

### COMPANY UPDATE

## Rex International Holding (REXI SP)

Expect A Spectacular Year From Favourable Oil Prices And New Oil Field

Rex's 2021 earnings are expected to reach US\$50m, vs a US\$14m loss in 2020, from much higher oil prices. Rex's US\$43m acquisition of Brage field would help boost production volumes by 3,440 bbl/day. We raise our SOTP-based target price by 53% to S\$0.46, after increasing our oil price assumption from US\$40 to US\$63/bbl and 2021 earnings by 102%. We see potential upside surprise to our forecasts given our conservative oil price assumption. Rex trades at only 4.8x 2021F PE. Maintain BUY.

### 1H21 RESULTS RECAP

Year to 31 Dec (S\$m)	1H21	2H20	1H20	Comments
Revenue (Sale of crude oil)	75.8	32.1	14.6	Supported by the doubling of oil liftings in Oman and increase in oil price.
Gross Profit	32.3	11.6	(12.4)	Maintained Oman operating costs at US\$80k/day.
EBITDA	45.6	18.3	(14.6)	
EBIT	25.8	4.8	(25.6)	1H2021 depletion of Oil&Gas properties charge at US\$19.5m
PATMI	23.9	6.8	(21.0)	Received tax credits of US\$2.5m from Norway's government.
Cash and Quoted Investments	46.2	46.3	39.2	Increase in fair value of quoted investments.

Source: Rex, UOB Kay Hian

### WHAT'S NEW

- Positive industry tailwinds and robust 1H21 earnings.** As more countries complete their vaccination mandates and reopen their economies, this should help sustain oil demand and support Brent oil price, which has increased by around 60% ytd. Rex International Holding (Rex) reported robust 1H21 results as production from Oman has ramped up, supported by a yoy increase in oil price and oil liftings. 1H21 revenue beat our expectations as averaged realised oil price sold increased to S\$62/bbl in 1H21 from S\$23/bbl in 1H20. Also, about US\$58m revenue from July and August liftings was recognised in 1H21, reflected under trade receivables. We estimate this would provide an estimated US\$40m boost to Rex's cash war chest. With two additional production wells, production volumes have increased to 11,000 bbl/day. Rex has managed to maintain consistent operating costs of US\$80,000/day throughout production even as production volumes increase, giving Rex higher operating leverage. Furthermore, Rex's 34% acquisition of the producing Brage Field is expected to add 3,440 bbl of oil to overall production volumes.

### KEY FINANCIALS

Year to 31 Dec (US\$m)	2019	2020	2021F	2022F	2023F
Net turnover	0	47	149	130	104
EBITDA	19	(19)	54	47	28
Operating profit	17	(21)	53	46	27
Net profit (rep./act.)	19	(14)	49	38	21
Net profit (adj.)	19	(14)	49	38	21
EPS (US\$ cent)	1.5	(1.1)	3.8	3.0	1.7
PE (x)	12.0	n.m.	4.8	6.1	10.9
P/B (x)	1.7	1.8	1.3	1.1	1.0
EV/EBITDA (x)	13.4	n.m.	4.6	5.4	8.9
Dividend yield (%)	0.0	0.0	0.0	0.0	5.5
Net margin (%)	n.m.	(30.5)	32.9	29.5	20.4
Net debt/(cash) to equity (%)	(4.4)	(1.9)	1.2	(25.2)	(40.7)
Interest cover (x)	27.0	(105.1)	36.1	8.7	5.4
ROE (%)	14.9	n.a.	32.3	19.6	9.5

Source: Rex, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$0.245
Target Price	S\$0.460
Upside	+87.8%
(Previous TP:	S\$0.30)

### COMPANY DESCRIPTION

Rex International Holding 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):	319.1
Market cap (US\$m):	235.1
3-mth avg daily t'over (US\$m):	3.8

### Price Performance (%)

52-week high/low S\$0.245/S\$0.131

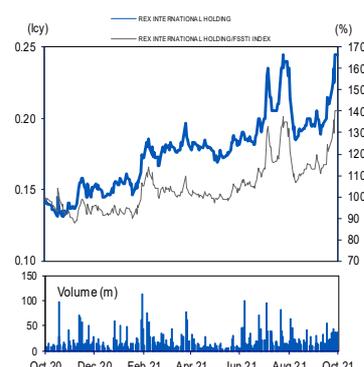
1mth	3mth	6mth	1yr	YTD
25.6	28.9	32.4	75.0	67.8

### Major Shareholders

	%
Limea Ltd (Lidgren Family)	34.7
Bevoy Investment Ltd (Kjellesvik Family)	6.0

FY21 NAV/Share (US\$)	0.14
FY21 Net Debt/Share (US\$)	0.00

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

**Llleythan Tan**  
yirong@uobkayhian.com  
+65 6590 6624

### STOCK IMPACT

- Norway poised to be the next Oman.** As production volumes from producing oil fields tend to naturally soften over time, Rex's 33.8% acquisition of producing Brage field for US\$42.6m would help boost overall production volumes by 3,440 bbl/day upon approval. In order to fund the acquisition, Rex has successfully raised a US\$60m secured bond. We expect approval to be obtained by end-Oct 21 or early-Nov 21. Once approved, the effective transaction date would be 1 Jan 21, implying that revenue generated since then would be retrospectively incorporated to Rex's overall 2021 revenue. Additionally, Rex owns interests in several discovery assets (PL1125 Falk, PL433 Fogelberg, PL838 Shrek) that may move into production in the coming years. The addition of the Brage field would add an estimated net 2P reserves of 7.3mmboe to current 2C contingent resources of 27.7mmboe from the three discovery assets. Rex has also participated in the exploratory drilling of the Fat Canyon Prospect on 29 September. If successful, it would boost Rex's Norwegian portfolio moving forward.
- Beneficial tailwinds for production than divestment.** As global economies start to reopen and oil price continues its uptrend, we reckon Rex would not divest exploration assets it did in 2019 with the US\$45m sale of the Rolvsnes discovery asset. We estimate the price per barrel sold during the Rolvsnes sale at US\$3.20-5.00/bbl. With oil price having largely recovered to near pre-COVID-19 19 levels, we reckon it would be more profitable for Rex to develop these assets into production rather than divesting them. Furthermore, Rex would receive tax rebates of 70-78% of exploration costs from the Norwegian government. Thus, based on the favourable tailwinds, we expect Rex to develop these assets further into production moving forward.
- Malaysia is next on Rex's global seismic radar.** Rex was awarded two production sharing contracts (PSC) by Petronas, Malaysia's national oil corporation. These PSCs relate to two discovered oil fields of the coast of Malaysia. The Rhu-Ara cluster contains two discovered oil fields while the Diwangsa cluster contains four discovered oil fields. We estimate the resources of both Diwangsa and Rhu-Ara to be 20-30mmboe, double the size of the Yumna oil field in Oman. Rex owns a 95% participating interest and would leverage on its experience in Oman to develop these assets into production moving forward.

### EARNINGS REVISION/RISK

- We have adjusted our revenue and net profit estimates for 2021-22 based on higher oil price assumptions.** With oil prices continuing on an uptrend, we have bumped our revenue and net profit forecasts for 2021-22, bbl/day assumptions and added our 2023 estimates. Taking a conservative approach, we have not incorporated an earnings estimate from the upcoming Brage field acquisition into our forecasts until approval.
- Our revised revenue forecasts for 2021-23 are US\$149.2m (from US\$78.6m), US\$129.9m (from US\$78.3m) and US\$104.3m respectively while PATMI is forecasted at US\$49.1m (US\$24.5m), US\$38.3m (US\$25.9m) and US\$21.3m respectively.** The increase in 2021-22 revenue is largely due to better oil prices assumptions and operating profit assumptions. Upon approval of the Brage field acquisition, we expect annual PATMI to increase by US\$20m-30m/year.

### VALUATION/RECOMMENDATION

- Maintain BUY with a higher SOTP-based target price of S\$0.46 (S\$0.30),** based on 1.0x 2021F RNAV and higher valuation of the Omani assets. We reckon re-rating catalysts would be the approval of the Brage field acquisition and successful development/drilling of the Norwegian assets.

### SHARE PRICE CATALYST

- Stronger-than-expected oil production volume from Oman and crude oil prices.
- Unlocking value from Norwegian discovery assets.
- Successful exploration drilling of the Fat Canyon Prospect.

### BLOCK 50 OMAN VALUATION

USD\$GD	1.35
SUM OF NPV (US\$,000)	357,022
Sum of NPV (SGD\$,000)	480,195
Number of shares	1,302,320
Value per share (USD\$/ Share)	0.274
Value per share (SGD\$/ Share)	0.369

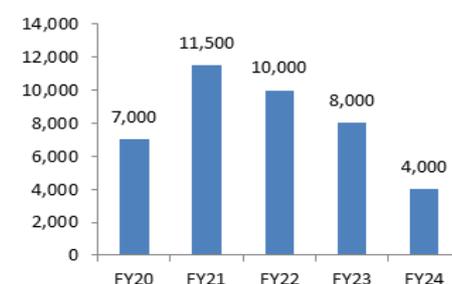
Source: UOB Kay Hian.

### BLOCK 50 OMAN ASSUMPTIONS

	2021	2022	2023
% of the block owned	86%	86%	86%
Revenue per Barrel (US\$/barrel)	63.0	63.0	63.0
Previous Revenue per Barrel (US\$/barrel)	40.0	42.0	-
Operating profit (%)	80%	77%	76%
Previous Operating profit (%)	40%	40%	-
WACC	10%	10%	10%

Source: UOB Kay Hian.

### OMAN BARRELS/DAY ASSUMPTIONS



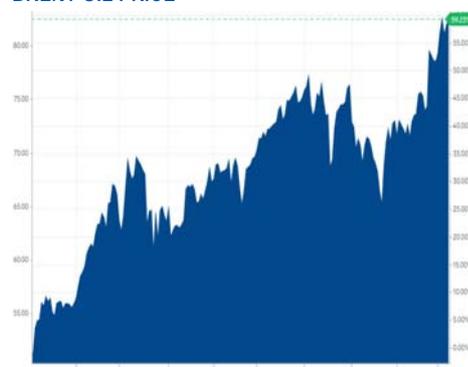
Source: UOB Kay Hian

### RNAV SOTP VALUATION

	RNAV	RNAV/Share
Block 50 Omani assets (S\$,000)	479,271	0.369
Norwegian assets (S\$,000)	51,770	0.040
Net Cash (S\$,000)	136,817	0.105
Other assets (S\$,000)	84,255	0.065
Other liabilities (S\$,000)	(152,320)	(0.117)
Net asset value (S\$,000)		0.461

Source: UOB Kay Hian

### BRENT OIL PRICE



Source: Markets Insider

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2020	2021F	2022F	2023F
<b>Net turnover</b>	<b>46.7</b>	<b>149.2</b>	<b>129.9</b>	<b>104.3</b>
EBITDA	(19.3)	54.4	46.6	28.1
Deprec. & amort.	1.5	1.2	1.1	1.0
EBIT	(20.8)	53.1	45.5	27.1
Total other non-operating income	0.9	0.9	0.9	0.9
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(0.2)	(1.5)	(5.4)	(5.2)
<b>Pre-tax profit</b>	<b>(20.1)</b>	<b>52.5</b>	<b>41.0</b>	<b>22.8</b>
Tax	4.9	0.0	0.0	0.0
Minorities	1.0	(3.4)	(2.7)	(1.5)
<b>Net profit</b>	<b>(14.2)</b>	<b>49.1</b>	<b>38.3</b>	<b>21.3</b>
Net profit (adj.)	(14.2)	49.1	38.3	21.3

### CASH FLOW

Year to 31 Dec (US\$m)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>24.2</b>	<b>70.0</b>	<b>86.2</b>	<b>68.3</b>
Pre-tax profit	(20.1)	52.5	41.0	22.8
Tax	4.9	0.0	0.0	0.0
Deprec. & amort.	1.5	1.2	1.1	1.0
Associates	0.0	0.0	0.0	0.0
Working capital changes	0.8	(22.8)	1.6	3.5
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	37.2	39.0	42.6	41.0
<b>Investing</b>	<b>(25.6)</b>	<b>(90.6)</b>	<b>(39.7)</b>	<b>(36.7)</b>
Capex (growth)	(1.3)	(0.1)	(0.1)	(0.1)
Investments	13.0	(1.5)	0.0	0.0
Others	(37.3)	(89.0)	(39.6)	(36.6)
<b>Financing</b>	<b>0.6</b>	<b>74.9</b>	<b>5.5</b>	<b>8.3</b>
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	14.4	58.8	(4.2)	(2.1)
Loan repayment	(13.4)	0.0	0.0	0.0
Others/interest paid	(0.4)	16.1	9.8	10.4
<b>Net cash inflow (outflow)</b>	<b>(0.7)</b>	<b>54.3</b>	<b>52.1</b>	<b>39.9</b>
Beginning cash & cash equivalent	21.9	20.4	74.7	126.8
Changes due to forex impact	(0.8)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>20.4</b>	<b>74.7</b>	<b>126.8</b>	<b>166.7</b>

### BALANCE SHEET

Year to 31 Dec (US\$m)	2020	2021F	2022F	2023F
<b>Fixed assets</b>	<b>32.5</b>	<b>39.0</b>	<b>42.1</b>	<b>43.6</b>
Other LT assets	79.6	101.9	82.4	63.7
Cash/ST investment	20.4	74.7	126.8	166.7
Other current assets	63.1	87.4	85.8	82.3
<b>Total assets</b>	<b>195.7</b>	<b>303.0</b>	<b>337.1</b>	<b>356.3</b>
ST debt	18.0	76.8	72.6	70.5
Other current liabilities	22.5	22.5	22.5	22.5
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	15.0	14.4	14.4	14.4
Shareholders' equity	127.5	176.6	214.9	236.3
Minority interest	12.7	12.7	12.7	12.7
<b>Total liabilities &amp; equity</b>	<b>195.7</b>	<b>303.0</b>	<b>337.1</b>	<b>356.3</b>

### KEY METRICS

Year to 31 Dec (US\$m)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	(41.4)	36.5	35.8	27.0
Pre-tax margin	(43.1)	35.2	31.6	21.9
Net margin	(30.5)	32.9	29.5	20.4
ROA	n.a.	19.7	12.0	6.1
ROE	n.a.	32.3	19.6	9.5
<b>Growth</b>				
Turnover	34,465.9	219.7	(12.9)	(19.7)
EBITDA	(203.9)	n.a.	(14.4)	(39.6)
Pre-tax profit	(229.8)	n.a.	(21.9)	(44.4)
Net profit	(173.3)	n.a.	(21.9)	(44.4)
Net profit (adj.)	(173.3)	n.a.	(21.9)	(44.4)
EPS	(173.3)	n.a.	(21.9)	(44.4)
<b>Leverage</b>				
Debt to total capital	11.4	28.9	24.2	22.1
Debt to equity	14.1	43.5	33.8	29.8
Net debt/(cash) to equity	(1.9)	1.2	(25.2)	(40.7)
Interest cover (x)	(105.1)	36.1	8.7	5.4

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