

SECTOR UPDATE

Oil & Gas – Singapore

The Yin And The Yang: Long RH Petrogas, Short Rex International

The commencement of an exciting drilling programme for RH Petrogas (BUY/Target: S\$0.25) in 2H23 highlights an interesting high risk/high reward period for investors in the stock, which could see in excess of 60% upside in the share price over the next 6-8 months. Contrast this with Rex (SELL/Target: S\$0.10) which continues to suffer from production problems at its key Yumna field. Maintain MARKET WEIGHT on the sector.

WHAT'S NEW

- **An exciting 2H23 drilling programme for RH Petrogas (RHP).** Last week, RHP announced that it has spudded the Riam-1 oil exploration well at its Kepala Burung Production Sharing Contract (PSC). The well will take approximately 30 days to be drilled to a depth of around 4,300 feet or 1,310 meters, with potentially another 30 days of testing before we will know the results. In our view, the exploration risk at Riam-1 is relatively low given that it is located only 3km west of RHP's Walio field, which currently accounts for more than 50% of Kepala Burung's oil production. RHP stated that in the event of a discovery, the well can be put on production reasonably quickly.
- **More positive newsflow to come in 2H23.** Apart from Riam-1, RHP plans to drill another three wells in 2H23 (see table on RHS) with the key highlight being the Karuka-1 gas exploration well at the Kepala Burung PSC that will target 1.8tcf of natural gas or 300mboe. Clearly, this would be material to a company of RHP's size.
- **Valuing the exploration upside for RHP.** Using recovery factors of between 10-25% and risking the four wells at between 50-80% for both geological and commercial risk, we arrive at a total valuation of S\$0.13/share for RHP's drilling programme. This represents potential upside of 63% based on yesterday's closing price. Note that we have factored in much higher risking factors for both Piarawi-1 and Karuka-1 given that they are both deeper wells and are targeting new geological play types.
- **Rex International (Rex) still struggling.** With a 22% mom decline in production in Jun 23, Rex's Yumna field continues to disappoint – again due to another unexplained and unplanned shutdown. Over the past two years, Yumna's oil production has declined by >70% (see chart overleaf) with the company unable to explain to the market why – despite new production facilities having been installed – it has been able to resume production at the 9,000-12,000bpd levels seen in 2021. Rex's new production well at Brage was unable to offset the weakness at Yumna, thus resulting in the company experiencing an overall 4% mom production decline. For 1H23, Rex's average production of over 9,200bpd was 12% higher yoy; however this was more than offset by the Brent oil price which averaged just under US\$80/bbl in 1H23, a 24% decline vs the US\$104/bbl levels seen in 1H22. Thus, Rex is unlikely to report a strong 1H23 net profit, in our view.

ACTION

- **Long/short idea: Long RHP and short Rex.** Given the dichotomy in the two companies' near- to medium-term prospects and the large gap in the market's valuation of their reserves (as seen by the EV/boe chart on RHS), we recommend investors to long RHP and short Rex. RHP presents a high risk/high reward scenario tied to its exploration success in the next six months while Rex continues to disappoint on the operational front.

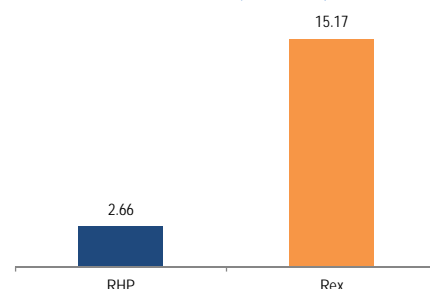
PEER COMPARISON

Company	Ticker	Rec	Price (Icy)		Mkt Cap (US\$m)	PE (x)		PB (x)	EV/EBITDA (x)		ROE	Net Gearing
			24 Jul	Target		2023F	2024F		2023F	2024F		
Rex International	REXI SP	SELL	0.18	0.10	175	2.9	4.5	1.0	4.2	7.9	20.8	-2.9%
RH Petrogas	RHP SP	BUY	0.205	0.25	126	6.2	8.7	3.3	2.4	3.4	53.1%	-151.7%
CNOOC	883 HK	NR	12.10	NA	101,975	4.3	4.3	0.8	1.9	1.9	18.9%	-12.6%
Woodside	WDS AU	NR	37.25	NA	47,649	12.8	12.9	1.3	8.1	8.5	9.7%	1.5%
PTTEP	PTTEP TB	NR	159.00	NA	18,381	9.6	12.3	1.3	3.0	2.9	13.5%	2.2%

Source: UOB Kay Hian

MARKET WEIGHT (Maintained)

COMPARISON OF EV/BOE (US\$/BOE)



Note: Enterprise value = market capitalization + net debt as at 31 Dec 22; boe = barrels of oil equivalent on a proven and probable basis as at 31 Dec 2022

Source: RHP, Rex

RHP: DRILLING TO WATCH FOR

Name	Potential recoverable resources*	Timeline	Value per share (S\$)
Oil			
Riam-1	5.0mmbbl	Drilling now	0.03
W-322	3.0mmbbl	Aug/Sep 23	0.05
Piarawi-1	6.6mmbbl	Dec 23	0.02
Gas			
Karuka-1	1.8tcf	Sep 23	0.04
Total			0.13

Note: * Gross unrisks resources

Source: RHP, UOB Kay Hian estimates

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- **For exposure to upstream oil & gas in Singapore, we prefer RH Petrogas (BUY/ Target: S\$0.25).** 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.
- **We reiterate our BUY rating on RHP and SOTP-based target price of S\$0.25** (see table below). Based on our forecasts, RHP's 2023F PE and EV/EBITDA of 6.0x and 2.3x are respectively at 23% and 30% discounts to its regional oil and gas peers'. Note that we have not valued the company's exploration upside within our SOTP.

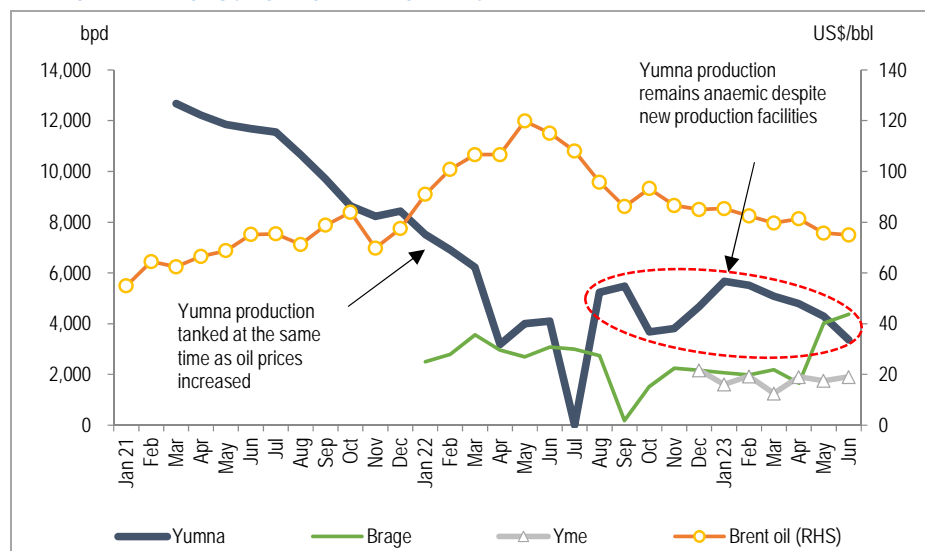
NET PRESENT VALUE FOR RH PETROGAS

	Mmboe	US\$/boe	US\$m	S\$m	S\$/share
Production & development assets	17.4	2.12	36.9	49.8	0.06
2C oil and gas resources	63.2	1.00	63.2	85.4	0.10
Total reserves & resources	80.6	1.24	100.1	135.2	0.16
Exploration			0.0	0.0	0.00
Investments			0.0	0.0	0.00
Net Cash/(Debt)			57.3	77.3	0.09
Grand Total			157.4	212.5	0.25

Source: UOB Kay Hian

- **We retain our SELL rating on Rex 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. Emblematic of its production struggles is its Yumna field which continues to experience unplanned shutdowns with the latest being in Jun 23. We highlight that the company has yet to announce whether this field has been brought back on-stream which could lead to a poor financial performance in 2H23 – just when Brent oil prices have inched back up above US\$80/bbl. In addition, we believe that its interested party transactions have raised corporate governance issues which we believe detract from the company's oil assets which could – if managed properly – generate decent cash flow.

REX MONTHLY PRODUCTION VS BRENT OIL PRICE



Source: Rex

RISKS

- Risks to the companies include oil prices which could negatively impact profits and cashflow in the event of a prolonged downturn, operational risk, regulatory risk and sovereign risk, amongst others.

POOR PRODUCTION AT REX'S 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	
Jun	3,364	Unplanned shutdown at Yumna on 29 Jun 23

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

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