

SECTOR UPDATE

Oil & Gas – Singapore

Stocks To Play For Oil Price Leverage

Apart from large-cap O&M stocks such as Keppel and Sembcorp Marine, Singapore has a diverse range of oil-related stocks in the upstream and downstream sectors with a combined market cap of \$2.5b. The majority of these companies generated strong positive free cash flow in 2021 and half of them were in a net cash position as at end-21. With oil and gas prices expected to remain high in 2022, these companies' financials should remain robust. Maintain sector OVERWEIGHT.

WHAT'S NEW

- Oil and gas – Still influential.** As the dominant source of our energy needs for the better part of the last 70 years, crude oil has held influence over the politics and economic strategies of nations, frequently proving the source of instability, dispute and war. In the past five years, the volatility in oil prices has been tremendous, vacillating from a low of US\$19.33/bbl to a high of US\$127.98/bbl. In 2022, oil prices have risen 37% and have been a key contributor to global inflation. Natural gas prices have also increased materially with the US Henry Hub sport price up 48% ytd while the monthly Japan LNG import prices have risen 71% over the Jan-Apr 22 period.
- Oil and gas prices outlook.** Despite the upstream industry having suffered a nine-year period of underinvestment over 2014-21 (see chart on RHS) when capex halved, forecasts indicate that the industry is still unwilling to spend with capex expected to only increase by 5% CAGR over the 2021-24 period. With such anaemic levels of spending, the implication is that oil and gas prices will stay higher for longer.
- How to play the higher oil price theme in Singapore.** The modern day oil industry is multi-faceted along its value chain, from upstream to downstream, ie exploration and production (E&P), offshore marine (O&M), refining, chemicals and pipelines. In Singapore however, only E&P and O&M companies are listed on the SGX with investors having to look internationally for exposure to refining, chemicals and pipeline companies. In the comps table below and on the last page of this report, we provide a list of such companies.
- Apart from Keppel and Sembcorp Marine, there are 14 other oil price plays in Singapore** with a total market capitalisation of just over S\$2.5b (see table on page three). These small and mid-cap companies are largely in the downstream/offshore marine space with only three E&P companies. While E&P companies directly benefit from higher oil and gas prices, O&M companies only benefit when higher levels of activity and capex flow through from the upstream companies.
- No debt and generating lots of cash.** Two notable characteristics of these 14 companies are that: a) half of them were debt free as at end-FY21, and b) the majority of the companies generated double-digit free cash flow yield in FY21. It would appear that some capex has been flowing into Singapore's O&M companies in 2021 and ytd.

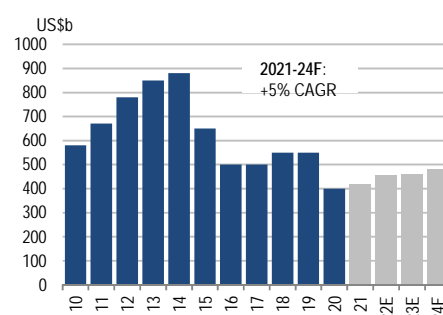
PEER COMPARISON

Company	Ticker	Price	Mkt cap S\$m	PE (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		P/FCF (x)	
				2021	2022E	2021	2022E	2021	2022E	2021	2022E	2021	2022E
Rex International	REXI SP	0.24	312.6	3.3	2.9	1.2	n.a.	1.9	3.3	42.8	27.9	4.1	n.a.
RH Petrogas	RHP SP	0.22	183.3	4.9	n.a.	6.2	n.a.	2.3	n.a.	n.a.	n.a.	4.9	n.a.
Interra Resources	INRR SP	0.039	25.6	7.2	n.a.	0.6	n.a.	4.0	n.a.	8.8	n.a.	18.8	n.a.
China Aviation	CAO SP	0.093	748.4	n.a.	n.a.	1.3	n.a.	20.4	n.a.	(11.2)	n.a.	n.a.	n.a.
Kim Heng	KHOM SP	0.87	65.7	13.2	10.0	0.6	0.6	5.3	10.2	4.5	5.1	3.4	n.a.
ASL Marine	ASL SP	0.06	37.8	n.a.	n.a.	0.4	n.a.	7.4	n.a.	(30.4)	n.a.	2.8	n.a.
Baker Technology	BTL SP	0.40	81.2	13.8	n.a.	0.4	n.a.	3.8	n.a.	3.0	n.a.	8.7	n.a.
CH Offshore	CHO SP	0.069	48.6	n.a.	n.a.	0.7	n.a.	66.1	n.a.	(9.1)	n.a.	n.a.	n.a.
Dyna-Mac	DMHL SP	0.194	199.2	n.a.	n.a.	6.7	n.a.	9.4	n.a.	20.7	n.a.	3.2	n.a.
Marco Polo Marine	MPM SP	0.03	106.1	7.5	30.0	0.9	1.0	4.0	10.7	13.8	4.4	16.1	n.a.
Penguin International	PBS SP	0.69	151.9	12.0	n.a.	0.8	n.a.	3.5	n.a.	6.9	n.a.	n.a.	n.a.
Atlantic Navigation	ATL SP	0.085	44.5	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	(17.7)	n.a.	39.9	n.a.
Civmec	CSE SP	0.465	304.0	15.9	13.7	1.2	1.2	7.5	7.4	7.8	9.0	12.2	13.1
CSE Global	CVL SP	0.605	238.3	9.1	7.0	1.1	1.0	5.7	5.2	12.5	14.7	8.7	21.4

Source: Bloomberg, UOB Kay Hian

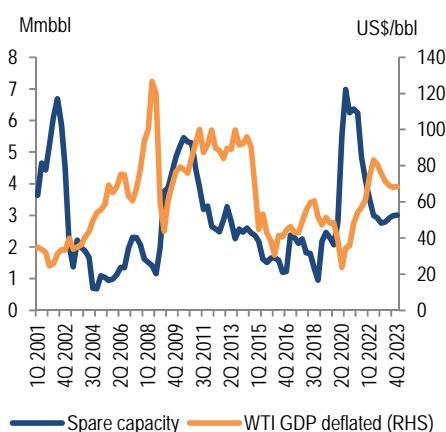
OVERWEIGHT (Maintained)

GLOBAL OIL & GAS CAPEX



Source: Rystad Energy

OPEC SPARE CAPACITY VS WTI OIL PRICE



Source: Bloomberg

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- Positive free cash flow generation in 2021.** With the exception of Penguin, all the companies profiled in the comparable companies table on the previous page generated positive free cash flow (FCF) in 2021. In our view, this potentially points to an equally strong year in 2022 given that oil prices remain high, thus underpinning the robust activity levels that has continued in the O&M sector this year.
- High free cash flow yield.** As a result of the positive FCF, we note that the majority of companies generated double-digit FCF yield (see chart on RHS). Note however that ASL Marine's FCF is deceptively high given that it has very high depreciation: in FY21, its depreciation of S\$33m was almost as much as its current market capitalisation of S\$38m. In addition, we highlight its very high net debt levels of S\$288m as at end-Dec 21 and resultant high interest cost of S\$11.3m for 1HFY22.
- Lots of cash.** Half of the companies that we looked at were in a net cash position as at the end of their fiscal year 2021. Three companies in particular – Baker Tech, China Aviation and Dyna-Mac – had net cash levels that were more than 40% of their market capitalisation. Should these companies continue their strong financial performance in 2022, the probability of higher dividends cannot be ruled out. We believe that activity levels in the industry have remained high and thus it will be interesting to see if Singapore's oil-related names have continued to benefit from this in the upcoming 1H22 results season.

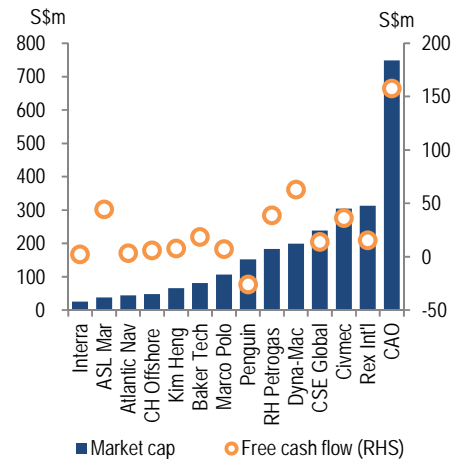
ESSENTIALS

- What drives crude oil prices?** Economics dictate that it is a simple demand and supply equation; however, given that the Organization of the Petroleum Exporting Countries (OPEC) produces about 40% of the world's crude oil (and its exports are about 60% of total oil that is globally traded), it has the ability to affect oil prices unlike in other commodity markets. By actively managing oil production in its member countries by setting production targets, we have historically seen that oil prices have increased in times when OPEC production targets are reduced. Importantly, Saudi Arabia, OPEC's largest producer, can frequently affect oil prices via its indications of changes in crude oil production.
- Spare capacity is important...** OPEC's spare capacity allows the world to respond to price shocks caused by events that endanger oil supply. As seen in the chart on the front page, OPEC's spare capacity in the 2003-08 period was at or below 2mmbpd (ie <3% of global oil supply), thus squeezing prices higher and into the US\$140/bbl levels. This was only alleviated by the Global Financial Crisis in 2008-09 which materially dampened demand. Since then, OPEC's spare capacity has gradually been squeezed lower and only rising back above 5mmbpd as demand fell due to the onset of COVID-19 in 2020. However, as the global economy recovered, oil demand has rapidly increased, which led to lower levels of spare capacity and thus higher oil prices.
- ...and is forecast to be low.** Saudi Arabia has usually kept more than 1.5-2.0mmbpd of spare capacity on hand to manage oil prices. However with the US EIA forecasting OPEC's spare capacity to remain low at 2.75-3.0mmbbl over the 2Q22-4Q23 period, we believe that oil prices will remain high given the tight physical market.

RISKS

- Global recession.** A global recession, perhaps triggered by the US Fed raising interest rates too aggressively in an effort to combat inflation, could lead to a deterioration in oil and gas demand and thus lower prices.

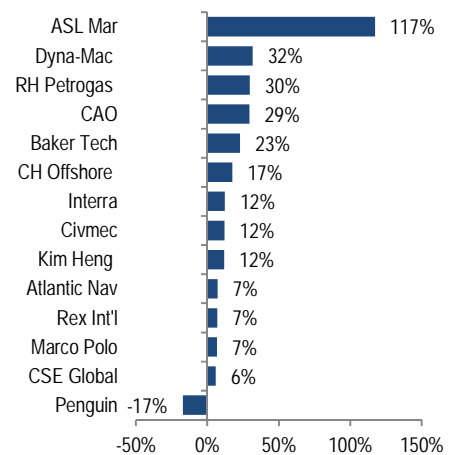
MARKET CAPITALISATION VS 2021 FREE CASH FLOW



Note: Free cash flow = net operation cash flow less net investing cash flow

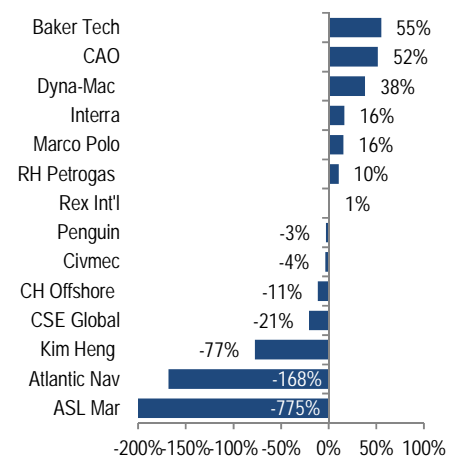
Source: Bloomberg

FREE CASH FLOW YIELD (2021)



Source: Bloomberg

NET CASH AS A % OF MARKET CAPITALISATION (2021)



Source: Bloomberg

SGX-LISTED COMPANIES WITH EXPOSURE TO THE OIL AND GAS SECTOR

Company/ Ticker	Mkt cap (\$m)	Top shareholders	Cash (\$m)	Total debt Debt (\$m)	Free cash flow (\$m)	FCF yield (%)	Net cash/ mkt cap	Key activity	Key data
UPSTREAM (EXPLORATION & PRODUCTION)									
Rex International (REXI SP)	312.6	Limea Ltd: 34.7% Svein Kjellesvik: 6.0% Dan Brostrom: 0.87%	60.6	56.2	15.4	6.9%	1.4%	Produces oil in Norway and Oman plus two non-producing concessions in Malaysia	2022 production: 8,900bpd (-11% yoy) 2021: 2P reserves of 3.7mmbbl
RH Petrogas (RHP SP)	183.3	Surreyville: 36.3% Sharptone Investments: 15.9% RH Capital: 13.2%	33.8	14.8	39.0	29.8%	10.4%	Two producing assets in Indonesia One asset in Malaysia undergoing appraisal	2021 production: 4,710boepd (+10% yoy) 2021: 2P reserves of 34.6mmbbl
Interra Resources (ITRR SP)	25.6	Saratoga: 10.9% North Petroleum: 9.8% Shining Persada: 8.1%	5.5	1.3	2.2	12.3%	16.4%	Oil production from two fields in Myanmar, plus one exploration asset in Indonesia	2021 production: 586bpd (-35% yoy) 2021: 2P reserves of 1.02mmbbl
MIDSTREAM									
China Aviation (CAO SP)	748.4	China National Aviation Fuel Group: 51.3% BP Investments Asia: 20.2% Dimensional Fund: 0.7%	400.8	14.4	157.5	29.5%	51.6%	Supplies jet fuel to foreign and domestic airlines flying through China's airports; trades physical and paper fuel oil, gas oil, crude oil, petrochemical products	2021: traded 34.1 million tons of oil product (+24% yoy)
DOWNSTREAM									
Kim Heng (KHOM SP)	65.7	Tan Keng Siong: 40.0% Credence Capital Fund II: 17.7% Raffles Nominees: 4.0%	8.3	59.2	7.7	11.7%	-77.5%	Chartering of vessels, heavy equipment rental, and marine services to support wind farm and offshore projects	Owns, 50 vessels (tugs, barges etc), various heavy lifting equipment, two shipyards with total area of 53,000m ²
ASL Marine ¹ (ASLSP SP)	37.8	Ang Ah Nui: 14.8% Ang Kok Tian: 14.0% Ang Kok Eng: 11.7% Ang Kok Leong: 11.6%	26.5	319.5	44.4	117.3%	-77.5%	Shipbuilding, ship repair and conversion, marine vessel chartering, marine engineering	Has yards in Singapore, Batam and China plus a fleet of O&M vessels
Baker Technology (BTL SP)	81.2	Benety Chang: 43.5% Heng Chin Ngor Doris @Heng Lee Fung Doris: 9.4% Ho Kim Lee Adrian: 5.8%	59.8	15.1	18.5	22.8%	55.0%	Manufactures industrial equipment, produces offshore pedestal cranes, anchor winches, skidding systems, jacking systems, and raw water tower structures equipment	Owns three shipyards in Singapore and one DP2 liftboat
CH Offshore (CHO SP)	48.6	BT Investment: 55.0% Falcon Energy: 34.11%	6.9	12.4	6.1	17.4%	-11.3%	Offers towing, anchor-handling, dry bulk cargoes, emergency response, rescue, fire-fighting, and field support services; 55% owned by Baker Tech	Owns 6 x 12,240hp AHTSs
Dyna-Mac (DMHL SP)	199.2	Estate Of Lim Tze Jong: 40.7% Keppel: 24.4% Lim Lee Cheng: 4.1%	106.3	30.4	63.0	31.6%	38.1%	Engineering, procurement and construction services; builds topside modules for floating production storage and offloading, semi-submersibles, etc.	Owns two fabrication yards with total area of 140,000m ² ; annual capacity of 25,000mt
Marco Polo Marine ² (MPM SP)	106.1	DBS Nominees: 22.1% UOB Kay Hian: 10.2% Penguin Int'l: 8.6%	20.3	3.8	7.0	6.6%	15.6%	Ship chartering, ship building and repair, and brokering services.	Owns 17 OSVs, 9 AHTS, 1 AHTV, 2 MWVs, 2 accommodation work barges, 34ha of shipyard space in Batam
Penguin International (PBS SP)	151.9	Pier Hing Yih: 80.1% Ng Kok Wah: 4.95%	18.8	23.4	-26.1	-17.2%	-3.0%	Design, construction, and operation of high-speed aluminum ships.	
Atlantic Navigation	44.5	Saeed Investment: 50.2% Wong Siew Cheong: 31.8%	0.7	75.5	3.2	7.2%	-168.0%	Operates mainly out of the UAE providing marine logistics, ship repair, fabrication and other services	Owns 20 vessels comprising of AHT, SHTS, MSV, liftboat and accommodation barges, etc
Civmec ¹	304.0	JF & OT Fitzgerald Family Trust: 19.5% Kariong Investment Trust: 19.5% Michael Lorrain Vaz: 4.8%	45.9	57.1	36.1	11.9%	-3.7%	Australia-based construction and engineering services provider to energy (eg LNG and subsea equipment), resources, infrastructure, marine and defence sectors	
CSE Global	238.3	Temasek subsidiaries: 24.97% Fidelity: 10.0% Lim Boon Keng: 2.6%	46.5	95.4	13.9	5.8%	-20.5%	Provision of control systems and other solutions targeting the oil & gas industry	1,400 employees across 45 offices globally

Notes : 2P = proven and probable ; OSV = offshore supply vessels; MWV = maintenance work vessels; AHTS = anchor handling, tug and supply vessel; AHTV = anchor handling tug vessel; ¹ fiscal year ending 6 Jun 21; ² fiscal year ending 20 Sep 21

Source: UOB Kay Hian, Bloomberg, companies

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