

REX POSTS FIRST HALF LOSS DUE TO IMPAIRMENT CHARGES

News / Airlines, Finance



Regional Express (Rex) has swung to a rare first half loss due to impairment charges relating to the end of a Defence contract.

The company reported a statutory net loss of \$11.4 million for the six months to December 31 2015, compared with net profit of \$3.9 million in the prior corresponding period. Rex said in a statement on Wednesday it was the airline group's first statutory net loss since 2002/03.

The statutory result was impacted by impairment charges totalling \$18.1 million, comprising \$6.6 million for goodwill and \$6.8 million for assets relating to the end of a contract with the Navy and RAAF at Nowra held by its Pel-Air subsidiary.

"That tender has now ceased on October the first of last year," Rex deputy chairman John Sharp said during Rex's first half results presentation in Sydney on Wednesday.

"So therefore the goodwill value in that tender has now been accounted for on the books and similarly the impact of asset impairment is caused by the same event, the cessation of the contract."

There was also \$4.7 million negative adjustment for the company's fuel hedging program.

Absent those impairment items, Rex achieved an operating profit after tax of \$3.3 million for the

half, down from \$3.9 million in the prior year.

Passenger numbers rose 0.7 per cent to 550,323, while capacity measured by available seat kilometres (ASK) rose 1.7 per cent in the half.

Load factors were up 0.2 percentage points to 54.8 per cent. The average Rex fare rose to \$205.70, from \$194.90 in the prior corresponding half.

In terms of the outlook, Sharp said conditions were likely to remain subdued in the period ahead.

“Underlying business passenger demand expected to continue to soften due to negative impact of plunging oil prices and continued China weakness,” Sharp said.

“The mining industry for example is slowing down dramatically. We are affected by that. A number of the towns and communities that we service have a mining component to them and the passenger numbers have declined there as a consequence of that.

“We anticipate that to continue.”

The company expected the net outcome of the negative impact from the sluggish business conditions and positive impact from the start of WA regulated routes and the recently signed contract between Rex’s pilot academy and Vietnam Airlines to be “neutral to underlying profits in the second half of the year”.

And with some regional markets struggling, Rex executive chairman Lim Kim Hai said the company was open to expanding through acquisition, such as the recent decision to buy an aircraft paintshop in Wagga Wagga.

“Regional airline business in Australia is also facing quite a bit of challenges. A lot of them may be facing difficulty so if it makes sense in the type of operations that we do, we will not rule out to either merge or acquire other airlines,” Lim said.

Rex’s new Western Australia services from Perth to Albany and Esperance are due to begin on Sunday. The airline won the tender to operate those two routes from the WA government. Current operator Virgin Australia Regional Airlines chose not to bid to keep flying those two routes.

Sharp said the new flights to the two south-west WA regional centres were expected to boost Rex’s passenger numbers by about 10 per cent and would hopefully be the first of several new routes in the state.

“More importantly again it would also represent a launchpad for Rex into Western Australia and Western Australia is, along with Queensland the two great natural regional airline states in Australia,” he said.

“We are very excited about this. It will bring a large boost to our passengers and we anticipate a boost to our profits in the course of a full year of operations.”

Rex has based three Saab 340s in WA for the start of the government-regulated routes.

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