

COMPANY UPDATE

Rex International Holding (REXI SP)

Not Much To Cheer About Heading Into The Festive Season

Rex's latest production update for Oct 23 did not provide much cause for cheer due to continued travails at its Yumna Field. At present, it is shut down with no visibility as to when production can resume. The Brage Field meanwhile has brought on-stream two new wells; however, we note the lack of disclosure on production numbers. In early-Nov 23, Rex bought a 17% stake in the Brasse Field offshore Norway for an undisclosed sum. Maintain SELL. Target price: S\$0.10.

WHAT'S NEW

- Yumna still hobbling towards the company's 20,000bpd production target.** In Rex International's (Rex) latest production update for Oct 23, the company disclosed that its Yumna Field in offshore Block 50 in Oman (Rex equity stake: 91.81%) only managed an anaemic 1,304bpd of oil production, declining 20% mom and 65% yoy. The latest problem at Yumna was a production shutdown on 25 Oct 23 due to "damage to the internal pressure containing liner of the newly installed larger flowline". No guidance was given as to when the field, which produced an average of nearly 11,000bpd in 2021, would be re-started. With Yumna continuing to underperform, Rex's average production ytd stands at just over 9,000bpd and is far from its 20,000bpd target.
- Lack of disclosure continues to be an issue.** While it is positive that the company's combined production from the Brage and Yme fields in Norway exceeded 10,000bpd in the last week of Oct 23, we highlight that unlike its previous production reports, the company did not present a breakdown of production from these two fields. This may imply that the Yme field continues to experience problems given the higher-than-expected water cuts that have been reported by its operator in the past. Brage meanwhile has remained a strong performer with a new well brought on-stream in late-Oct 23 and another in early-Nov 23, and recently made a 1mmbbl discovery.
- Acquiring long-term production potential.** In early-Nov 23, Rex announced that its 91.65%-owned subsidiary Lime Petroleum will be acquiring a 17% stake in the Brasse Field located in the Norwegian sector of the North Sea. Production is expected to start in 2027 and the operator of the field has reported recoverable resources of between 21-29mmbob, of which 25-30% is gas (4mmbob net to Rex). According to Rex, it is unable to disclose the purchase price for Brasse given confidentiality issues. We have not incorporated this acquisition into our financial model given the paucity of information at present; however we note that Rex has indicated that the proximity of the Brasse field will have "significant positive synergies with Brage".

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	158	170	196	158	143
EBITDA	75	10	38	32	28
Operating profit	73	8	30	30	27
Net profit (rep./act.)	67	(1)	5	8	7
Net profit (adj.)	118	55	56	50	46
EPS (US\$ cent)	9.0	4.2	4.2	3.8	3.5
PE (x)	1.4	3.0	3.0	3.3	3.6
P/B (x)	0.9	0.9	1.0	1.1	1.0
EV/EBITDA (x)	3.2	23.4	6.2	7.5	8.5
Dividend yield (%)	2.9	2.9	11.7	11.7	0.0
Net margin (%)	42.4	(0.6)	2.3	5.3	4.8
Net debt/(cash) to equity (%)	(2.7)	(13.5)	33.8	22.7	3.0
Interest cover (x)	25.6	0.7	2.1	3.4	3.0
ROE (%)	42.8	n.a.	2.6	5.1	4.4
Consensus net profit	-	-	66	48	13
UOBKH/Consensus (x)	-	-	0.85	1.04	3.47

Source: REX International Holding, Bloomberg, UOB Kay Hian

SELL

(Maintained)

Share Price	S\$0.17
Target Price	S\$0.10
Upside	-40.8%

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):	220.1
Market cap (US\$m):	164.3
3-mth avg daily t'over (US\$m):	3.2

Price Performance (%)

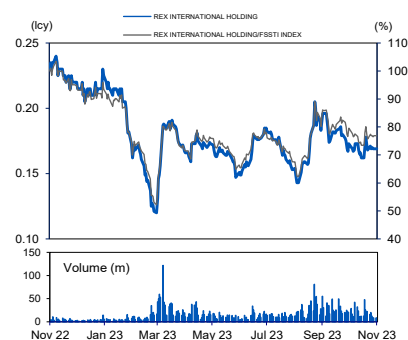
52-week high/low S\$0.240/S\$0.120

1mth	3mth	6mth	1yr	YTD
(4.5)	7.6	(1.2)	(26.5)	(21.4)

Major Shareholders

	%
Limea Ltd	34.7
Bevoy Investment Ltd	6.0
FY23 NAV/Share (US\$)	0.13
FY23 Net Debt/Share (US\$)	0.04

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Money not well spent.** Nearly 1.5 years 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 remains problematic. Prior to the upgrades, Rex had guided for the new facility to double its liquids processing capacity to 30,000bpd. However since Jun 22, production was 1,300bpd prior to the recent shutdown vs production of 7,500-10,600bpd in the six months prior to the change-out of the MOPU. We understand that this is partly attributable to the lack of availability of jack-up rigs offshore Oman to service the problematic field. With a number of Middle Eastern national oil companies having tied up such assets, and the prohibitive cost of bringing in rigs from Europe or Asia, we believe that Yumna will continue to face production issues in the near to medium term.

EARNINGS REVISION/RISK

- No changes to our earnings forecasts.** However, we highlight downside risk to earnings given the company's continued poor production performance. Higher interest expense will also hit its bottom line given that as at end-1H23, it had net debt of US\$58.7m vs net cash of US\$27.0m at end-1H22.

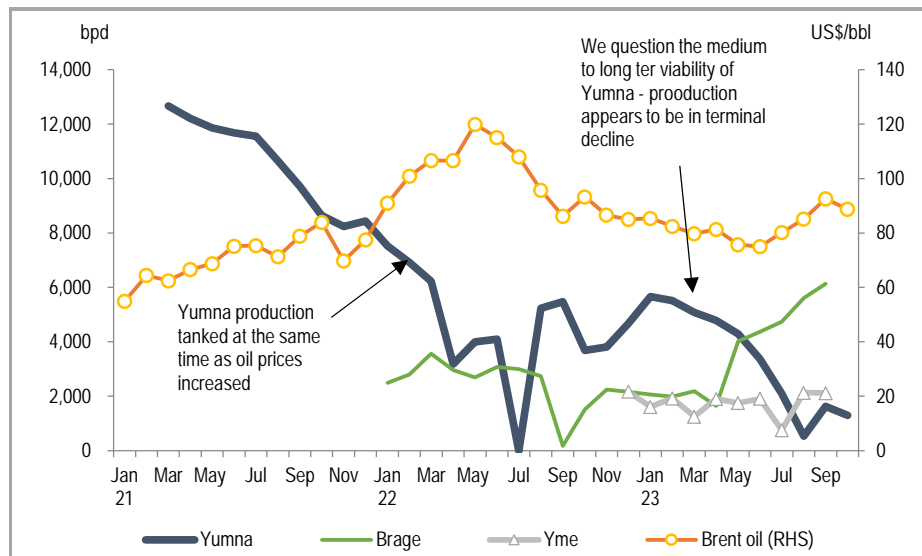
VALUATION/RECOMMENDATION

- 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. On the asset valuation side, Rex currently trades on an EV/boe of US\$16.90 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.
- Removal of the opacity surrounding its spending on M&A and capex items.

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



Note: Production data for Brage and Yme not disclosed in Oct 23
Source: Rex International

POOR PRODUCTION AT KEY YUMNA FIELD

Month	bopd	Mgmt commentary
Mar 21	12,672	MOPU upgraded to handle 30k bpd of "liquids processing", wells tested at 20k bpd 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
Jun	3,364	Yumna unplanned shutdown on 29/6/23
Jul	2,093	Yumna-3 unplanned electrical failure of ESP; Yme compressor related issues
Aug	533	Flowline issue at Yumna
Sep	1,620	NA
Oct	1,304	Flowline issue at Yumna. Well shut down from 25 Oct

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	196	158	143
EBITDA	10	38	32	28
Deprec. & amort.	2	9	1	1
EBIT	8	30	30	27
Total other non-operating income	(1)	(2)	(2)	(2)
Associate contributions	0	0	0	0
Net interest income/(expense)	(14)	(18)	(9)	(9)
Pre-tax profit	(7)	10	19	15
Tax	7	(4)	(9)	(7)
Minorities	(1)	(1)	(2)	(1)
Net profit	(1)	5	8	7
Net profit (adj.)	55	56	50	46

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	170	(19)	66	48
Pre-tax profit	(7)	10	19	15
Tax	7	(4)	(9)	(7)
Deprec. & amort.	2	9	1	1
Associates	0	0	0	0
Working capital changes	66	(87)	23	9
Non-cash items	1	0	0	0
Other operating cashflows	101	54	31	30
Investing	(137)	(32)	(31)	(28)
Capex (growth)	(1)	0	0	0
Investments	(1)	1	0	0
Others	(135)	(33)	(31)	(28)
Financing	22	(11)	(16)	5
Issue of shares	0	0	0	0
Proceeds from borrowings	0	17	0	0
Loan repayment	(50)	(17)	(5)	(5)
Others/interest paid	72	(12)	(11)	10
Net cash inflow (outflow)	54	(62)	18	25
Beginning cash & cash equivalent	61	116	53	72
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	116	53	72	97

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	39	35	33	33
Other LT assets	398	384	366	351
Cash/ST investment	116	53	72	97
Other current assets	125	158	134	125
Total assets	677	631	605	605
ST debt	14	31	31	31
Other current liabilities	130	77	77	77
LT debt	78	81	76	71
Other LT liabilities	267	255	254	254
Shareholders' equity	177	174	155	161
Minority interest	12	12	12	12
Total liabilities & equity	677	631	605	605

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	5.9	19.5	20.0	19.3
Pre-tax margin	(3.9)	4.9	12.0	10.7
Net margin	(0.6)	2.3	5.3	4.8
ROA	n.a.	0.7	1.4	1.1
ROE	n.a.	2.6	5.1	4.4
Growth				
Turnover	7.5	15.2	(19.5)	(9.1)
EBITDA	(86.5)	280.0	(17.4)	(12.3)
Pre-tax profit	(109.5)	n.a.	98.1	(19.1)
Net profit	(101.5)	n.a.	85.4	(17.7)
Net profit (adj.)	(53.6)	1.8	(10.3)	(8.8)
EPS	(53.6)	1.8	(10.3)	(8.8)
Leverage				
Debt to total capital	32.8	37.6	39.0	37.0
Debt to equity	52.1	64.6	69.1	63.3
Net debt/(cash) to equity	(13.5)	33.8	22.7	3.0
Interest cover (x)	0.7	2.1	3.4	3.0

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