the marketplace.

"There's an obvious problem here," he told *Orient Aviation*. "Two subsidiaries are offering a similar product. If we combined, we could offer a single product that would be better. But it's beyond my jurisdiction. As a shareholder I would like to see a merger as a matter of synergy."

Hong Kong Express's first B737 was being re-painted at press time in the carrier's new livery, which was due to be unveiled at the end of January. Its four Embraer 170s will be phased out by the end of the year.

Traffic rights to further Chinese cities are being sought – it currently flies to four and has rights to a number of others. Tse also is keen to access Okinawa in Japan and turn the carrier's daily charter to Taichung in Taiwan into a scheduled service.