

COMPANY RESULTS

Rex International Holding (REXI SP)

1H23: Weak Results As Expected, With Production Going From Bad To Worse

REX reported a 37% yoy decline in PATMI that fell short of expectations. The highlight was its 12% yoy production growth, which was bolstered by new wells coming on-stream at Brage; however, its Oman oil production remains problematic. Outlook for 2H23 appears bleak as two of its three oil fields started off 2H23 with production issues as reported in its Jul 23 update. Maintain SELL. Target price: S\$0.10.

1H23 RESULTS

| 12M to 31 Dec, US\$m | 1H22 | 1H23 | % yoy | Remarks |
|----------------------|-------|-------|----------|--|
| Revenue | 99.5 | 106.9 | 7.5% | - Helped by higher production at Brage & Yme |
| Gross profit | 37.5 | 33.7 | -10.1% | - Hit by a 30% yoy increase in lifting costs |
| EBIT | 22.9 | 19.9 | -13.1% | |
| Pre-tax profit | 18.9 | 8.1 | -56.9% | - Net finance costs doubled to US\$11.3m |
| PATMI | 4.8 | 3.1 | -36.9% | |
| Gross margin | 37.7% | 31.6% | -6.2ppt | |
| Pre-tax margin | 19.0% | 7.6% | -11.4ppt | |
| PATMI margin | 4.9% | 2.9% | -2.0ppt | |

Source: Rex International Holding, UOB Kay Hian

RESULTS

- Worse-than-expected results.** Rex International (REX) reported an 8% yoy increase in revenue that was helped by better-than-expected production at its Brage field as well as the inclusion of its newly-acquired Yme field. This was able to offset the 24% yoy decline in Brent oil prices; however, at the bottom line, the company's 30% yoy increase in lifting costs, a 29% yoy increase in depletion of oil and gas properties and a doubling of finance costs led to a 37% yoy decline in PATMI to US\$3.1m.
- Production numbers have worsened...** On our estimates, REX saw a 12% yoy increase in production in 1H23 with the new well that was brought on-stream at Brage being the key difference. However we note that production at Yumna saw a 38% decline, which resulted in an overall 21% mom decline in total production to 7,587bpd for Jul 23.
- ... as have REX's other financial metrics.** We highlight that REX has flipped from being a net cash to a net debt company in the short span of only six months. At end-22, it had net cash of US\$24m; however at end-1H23 it had net debt of nearly US\$59m and a net debt/equity of 0.32x. Additionally, free cash flow fell off a cliff, declining nearly US\$100m to negative US\$77.9m for 1H23 (1H22: US\$21.7m). This was largely due to the acquisition of Yme which, in our view, was not a good one despite REX's claims of having "highly advanced, proprietary technology" in the form of its Rex Virtual Drilling.

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) | 1.3 | 2.7 | 2.7 | 3.0 | 3.3 |
| P/B (x) | 0.8 | 0.8 | 0.9 | 1.0 | 0.9 |
| EV/EBITDA (x) | 2.9 | 21.7 | 5.7 | 6.9 | 7.9 |
| Dividend yield (%) | 3.3 | 3.3 | 13.0 | 13.0 | 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 | - | - | 88 | 28 | (4) |
| UOBKH/Consensus (x) | - | - | 0.63 | 1.76 | n.m. |

Source: REX INTERNATIONAL HOLDING, Bloomberg, UOB Kay Hian

SELL

(Maintained)

| | |
|--------------|----------|
| Share Price | S\$0.153 |
| Target Price | S\$0.10 |
| Upside | -34.6% |

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): | 199.3 |
| Market cap (US\$m): | 146.9 |
| 3-mth avg daily t'over (US\$m): | 1.6 |

Price Performance (%)

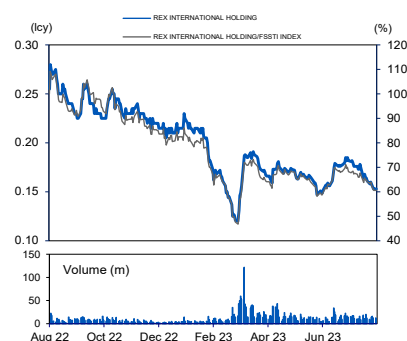
52-week high/low S\$0.280/S\$0.120

| 1mth | 3mth | 6mth | 1yr | YTD |
|--------|--------|--------|--------|--------|
| (17.3) | (12.1) | (15.9) | (41.2) | (28.8) |

Major Shareholders

| 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

ANALYST(S)

Llleythan Tan
+65 6590 6624
yirong@uobkayhian.com

Adrian Loh
+65 6590 6633
adrianloh@uobkayhian.com

STOCK IMPACT

- Yet another poor acquisition at Yme.** At the time of the US\$84.3m Yme acquisition in Dec 22, REX had disclosed that the field would see production plateau in 2Q23 at a gross rate of c.35,000bpd thus resulting in average production net to Lime Petroleum (REX 91.65% stake) of 2,900bpd for both 2023 and 2024, and declining to 1,900bpd in 2025. Since the commencement of production recognition at Yme in Dec 22, field production has never approached these forecast levels, but instead encountered problems in just six months. In its Jul 23 update, Yme reported that production declined 60% mom to 756bpd, which is less than one-third of its initial production guidance and a major disappointment.
- Yumna – medium-term viability at stake.** In its Jul 23 production update, REX disclosed that oil production at Yumna declined 38% mom to 2,093bpd, which is the lowest level of production at this field seen since it came on-stream in 2020 (except for the field's total shutdown in Jul 22). We do not believe that "international electrical experts" are needed to solve the failure of an electrical submersible pump but instead believe that Yumna's material oil reservoir problems (see table on RHS) may point to near- to medium-term exhaustion of the field.

EARNINGS REVISION/RISK

- We downgrade our earnings estimates for REX** by 19-78% for 2023-25 with the most significant cuts made for 2023 due to higher lifting and interest costs.

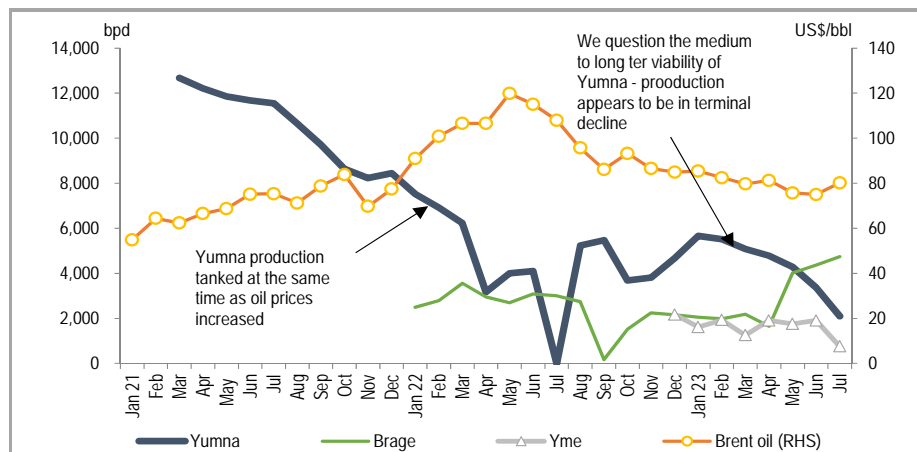
VALUATION/RECOMMENDATION

- 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 materially diminished confidence in the company's ability to execute on its oil production targets. Of the company's three assets, REX only operates Yumna while Brage is operated by OKEA ASA and Yme is operated by Repsol. Without operatorship, an oil and gas company cannot determine its future and is hostage to the plans of other (usually larger) oil and gas companies.
- Corporate governance in focus.** In addition, we believe that its interested party transactions have raised corporate governance issues which detract from the company's oil assets. On 11 August, the company announced that Moroxite T, involved in cancer therapy, is now a 70% subsidiary of REX and there is US\$4.12m payable as consideration to parties linked to the controlling shareholders of REX. Note that the unaudited net asset value of Moroxite T was only US\$2,387 as at end-1H22.

SHARE PRICE CATALYST

- a) Refraining from related-party transactions in sectors that are unrelated to oil and gas; b) better consistency and reliability in delivering oil production numbers; c) hosting of a results call to explain the company's performance.

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



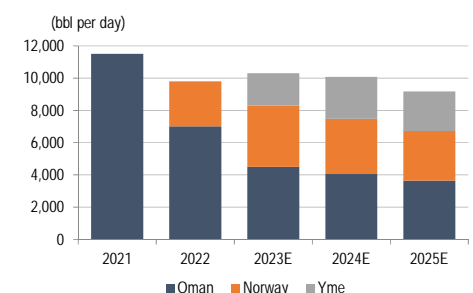
Source: Rex International

POOR PRODUCTION AT 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 | NA |
| Jun | 3,364 | Unplanned shutdown on 29/6/23 |
| Jul | 2,093 | Unplanned electrical failure of electrical submersible pump |

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

HISTORICAL AND FORECAST PRODUCTION



Source: Rex International, UOB Kay Hian estimates

PROFIT & LOSS

| Year to 31 Dec (US\$m) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|--------------|------------|-------------|-------------|
| Net turnover | 170.3 | 196.1 | 157.8 | 143.4 |
| EBITDA | 10.1 | 38.2 | 31.6 | 27.7 |
| Deprec. & amort. | 1.7 | 8.5 | 1.4 | 1.1 |
| EBIT | 8.4 | 29.7 | 30.2 | 26.6 |
| Total other non-operating income | (0.9) | (2.2) | (2.0) | (2.0) |
| Associate contributions | 0.0 | 0.0 | 0.0 | 0.0 |
| Net interest income/(expense) | (14.0) | (18.0) | (9.3) | (9.3) |
| Pre-tax profit | (6.6) | 9.5 | 18.9 | 15.3 |
| Tax | 7.0 | (4.3) | (8.9) | (7.1) |
| Minorities | (1.4) | (0.7) | (1.5) | (1.2) |
| Net profit | (1.0) | 4.5 | 8.4 | 6.9 |
| Net profit (adj.) | 54.8 | 55.8 | 50.0 | 45.6 |

CASH FLOW

| Year to 31 Dec (US\$m) | 2022 | 2023F | 2024F | 2025F |
|--|----------------|---------------|---------------|---------------|
| Operating | 169.6 | (19.2) | 65.7 | 48.1 |
| Pre-tax profit | (6.6) | 9.5 | 18.9 | 15.3 |
| Tax | 7.0 | (4.3) | (8.9) | (7.1) |
| Deprec. & amort. | 1.7 | 8.5 | 1.4 | 1.1 |
| Associates | 0.0 | 0.0 | 0.0 | 0.0 |
| Working capital changes | 66.2 | (87.5) | 23.5 | 9.0 |
| Non-cash items | 0.5 | 0.0 | 0.0 | 0.0 |
| Other operating cashflows | 100.8 | 54.4 | 30.9 | 29.8 |
| Investing | (137.4) | (32.0) | (31.0) | (28.1) |
| Capex (growth) | (1.0) | (0.1) | (0.1) | (0.1) |
| Investments | (1.4) | 0.9 | 0.0 | 0.0 |
| Others | (135.0) | (32.8) | (30.9) | (28.0) |
| Financing | 22.0 | (11.2) | (16.3) | 5.1 |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 0.0 | 17.2 | 0.0 | 0.0 |
| Loan repayment | (50.1) | (16.6) | (5.2) | (5.2) |
| Others/interest paid | 72.1 | (11.8) | (11.1) | 10.3 |
| Net cash inflow (outflow) | 54.1 | (62.4) | 18.5 | 25.1 |
| Beginning cash & cash equivalent | 60.6 | 115.8 | 53.4 | 71.8 |
| Changes due to forex impact | 1.0 | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 115.8 | 53.4 | 71.8 | 96.9 |

BALANCE SHEET

| Year to 31 Dec (US\$m) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Fixed assets | 39.0 | 35.2 | 32.9 | 32.7 |
| Other LT assets | 397.6 | 384.0 | 366.0 | 350.8 |
| Cash/ST investment | 115.8 | 53.4 | 71.8 | 96.9 |
| Other current assets | 124.8 | 158.0 | 134.1 | 125.0 |
| Total assets | 677.2 | 630.5 | 604.8 | 605.5 |
| ST debt | 14.0 | 31.1 | 31.1 | 31.1 |
| Other current liabilities | 129.9 | 77.5 | 77.0 | 77.0 |
| LT debt | 78.0 | 80.9 | 75.7 | 70.5 |
| Other LT liabilities | 266.9 | 255.1 | 253.9 | 253.9 |
| Shareholders' equity | 176.5 | 173.6 | 154.7 | 160.6 |
| Minority interest | 11.9 | 12.3 | 12.3 | 12.3 |
| Total liabilities & equity | 677.2 | 630.5 | 604.8 | 605.5 |

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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