COMPANY UPDATE

Rex International Holding (REXI SP)

Yumna Oil Field Remains Problematic

Twelve months after new oil production facilities were installed at the Yumna oil field offshore Oman (which is Rex's major cash cow), production has yet to regain the highs seen in 2021. Instead, production remains stubbornly at 50% below change-out of the new facilities. As a result, even with the inclusion of the oil production assets at Brage and Yme, Rex's total production remains 31% below the levels seen two years ago. Maintain SELL. Target price: S$0.10.

WHAT'S NEW

- **Disappointing production at its key asset.** One year after the successful hook-up and commissioning of the new floating storage tanker and mobile offshore production unit (MOPU) at its key Yumna asset offshore Oman, production has continued to disappoint. Prior to the upgrades, Rex International Holding (Rex) had guided for the new facility to double its liquids processing capacity to 30,000bpd. However, ever since Jun 22, production has remained at around 4,300bpd of oil vs production of 7,500-10,600bpd in the six months prior to the change-out of the MOPU. Over the past two years, Yumna's production has declined by >60% (see chart overleaf), with the latest May 23 data showing a 10% mom decline.

- **Could excessive water production be a problem?** Rex had specified "liquids" processing capacity for its new facilities instead of oil, thus potentially indicating that Yumna's wells may be producing excessive amounts of water together with the oil. High water production is generally an indicator of a damaged reservoir, or one that is undergoing faster-than-expected depletion. Given numerous historical problems with production at Yumna (see table overleaf), we believe that there may be significant operational challenges for Rex to achieve and maintain oil production in excess of 10,000bpd, despite its claims that Yumna wells produced 20,000bpd of oil in Mar 21.

- **Third interested-party transaction (IPT) in five months.** In early-2Q23, Rex announced that it will provide US$17.6m worth of security to its 20%-owned Crescent Marine Holding Ltd (CMH) to allow for debt financing from a third party. CMH intends to purchase a second vessel that will be deployed for Rex's oil exploration and production activities, with the company stating that this will be more economically beneficial to its projects. The other two IPTs (announced in Dec 22) related to drone and medical technology were supposedly undertaken to diversify away from oil and gas. However this latest IPT is oil and gas related, which could cause some confusion in the market regarding Rex's strategy. The company has declined to provide the market with any details of the vessel at present.

KEY FINANCIALS

Year to 31 Dec (US$m)	2021	2022	2023F	2024F	2025F
Net turnover	158	170	132	99	89
EBITDA	75	10	43	23	21
Operating profit	73	8	41	22	20
Net profit (rep./act.)	67	(1)	38	22	20
Net profit (adj.)	118	55	60	39	36
EPS (US$ cent)	9.0	4.2	4.6	3.0	2.7
PE (x)	1.4	2.9	2.7	4.1	4.5
P/B (x)	0.9	0.9	0.9	0.9	0.8
EV/EBITDA (x)	2.2	16.5	3.8	7.2	8.0
Dividend yield (%)	3.0	3.0	12.0	12.0	0.0
Net margin (%)	42.4	(0.6)	28.4	22.3	22.8
Net debt/(cash) to equity (%)	(2.7)	(13.5)	(2.9)	(17.7)	(31.8)
Interest cover (x)	25.6	0.7	88.9	47.5	42.5
ROE (%)	42.8	n.a.	20.8	12.1	10.9
Consensus net profit	-	-	77	20	(11)
UOBKH/Consensus (x)	-	-	0.79	2.00	n.m.

Source: Rex International, Bloomberg, UOB Kay Hian

SELL

(Maintained)

Share Price	S$0.164
Target Price	S$0.10
Upside	-39.0%

COMPANY DESCRIPTION

Rex International Holding Limited is a production and exploration oil company with concessions in Norway and Oman.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	REXI SP
Shares issued (m):	1,302.3
Market cap (S$m):	213.6
Market cap (US$m):	159.3
3-mth avg daily t'over (US$m):	2.8

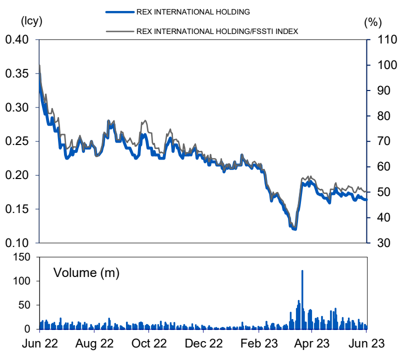
Price Performance (%)

52-week high/low S$0.350/S$0.120

1mth	3mth	6mth	1yr	YTD
(6.3)	5.1	(27.1)	(51.0)	(23.7)

Major Shareholders	%
Limea Ltd	34.7
Bevoy Investment Ltd	6.0
-	-
FY23 NAV/Share (US$)	0.14
FY23 Net Cash/Share (US$)	0.00

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **A bright spot at Brage.** In the same production update, production at Brage rose by nearly 1.5x due to the commencement of a new production well. However, production here could have been higher if not for limited gas processing facilities on the platform. Rex also disclosed that Brage's production could increase again in Sep 23 as it has plants to bring on another production well.
- **For exposure to upstream oil & gas in Singapore, we prefer RH Petrogas (BUY/Target: S$0.255).** Compared to Rex, RH Petrogas is more focused oil play as it has exposure only to onshore Indonesia, does not undertake IPTs, and more importantly has been able to demonstrate a higher level of operational excellence, having increased production at its two mature onshore oil fields in the past five years.

EARNINGS REVISION/RISK

- **No changes to core earnings forecasts.** We have adjusted our EBITDA calculations to take into account Rex's annual depletion of oil and gas properties as well as impairment losses on exploration and evaluation assets.

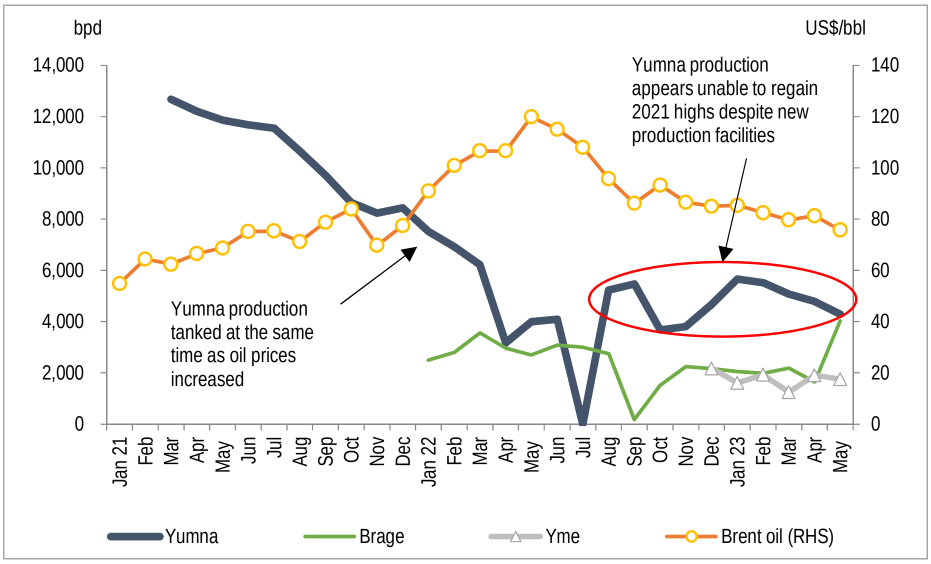
VALUATION/RECOMMENDATION

- **We retain our SELL rating with a target price of S$0.10.** While upstream oil & gas companies are traditionally valued using a discounted cash flow methodology, we have elected to use a target 0.5x P/B multiple instead due to our diminished confidence in the company's ability to execute on its oil production targets. In addition, we believe that its interested party transactions has raised corporate governance issues which we believe detracts from the company's oil assets which could – if managed properly – generate decent cash flow.
- **Some positives.** As at end-22, Rex had a net cash position of S$0.024 per share which represents around 15% of the company's current share price. In addition, the company currently trades on an EV/boe of US$16.70 per barrel, which appears attractive relative to current oil prices.

SHARE PRICE CATALYST

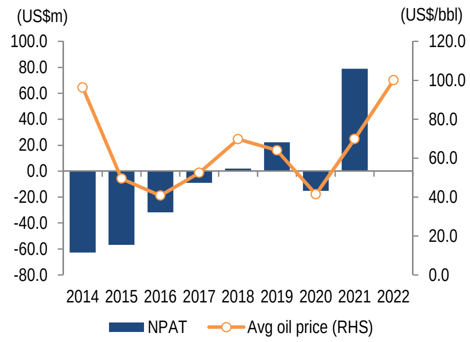
- Refraining from related-party transactions in sectors that are unrelated to oil and gas
- Better consistency and reliability in delivering oil production numbers.

MONTHLY PRODUCTION FROM REX'S THREE KEY FIELDS VS BRENT OIL PRICE



Source: Rex International

LACK OF CORRELATION BETWEEN NET PROFIT AND OIL PRICE



Note: R2 of NPAT to oil price = 0.07
Source: Rex International, Bloomberg

POOR PRODUCTION AT KEY YUMNA FIELD

Month	bopd	Mgmt commentary
Mar 21	12,672	MOPU upgraded to handle 30kbd of *liquids processing*, wells tested at 20kbd during the month
Apr	12,210	Nil
May	11,858	Nil
Jun	11,682	Nil
Jul	11,552	Nil
Aug	10,655	Production choked back: annual calibration of safety valves/upgrades to transfer pumps
Sep	9,709	Production choked back: planned maintenance & reservoir management
Oct	8,640	Production choked back: planned maintenance & reservoir management
Nov	8,234	Production choked back: planned maintenance & reservoir management
Dec	8,440	Production choked back: planned maintenance & reservoir management
Jan 22	7,518	Production choked back: planned maintenance & reservoir management
Feb	6,919	Change out of the MOPU at Yumna
Mar	6,227	Change out of the MOPU at Yumna
Apr	3,178	Change out of the MOPU at Yumna
May	4,000	No data announced for Yumna in May - production estimated by UOBKH
Jun	4,097	Replacement of flowline at Yumna
Jul	0	Change out of the MOPU at Yumna
Aug	5,236	Changed out damaged flowline at the Yumna MOPU
Sep	5,474	NA
Oct	3,678	Reduced production at Yumna due to drilling activities
Nov	3,811	Reduced production at Yumna due to drilling activities
Dec	4,673	Reduced production at Yumna due to drilling activities
Jan 23	5,664	NA
Feb	5,515	NA
Mar	5,076	NA
Apr	4,782	NA
May	4,287	NA

Note: Oil production numbers and management comments relate only to Yumna,
Source: Rex International

PROFIT & LOSS

Year to 31 Dec (US$m)	2022	2023F	2024F	2025F
Net turnover	170.3	132.0	98.5	89.2
EBITDA	10.1	43.3	23.1	20.7
Deprec. & amort.	1.7	2.2	1.4	1.1
EBIT	8.4	41.1	21.7	19.6
Total other non-operating income	(0.9)	(1.5)	(1.5)	(1.5)
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(14.0)	(0.5)	(0.5)	(0.5)
Pre-tax profit	(6.6)	39.2	19.8	17.7
Tax	7.0	7.0	7.0	7.0
Minorities	(1.4)	(8.6)	(4.7)	(4.3)
Net profit	(1.0)	37.5	22.0	20.3
Net profit (adj.)	54.8	60.5	39.4	36.1

BALANCE SHEET

Year to 31 Dec (US$m)	2022	2023F	2024F	2025F
Fixed assets	39.0	37.8	37.3	37.2
Other LT assets	397.6	384.8	375.8	367.6
Cash/ST investment	115.8	80.7	101.6	126.9
Other current assets	124.8	105.0	87.7	82.9
Total assets	677.2	608.4	602.5	614.6
ST debt	14.0	14.0	14.0	14.0
Other current liabilities	129.9	70.1	76.8	76.8
LT debt	78.0	61.4	56.2	51.0
Other LT liabilities	266.9	266.2	266.2	266.2
Shareholders' equity	176.5	184.8	177.4	194.7
Minority interest	11.9	11.9	11.9	11.9
Total liabilities & equity	677.2	608.4	602.5	614.6

CASH FLOW

Year to 31 Dec (US$m)	2022	2023F	2024F	2025F
Operating	169.6	34.6	72.9	49.8
Pre-tax profit	(6.6)	39.2	19.8	17.7
Tax	7.0	7.0	7.0	7.0
Deprec. & amort.	1.7	2.2	1.4	1.1
Associates	0.0	0.0	0.0	0.0
Working capital changes	66.2	(40.0)	24.0	4.8
Non-cash items	0.5	0.0	0.0	0.0
Other operating cashflows	100.8	26.3	20.8	19.3
Investing	(137.4)	(21.3)	(15.7)	(14.2)
Capex (growth)	(1.0)	(0.1)	(0.1)	(0.1)
Investments	(1.4)	0.0	0.0	0.0
Others	(135.0)	(21.2)	(15.6)	(14.1)
Financing	22.0	(48.3)	(36.2)	(10.3)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(50.1)	(16.6)	(5.2)	(5.2)
Others/interest paid	72.1	(31.8)	(31.0)	(5.1)
Net cash inflow (outflow)	54.1	(35.0)	20.9	25.3
Beginning cash & cash equivalent	60.6	115.8	80.7	101.6
Changes due to forex impact	1.0	0.0	0.0	0.0
Ending cash & cash equivalent	115.8	80.7	101.6	126.9

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	5.9	32.8	23.5	23.2
Pre-tax margin	(3.9)	29.7	20.1	19.8
Net margin	(0.6)	28.4	22.3	22.8
ROA	n.a.	5.8	3.6	3.3
ROE	n.a.	20.8	12.1	10.9
Growth				
Turnover	7.5	(22.5)	(25.3)	(9.5)
EBITDA	(86.5)	330.0	(46.6)	(10.5)
Pre-tax profit	(109.5)	n.a.	(49.5)	(10.8)
Net profit	(101.5)	n.a.	(41.4)	(7.7)
Net profit (adj.)	(53.6)	10.4	(34.8)	(8.2)
EPS	(53.6)	10.4	(34.8)	(8.2)
Leverage				
Debt to total capital	32.8	27.7	27.0	23.9
Debt to equity	52.1	40.8	39.5	33.4
Net debt/(cash) to equity	(13.5)	(2.9)	(17.7)	(31.8)
Interest cover (x)	0.7	88.9	47.5	42.5

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