

COMPANY UPDATE

Rex International Holding (REXI SP)

Not The Oil Price Play That We Expected; Downgrade To SELL

REX managed to only eke out a small profit in 2022 despite average oil prices jumping 42% yoy due to poor oil production performance. Importantly, the company's two interested party transactions into drone and medical technology, both of which are unrelated to the company's core upstream oil and gas business, may be of concern to investors. Downgrade to SELL. Lower target price to S\$0.10.

WHAT'S NEW

- **A double whammy; downgrade to SELL.** Along with its poor 2022 results, Rex International (REX) reported that it is diversifying into two unrelated sectors (drone and medical technology). To compound the latter issue, the diversification is via interested party transactions (IPT). As a result, we downgrade REX to a SELL rating and lower our target price to S\$0.10, implying a 34% downside from current levels.
- **Moving away from oil and gas.** In our view, of key concern are two of REX's recent acquisitions which could total US\$8.2m which raise questions about the company's commitment to its oil & gas business. Importantly, these IPTs (see table below) could lead some investors to question the company's standards of corporate governance. These stakes were acquired from REX's substantial shareholders Dr Karl Lidgren and Hans Lidgren (as well as Dr Lidgren's brother, Lars Lidgren) and involve a commercial drone company and a medical technology company focusing on cancer therapy.

REX'S RELATED PARTY TRANSACTIONS

Company	Price (US\$m)	Add'l Commitment (US\$m)	Stake acquired	Total Rex stake	US\$m Valuation	US\$m NAV ³	P/NAV
Xer Technologies ¹	1.0	3.0	40%	40%	2.50	0.43	9.2x
Xer Technologies ²	1.0	3.0	13%	53%	7.69	1.92	2.1x
Moroxite T AB ²	0.9	3.2	100%	100%	4.12	0.00	1,726.0x

Note: ¹ Announced on 6 Jul 21; ² Announced on 30 Dec 22; ³ Unaudited net asset value disclosed by REX
Source: REXI

- **Barely breaking even in 2022 despite record oil prices.** REX reported a 7.5% yoy increase in revenue to US\$170m due to the inclusion of oil liftings from the Brage Field in Norway and a 31% yoy increase in average oil price for the Yumna Field in Oman. However, the strong oil prices seen in 2022 were unable to offset the 189% yoy increase in production and operating expenses. As a result, the company recorded a loss at the PATMI level and was materially below our expectations.

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.)	67	(2)	38	22	20
EPS (US\$ cent)	5.1	(0.1)	2.9	1.7	1.5
PE (x)	2.0	n.m.	3.6	6.1	6.6
P/B (x)	0.7	0.8	0.7	0.8	0.7
EV/EBITDA (x)	1.9	13.9	3.2	6.0	6.7
Dividend yield (%)	3.6	3.6	14.4	14.4	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	-	-	116	(21)	(34)
UOBKH/Consensus (x)	-	-	0.32	n.m.	n.m.

Source: Rex International Holding, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E reflected as "n.m."

SELL

(Downgraded)

Share Price	S\$0.137
Target Price	S\$0.10
Upside	-27.0%
(Previous TP)	S\$0.45)

COMPANY DESCRIPTION

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

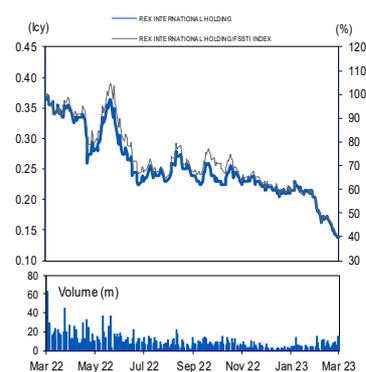
STOCK DATA

GICS sector	Energy			
Bloomberg ticker:	REXI SP			
Shares issued (m):	1,302.3			
Market cap (S\$m):	178.4			
Market cap (US\$m):	132.9			
3-mth avg daily t'over (US\$m):	0.7			
Price Performance (%)				
52-week high/low	S\$0.370/S\$0.137			
1mth	3mth	6mth	1yr	YTD
(33.2)	(36.3)	(42.9)	(61.4)	(36.3)

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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2022 RESULTS

Year to 31 Dec (US\$'000)	2021	2022	yoy %	Remarks
Revenue	158,444	170,259	7.5%	- The oil price increase negated poor oil production
Production/op. expenses	-25,552	-73,961	189.5%	- Impacted by higher asset costs in Norway & Oman
EBIT	73,044	8,362	-88.6%	
Net Finance Costs	-3,622	-15,473	327.2%	- Due to issuance of senior secured bonds
PBT	69,422	-6,608	-109.5%	
NPAT b/f minorities	78,939	353	-99.6%	
PATMI	67,157	-1,000	-101.5%	
Brent oil (US\$/bbl)	70.86	100.93	42.4%	- Higher oil price did not translate to better profits
EBIT margin	46.1%	4.9%	-41.2	
PATMI margin	42.4%	-0.6%	-43.0	

Source: REX, UOB Kay Hian

STOCK IMPACT

- A difficult 2022.** REX had a difficult 2022 with the Yumna field in Oman seeing a yoy decline in oil liftings due to production stoppages for the planned major change-outs and upgrades to production facilities from Feb 22 to Apr 22, as well as unforeseen operational issues in Jun 22 and Nov 22 in both Oman and Norway. We also highlight that REX does not disclose its annual oil production compared to other upstream oil & gas companies but instead updates the market on a monthly basis. On the positive side, REX's free cash flow for 2022 of US\$32m saw a 29% yoy increase.
- Despite being an oil producer, REX's net profit does not appear to have any correlation to the oil price as shown in the chart on RHS.** We calculate that the correlation of REX's net profit to the oil price at 0.07 and thus investors looking for an "oil price play" should look elsewhere. In addition, the technology behind the company's Rex Virtual Drilling does not appear to have added any shareholder value since the company's IPO in 2013 at S\$0.50. Over the 2014-22 period, the company recorded cumulative net losses of US\$72m, with four out of the nine years being profitable.
- Dividend.** The company declared a final dividend of S\$0.005 per share for 2022.

EARNINGS REVISION/RISK

- Downgrading earnings.** We have downgraded our earnings for 2023 and 2024 by 48% and 54% respectively on the back of the poor production performance from REX's current fields. We highlight that the company has disappointed the market in the past 12-18 months due to its poor track record of maintaining a consistent level of oil production. This has been frustrating for investors given that this has occurred during a period of high oil prices.

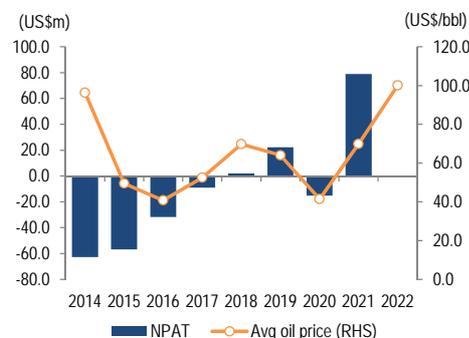
VALUATION/RECOMMENDATION

- Downgrade to a SELL rating with a lower target price of S\$0.10 (previously S\$0.45).** Without decent visibility on the company's oil production, we have elected to move away from a discounted cash flow methodology that we traditionally use to value upstream oil companies, and towards an asset-based valuation methodology instead as we have limited confidence in REX's ability to produce its oil consistently and thus its earnings. As a result, our new target price is based on a target 0.5x P/B multiple as we mark down the company's valuation due to its inconsistent oil production and IPT-related corporate governance issues which, in our view, detracts from the company's oil assets which could generate decent cash flow. REX has a net cash position of S\$0.025 per share which represents nearly one-fifth of the company's current share price. In addition, REX currently trades on an EV/boe of US\$9.67 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.

LACK OF CORRELATION BETWEEN NET PROFIT AND OIL PRICE



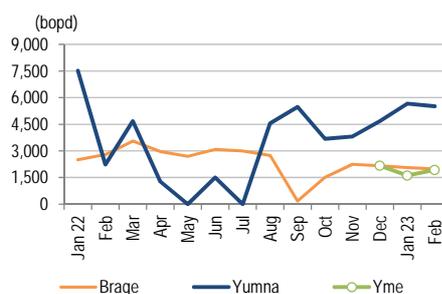
Note: R^2 of NPAT to oil price = 0.07
Source: REX, Bloomberg

SHARE PRICE HAS UNDERPERFORMED ASIAN UPSTREAM PEERS



Source: Bloomberg

POOR PRODUCTION PERFORMANCE IN 2022



Source: REX

RELATED PARTIES' OWNERSHIP STAKE IN XER TECHNOLOGIES

	Cresta ¹	Linea ²
Prior to Jul 21 acquisition	70%	25%
Post Jul 21 acquisition	42%	15%
Post Dec 22 acquisition	33%	12%

Notes: ¹ Cresta is wholly owned by Dr Karl Lidgren (substantial shareholder of REX); ² Linea is owned 50:50 by Dr Karl Lidgren and Hans Lidgren who both have a deemed interest of 34.71% in REX
Source: REX

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.)	(1.5)	37.5	22.0	20.3

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.)	(102.2)	n.a.	(41.4)	(7.7)
EPS	(102.2)	n.a.	(41.4)	(7.7)
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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