



Rex International Holding Ltd

(REXI SP/5WH.SI)

Oil's on a roll

Joel Ng / 65 6202 1192 / joel.ng@kgi.com | Chen Guangzhi, CFA / 65 6202 1191 / guangzhi.chen@kgi.com

- **Unthinkable.** Brent crude is now trading above US\$85 per barrel, driven by the underlying recovery in consumption, and fuelled further by the energy crisis in Europe. The oil demand uplift from the gas-to-oil switch comes as European natural gas price trades at the oil price equivalent of US\$200 per barrel.
- **Record free cash flows.** Free cash flow generated by oil and gas companies are expected to break records this year with oil currently now above US\$80 per barrel. For Rex, the windfall will continue to strengthen its already strong balance sheet and give it opportunities to diversify.
- We maintain an **Outperform** recommendation while raising our DCF-backed **target price to S\$0.40**, mainly as we factor in higher oil prices of US\$75.

Financials & Key Operating Statistics					
YE Dec (US\$ m)	2019	2020	2021F	2022F	2023F
Revenue	135	46,664	192,720	129,648	82,344
PATMI	19,401	(14,218)	147,202	70,001	21,418
EPS (Sing cents)	2.03	(1.46)	14.96	7.04	2.13
EPS growth (%)	1,596.1	-	-	(52.9)	(69.7)
Price P/E (x)	15.26	-	2.07	4.40	14.53
Net Profit Margin (%)	16465.9%	(32.6%)	75.0%	52.8%	24.3%
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Price P/B (x)	2.10	2.37	1.12	0.91	0.86
ROE (%)	17.1%	-11.3%	72.3%	22.4%	5.7%

Source: Company data, KGI Research

Oil's on a roll. WTI and Brent crude futures were trading around US\$82 and US\$85 per barrel last Friday, near their 7-year and 3-year high respectively. Shortages of natural gas in Europe and Asia continue to boost demand for oil as supply remains tight. The IEA said on Thursday that the energy crunch is expected to boost oil demand by 500,000 bpd. On the supply side, the EIA said that crude oil output in the US in 2021 is expected to decline more than previously forecasted. As a recap, Rex's average realised oil price was US\$62 per barrel in 1H2021, which was already an almost threefold increase from the US\$23 per barrel it realised in 1H2020.

Net cash to swell to more than US\$200mn by 2022. For the year ahead, based on US\$75 oil price, we forecast Rex's net cash position to surge to US\$217mn by end FY2022F. This is equivalent to S\$293mn or 73% of the group's current market capitalisation (based on 31.0 Sing cents share price).

Leveraging its expertise to expand into Asia. In August, Rex was awarded two production sharing contracts (PSCs) for the Rhu-Ara and Diwangsa clusters offshore Malaysia. This will be Rex's maiden oil field project in Asia. The company will partner with local company Duta Marine. Rex will hold a 95% participating interest with Duta holding the remaining 5%. Overall, the PSCs will provide a great opportunity for Rex to expand its oil reserves and diversify its source of cashflows. We have not factored in the Malaysian's PSCs into our valuation.

Outperform - Maintain			
Price as of 15 Oct 21 (SGD)	0.31	Performance (Absolute)	
12M TP (\$)	0.40	1 Month (%)	55.8
Previous TP (\$)	0.33	3 Month (%)	34.8
Upside, incl div (%)	28.4	12 Month (%)	121.4
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	404		
Issued Shares (mn)	1,302		
Vol - 3M Daily avg (mn)	25.9		
Val - 3M Daily avg (\$mn)	5.8		
Free Float (%)	55.4%		
Major Shareholders		Previous Recommendations	
Lidgren Family	34.7%	18-Aug-21	OP TP S\$0.33
Svein Helge Kjellesvik	6.0%	2-Aug-21	OP TP S\$0.32

Still on track for its second producing field. The acquisition of the 33.84% interest in the oil producing Brage Field in Norway will be effective from 1 January 2021, after approval from the Norwegian authorities. Brage Field will add around 3.4k barrels of oil production per day net to Rex's subsidiary, Lime Petroleum. The acquisition will be funded by the US\$60mn senior secured bond that was fully subscribed back in June 2021.

Still unloved sector...but where cash flows are going to reward loyal shareholders. Rystad Energy, an energy consultancy firm, projects that with oil an oil price of US\$70 per barrel, the world's publicly traded exploration and production (E&P) companies are set to generate record-breaking free cash flows in 2021. Their combined free cash flows is expected to surge to US\$348bn in 2021, from a previous high of US\$311bn back in 2008, as per Rystad's estimates.

Valuation & Action: We maintain an Outperform recommendation while raising our base case TP to S\$0.40 (from S\$0.33 previously), as we raise our oil price forecast from US\$65 per barrel to S\$75 per barrel. Our DCF-backed valuation assumes a WACC of 11.0%. Accordingly, we raise our bull case TP to S\$0.50 and our bear case TP to S\$0.27. Rex's strong balance sheet, free cash flow generation and access to capital, differentiates it from many other E&P companies. Rex is the only game in town (at least on the SGX) for investors looking for direct exposure to the neglected O&G sector.

Risks: The direction of oil price is the biggest driving factor of profits. U.S. shale production represents the largest supply variable. There is an ongoing claim against two of Rex's subsidiaries in Oman; Rex has assessed that there will be no material financial impact from the claim.

See the last page for important disclosures.

Valuations and peer comparison

We expect Rex's valuations to be driven primarily by oil prices, production volumes and breakeven costs.

We maintain our Outperform recommendation while raising our fair value to S\$0.40 per share in our base case scenario.

Key valuation drivers and scenario analysis

The three key drivers of Rex's valuation are the average selling price (ASP) of oil, production volume and breakeven costs. We have assumed an ASP of US\$65 in our base-case scenario and utilised a total average cost of production (CapEx + OpEx) of US\$29 per barrel.

Norway tax formula for 2020 and 2021:

Operating income
 - Operating expenses
 - Depreciation (6 yrs)
 - Exploration and development expenses (100%)
 - Environmental taxes and area fees
 - Net financial costs
 = Corp tax base (22%)
 - Uplift (24% of capex)
 = Special tax base (56%)

Taxes are calculated differently for Oman and Norway. For Oman, MOL is entitled to approximately 64% of gross oil production while the remainder goes to the government who pays the taxes. In Norway, oil and gas companies are taxed a total rate of 78%. However, this is split between 20-30% for the standard company tax rate and 50-60% for the special tax rate. As of 2020, this ratio was at 22% for standard rate and 56% for special.

However, many oil & gas companies operating in Norway are expected to pay minimal or no taxes in 2021 due to favourable government policies. The key changes implemented for 2020 and 2021 include tax rebates set at 100% of capital expenditure, with which Rystad Energy estimates can reduce breakeven prices for projects by an average of 40%. Furthermore, a higher uplift of 24% (uplift is a percentage of CapEx that can offset the special tax base) is now accelerated to one year rather than the previous 20.8% over four years.

Valuation	Assumptions for 2021-2027 <i>Key changes between each scenario are underlined</i>	Valuation per share (S\$)
Base case	<ul style="list-style-type: none"> ▪ <u>US\$75 oil price</u> ▪ Yumna total gross production based on <u>10.4 MMboe (2021-2025)</u> ▪ Brage total production based on 7.7 MMboe (2021-2027) ▪ <u>US\$4.50 NPV</u> per MMboe for Shrek, Falk and Fogelberg 	S\$0.40
Upside case	<ul style="list-style-type: none"> ▪ <u>US\$80 oil price</u> ▪ Yumna total production based on <u>13.3 MMboe (2021-2027)</u> ▪ Brage total production based on 7.7 MMboe (2021-2027) ▪ <u>US\$6.00 NPV</u> per MMboe for Shrek, Falk and Fogelberg 	S\$0.50
Downside case	<ul style="list-style-type: none"> ▪ <u>US\$65 oil price</u> ▪ Yumna total production based on <u>8.2 MMboe (2021-2023)</u> ▪ Brage total production based on 7.7 MMboe (2021-2027) ▪ <u>US\$3.00 NPV</u> per MMboe for Shrek, Falk and Fogelberg 	S\$0.27

Our base case scenario assumes an average oil price of US\$75 over our forecast period.

Base case valuation

Our base case valuation scenario utilizes a conservative set of assumptions. We applied a 10.0% discount rate. The cost of debt is at 8.5%, and the cost of equity equals 11.5%. For Brage, 100% of capex in 2021 can be expensed in the same year, while we estimate that US\$77mn in deferred taxes will offset the special tax (56% rate) up to 2027.

YUMNA, OMAN							
(US\$)	2021	2022	2023	2024	2025	2026	2027
Decline rate per annum (%)		(32.7%)	(36.5%)	(31.9%)	(31.3%)		
Gross production rate (bopd)	11,000	7,400	4,700	3,200	2,200	-	-
Production days	365	365	365	365	365		
Masirah: Gross production rate per annum (barrels)	4,015,000	2,701,000	1,715,500	1,168,000	803,000	-	-
Masirah: Net entitlement (%)	64.0%	64.0%	64.0%	64.0%	64.0%		
Masirah: Net entitlement (barrels)	2,569,600	1,728,640	1,097,920	747,520	513,920	-	-
Oil price (US\$ per barrel)	75	75	75	75	75	-	-
Net revenue (US\$)	192,720,000	129,648,000	82,344,000	56,064,000	38,544,000		
Drilling and development Capex (US\$)	20,556,800	-	-	-	-	-	-
Abandonment (US\$)	-	-	-	-	4,000,000	-	-
Opex per barrel of oil equivalent (US\$)	7.6	11.4	17.9	26.3	25.5		
Operating expenses (US\$)	30,660,000	30,660,000	30,660,000	30,660,000	20,440,000	-	-
Operating expense / net revenue (%)	15.9%	23.6%	37.2%	54.7%	53.0%		
Free Cash flow (US\$)	141,503,200	98,988,000	51,684,000	25,404,000	14,104,000	-	-
Discount Rate	10%						
NPV (US\$)	275,387,240						
Shares outstanding ('000)	1,315,508						
NPV/share (US\$)	0.21						
NPV/share (S\$)	0.28						
Rex Ownership	86.37%						
Rex's Share (S\$/share)	0.24						

BRAGE NORWAY							
(US\$)	2021	2022	2023	2024	2025	2026	2027
Decline rate per annum (%)		(4.0%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)
Gross Production rate (bopd)	3,400	3,264	3,133	3,008	2,888	2,772	2,661
Production days	365	365	365	365	365	365	365
Brage: Gross Production rate per annum (barrels)	1,241,000	1,191,360	1,143,706	1,097,957	1,054,039	1,011,878	971,402
Oil Price (US\$ per barrel)	75	75	75	75	75	75	75
Brage: Net Revenue (US\$)	93,075,000	89,352,000	85,777,920	82,346,803	79,052,931	75,890,814	72,855,181
Drilling and development Capex (US\$)	24,367,816	24,367,816	24,367,816	24,367,816	24,367,816	24,367,816	24,367,816
Abandonment (US\$)	-	-	-	-	-	-	-
Opex per barrel of oil equivalent (US\$)	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Operating expenses (US\$)	8,687,000	8,339,520	8,005,939	7,685,702	7,378,274	7,083,143	6,799,817
Operating expense / net revenue (%)	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%
Free Cash flow (US\$)	60,020,184	56,644,664	53,404,165	50,293,285	47,306,841	44,439,855	41,687,548
Corporate Tax (22%)	13,204,440	12,461,826	11,748,916	11,064,523	10,407,505	9,776,768	9,171,261
Free cash flow after corporate tax	46,815,743	44,182,838	41,655,248	39,228,763	36,899,336	34,663,087	32,516,288
Special Tax (56%) rebate	34,430,062						
Free Cash flow after tax and rebates	81,245,805	44,182,838	41,655,248	39,228,763	36,899,336	34,663,087	32,516,288
Lime's stake 33.8%	27,496,018	14,952,798	14,097,386	13,276,190	12,487,842	11,731,029	11,004,487
Discount Rate	10%						
NPV (US\$)	77,036,324						
Shares outstanding ('000)	1,315,508						
NPV/share (US\$)	0.06						
NPV/share (S\$)	0.08						
Rex Ownership	90.0%						
Rex's Share (S\$/share)	0.071						

NORWAY LICENSES				
Licence	Estimated 2C resources (MMboe)	% stake owned by Rex	Total barrels owned by Rex (MMboe)	Remarks
Shrek	23.0	27%	6.2	
Falk	28.6	45%	12.9	
Linerle	-	45%	-	No date set for drilling
Fat Canyon	-	14%	-	Drilling in 2H 2021
Fogelberg	49.0	12%	5.9	Pending cash payable
Total	100.6		25.0	

Scenario (NPV per barrel of oil equivalent), US\$	3.00	4.50	6.00
Barrels to Rex (MMboe)	25.0	25.0	25.0
Total value of licenses (US\$)	74.9	112.3	149.8
Total value of licenses / share (US\$)	0.06	0.09	0.11
Total value of licenses / share (S\$)	0.08	0.12	0.15

Excluding "Fat Canyon" and "Linerle"

Total valuation per share, S\$	Value	Assumptions
YUMNA, OMAN	0.244	Rex has 86.37% stake in MOL; MOL has a 100% stake in the Yumna field. Production life based on Gross 2P reserves of 10.0mn MMboe (2021-2025)
BRAGE, NORWAY	0.071	Rex has 90% stake in Lime; Lime has a 33.8% stake in Brage field. Production life based on 7.7 MMboe (2021-2027)
NORWAY LICENSES	0.115	US\$4.50 per MMboe for Shrek, Falk and Fogelberg
Less Net Debt / Add net cash	0.029	Cash and quoted investments as at end-2020
Less US\$60mn 2.5 Yr bond (S\$81mn)	(0.062)	Interest rate 3m NIBOR +8.25%; maturity 9 Jan 2024; to be listed on Oslo Børs.
Total value per share, S\$	0.40	

Upside case valuation

Our upside scenario assumes oil prices of US\$80, larger reserves for Yumna and higher NAV for the Norwegian licenses.

YUMNA, OMAN							
(US\$)	2021	2022	2023	2024	2025	2026	2027
Decline rate per annum (%)		(29.8%)	(27.5%)	(25.9%)	(23.3%)	(27.3%)	(37.5%)
Gross production rate (bopd)	11,400	8,000	5,800	4,300	3,300	2,400	1,500
Production days	365	365	365	365	365	365	365
Masirah: Gross production rate per annum (barrels)	4,161,000	2,920,000	2,117,000	1,569,500	1,204,500	876,000	547,500
Masirah: Net entitlement (%)	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%
Masirah: Net entitlement (barrels)	2,663,040	1,868,800	1,354,880	1,004,480	770,880	560,640	350,400
Oil price (US\$ per barrel)	80	80	80	80	80	80	80
Net revenue (US\$)	213,043,200	149,504,000	108,390,400	80,358,400	61,670,400	44,851,200	28,032,000
Drilling and development Capex (US\$)	21,304,320	16,819,200	–	–	–	–	–
Abandonment (US\$)	–	–	–	–	–	–	4,000,000
Opex per barrel of oil equivalent (US\$)	7.4	10.5	14.5	19.5	25.5	35.0	37.3
Operating expenses (US\$)	30,660,000	30,660,000	30,660,000	30,660,000	30,660,000	30,660,000	20,440,000
Operating expense / net revenue (%)	14.4%	20.5%	28.3%	38.2%	49.7%	68.4%	72.9%
Free Cash flow (US\$)	161,078,880	102,024,800	77,730,400	49,698,400	31,010,400	14,191,200	3,592,000
Discount Rate	10%						
NPV (US\$)	342,353,056						
Shares outstanding ('000)	1,315,508						
NPV/share (US\$)	0.26						
NPV/share (S\$)	0.35						
Rex Ownership	86.37%						
Rex's Share (S\$/share)	0.30						

BRAGE NORWAY							
(US\$)	2021	2022	2023	2024	2025	2026	2027
Decline rate per annum (%)		(4.0%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)
Gross Production rate (bopd)	3,400	3,264	3,133	3,008	2,888	2,772	2,661
Production days	365	365	365	365	365	365	365
Brage: Gross Production rate per annum (barrels)	1,241,000	1,191,360	1,143,706	1,097,957	1,054,039	1,011,878	971,402
Oil Price (US\$ per barrel)	80	80	80	80	80	80	80
Brage: Net Revenue (US\$)	99,280,000	95,308,800	91,496,448	87,836,590	84,323,126	80,950,201	77,712,193
Drilling and development Capex (US\$)	24,367,816	24,367,816	24,367,816	24,367,816	24,367,816	24,367,816	24,367,816
Abandonment (US\$)	–	–	–	–	–	–	–
Opex per barrel of oil equivalent (US\$)	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Operating expenses (US\$)	8,687,000	8,339,520	8,005,939	7,685,702	7,378,274	7,083,143	6,799,817
Operating expense / net revenue (%)	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%
Free Cash flow (US\$)	66,225,184	62,601,464	59,122,693	55,783,072	52,577,037	49,499,243	46,544,560
Corporate Tax (22%)	14,569,540	13,772,322	13,006,992	12,272,276	11,566,948	10,889,833	10,239,803
Free cash flow after corporate tax	51,655,643	48,829,142	46,115,700	43,510,796	41,010,089	38,609,409	36,304,757
Special Tax (56%) rebate	37,904,862	–	–	–	–	–	–
Free Cash flow after tax and rebates	89,560,505	48,829,142	46,115,700	43,510,796	41,010,089	38,609,409	36,304,757
Lime's stake 33.8%	30,309,962	16,525,246	15,606,936	14,725,359	13,879,044	13,066,582	12,286,619
Discount Rate	10%						
NPV (US\$)	85,293,598						
Shares outstanding ('000)	1,315,508						
NPV/share (US\$)	0.06						
NPV/share (S\$)	0.09						
Rex Ownership	90.0%						
Rex's Share (S\$/share)	0.079						

NORWAY LICENSES				
Licence	Estimated 2C resources (MMboe)	% stake owned by Rex	Total barrels owned by Rex (MMboe)	Remarks
Shrek	23.0	27%	6.2	
Falk	28.6	45%	12.9	
Linerle	–	45%	–	No date set for drilling
Fat Canyon	–	14%	–	Drilling in 2H 2021
Fogelberg	49.0	12%	5.9	Pending cash payable
Total	100.6		25.0	

Scenario (NPV per barrel of oil equivalent), US\$	3.00	4.50	6.00
Barrels to Rex (MMboe)	25.0	25.0	25.0
Total value of Licenses (US\$)	74.9	112.3	149.8
Total value of licenses / share (US\$)	0.06	0.09	0.11
Total value of licenses / share (S\$)	0.08	0.12	0.15

Excluding "Fat Canyon" and "Linerle"

Total valuation per share, S\$	Value	Assumptions
YUMNA, OMAN	0.303	Rex has 86.37% stake in MOL; MOL has a 100% stake in the Yumna field. Production life based on Gross 2P reserves of 13.3mn MMboe (2021-2027)
BRAGE, NORWAY	0.079	Rex has 90% stake in Lime; Lime has a 33.8% stake in Brage field. Production life based on 7.7 MMboe (2021-2027)
NORWAY LICENSES	0.154	US\$6.00 per MMboe for Shrek, Falk and Fogelberg
Less Net Debt / Add net cash	0.029	Cash and quoted investments as at end-2020
Less US\$60mn 2.5 Yr bond (S\$81mn)	(0.062)	Interest rate 3m NIBOR +8.25%; maturity 9 Jan 2024; to be listed on Oslo Børs.
Total value per share, S\$	0.50	

Our downside scenario assumes oil prices of US\$65, smaller reserves for Yumna and lower NAV for the Norwegian licenses.

Downside case valuation

YUMNA, OMAN							
(US\$)	2021	2022	2023	2024	2025	2026	2027
Decline rate per annum (%)		(36.4%)	(35.7%)				
Gross production rate (bopd)	11,000	7,000	4,500				
Production days	365	365	365				
Masirah: Gross production rate per annum (barrels)	4,015,000	2,555,000	1,642,500				
Masirah: Net entitlement (%)	64.0%	64.0%	64.0%				
Masirah: Net entitlement (barrels)	2,569,600	1,635,200	1,051,200				
Oil price (US\$ per barrel)	65	65	65				
Net revenue (US\$)	167,024,000	106,288,000	68,328,000				
Drilling and development Capex (US\$)	20,556,800	–	–				
Abandonment (US\$)	–	–	4,000,000				
Opex per barrel of oil equivalent (US\$)	7.6	12.0	18.7				
Operating expenses (US\$)	30,660,000	30,660,000	30,660,000				
Operating expense / net revenue (%)	18.4%	28.8%	44.9%				
Free Cash flow (US\$)	115,807,200	75,628,000	33,668,000				
Discount Rate	10%						
NPV (US\$)	193,077,019						
Shares outstanding ('000)	1,315,508						
NPV/share (US\$)	0.15						
NPV/share (S\$)	0.20						
Rex Ownership	86.37%						
Rex's Share (S\$/share)	0.17						

BRAGE NORWAY							
(US\$)	2021	2022	2023	2024	2025	2026	2027
Decline rate per annum (%)		(4.0%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)
Gross Production rate (bopd)	3,400	3,264	3,133	3,008	2,888	2,772	2,661
Production days	365	365	365	365	365	365	365
Brage: Gross Production rate per annum (barrels)	1,241,000	1,191,360	1,143,706	1,097,957	1,054,039	1,011,878	971,402
Oil Price (US\$ per barrel)	65	65	65	65	65	65	65
Brage: Net Revenue (US\$)	80,665,000	77,438,400	74,340,864	71,367,229	68,512,540	65,772,039	63,141,157
Drilling and development Capex (US\$)	24,367,816	24,367,816	24,367,816	24,367,816	24,367,816	24,367,816	24,367,816
Abandonment (US\$)	–	–	–	–	–	–	–
Opex per barrel of oil equivalent (US\$)	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Operating expenses (US\$)	8,687,000	8,339,520	8,005,939	7,685,702	7,378,274	7,083,143	6,799,817
Operating expense / net revenue (%)	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
Free Cash flow (US\$)	47,610,184	44,731,064	41,967,109	39,313,712	36,766,451	34,321,080	31,973,524
Corporate Tax (22%)	10,474,240	9,840,834	9,232,764	8,649,017	8,088,619	7,550,638	7,034,175
Free cash flow after corporate tax	37,135,943	34,890,230	32,734,345	30,664,695	28,677,831	26,770,442	24,939,349
Special Tax (56%) rebate	27,480,462						
Free Cash flow after tax and rebates	64,616,405	34,890,230	32,734,345	30,664,695	28,677,831	26,770,442	24,939,349
Lime's stake 33.8%	21,868,130	11,807,900	11,078,284	10,377,853	9,705,439	9,059,921	8,440,224
Discount Rate	10%						
NPV (US\$)	60,521,778						
Shares outstanding ('000)	1,315,508						
NPV/share (US\$)	0.05						
NPV/share (S\$)	0.06						
Rex Ownership	90.0%						
Rex's Share (S\$/share)	0.056						

NORWAY LICENSES				
Licence	Estimated 2C resources (MMboe)	% stake owned by Rex	Total barrels owned by Rex (MMboe)	Remarks
Shrek	23.0	27%	6.2	
Falk	28.6	45%	12.9	
Linerle	–	45%	–	No date set for drilling
Fat Canyon	–	14%	–	Drilling in 2H 2021
Fogelberg	49.0	12%	5.9	Pending cash payable
Total	100.6		25.0	

Scenario (NPV per barrel of oil equivalent), US\$	3.00	4.50	6.00
Barrels to Rex (MMboe)	25.0	25.0	25.0
Total value of Licenses (US\$)	74.9	112.3	149.8
Total value of licenses / share (US\$)	0.06	0.09	0.11
Total value of licenses / share (S\$)	0.08	0.12	0.15

Excluding "Fat Canyon" and "Linerle"

Total valuation per share, S\$	Value	Assumptions
YUMNA, OMAN	0.171	Rex has 86.37% stake in MOL; MOL has a 100% stake in the Yumna field. Production life based on Gross 2P reserves of 8.2mn MMboe (2021-2023)
BRAGE, NORWAY	0.056	Rex has 90% stake in Lime; Lime has a 33.8% stake in Brage field. Production life based on 7.7 MMboe (2021-2027)
NORWAY LICENSES	0.077	US\$3.00 per MMboe for Shrek, Falk and Fogelberg
Less Net Debt / Add net cash	0.029	Cash and quoted investments as at end-2020
Less US\$60mn 2.5 Yr bond (S\$81mn)	(0.062)	Interest rate 3m NIBOR +8.25%; maturity 9 Jan 2024; to be listed on Oslo Børs.
Total value per share, S\$	0.27	
Current Price	0.19	
Upside / (Downside)	42%	
Implied FY2021F P/E	1.8x	
Implied FY2022F P/E	3.9x	

Peer comparison

Balance sheet matters

A key differentiating factor between Rex and other E&P independents is its strong balance sheet. Rex's balance sheet was net cash as at end-2020, a much stronger position compared to an average net gearing (net debt/equity) of 68% for international upstream O&G companies.

Rex is the only game in town for those looking for a pure-play upstream company. The most comparable peer among locally listed stocks is RH Petrogas (RHP SP). RHP is an E&P company with a focus on onshore developments in Sarawak, Malaysia and West Papua, Indonesia. However, RHP has been loss-making over the past two years and was in a US\$30.1mn negative equity position as at end-2020. KrisEnergy (KRIS SP) was another Singapore-listed independent and was the closest comparable company to Rex before its shares were suspended in 2019 due to debt problems. KrisEnergy also listed on SGX in the same year as Rex in 2013 and reached a peak market capitalisation of S\$1.4bn.

Figure 1: Peer comparison

BB ticker	Company Name	Last Price (Local \$)	Currency Adj. Market Cap (US\$ m)	Dividend Yield (%)		Net Gearing (%)	P/E (x)		P/B (x)		6M Average Daily Trading Volume (Local \$)	Price Performance (YTD)
				FY20	FY21F		12M	Forward	Historical	Historical		
REXI SP	REX INTERNATIONAL HOLDING	SGD 0.31	299	0.0	-	-19.5	NA	2.1	1.1	4,551	112.3	
Singapore Exploration and Production (E&P)												
RHP SP	RH PETROGAS LTD	SGD 0.21	113	0.0	-	-	17.8	-	-	2,474		
ITRR SP	INTERRA RESOURCES LTD	SGD 0.05	22	0.0	-	-9.4	-	-	0.8	94	7.0	
Singapore Oil & Gas Services												
CVL SP	CIVMEC LTD	SGD 0.71	263	1.6	3.5	22.8	10.2	9.3	1.1	373	74.1	
CSE SP	CSE GLOBAL LTD	SGD 0.52	196	5.9	5.4	34.8	11.4	12.0	1.3	512	9.6	
MMT SP	MERMAID MARITIME PCL	SGD 0.09	89	0.0	-	5.8	-	-	0.4	173	26.9	
DMHL SP	DYNA-MAC HOLDINGS LTD	SGD 0.10	76	0.0	-	-55.0	-	-	4.5	191	-3.9	
NRD SP	NORDIC GROUP LTD	SGD 0.36	104	2.4	-	-9.0	12.4	-	1.0	49	57.4	
International Exploration and Production (E&P)												
COP US	CONOCOPHILLIPS	USD 74.14	99,280	4.2	2.4	32.0	50.5	14.7	1.4	512,526	85.4	
EOG US	EOG RESOURCES INC	USD 89.62	52,326	3.0	2.7	16.9	19.9	11.3	1.4	342,397	82.0	
MPC US	MARATHON PETROLEUM CORP	USD 66.80	42,632	5.6	3.5	108.1	-	59.4	1.2	381,785	61.5	
HES US	HESS CORP	USD 90.15	27,917	1.9	1.1	115.8	-	42.9	3.0	161,777	70.8	
AKRBP NO	AKER BP ASA	NOK 329.30	14,070	3.1	3.2	183.5	28.7	17.5	4.6	154,139	52.3	
LUNE SS	LUNDIN ENERGY AB	SEK 346.70	11,509	6.6	4.5	-	15.3	14.3	-	211,279	56.0	
HBR LN	HARBOUR ENERGY PLC	GBp 389.40	4,958	0.0	2.1	-	-	10.6	-	556,537	-0.8	
ENOG LN	ENERGEAN PLC	GBp 907.00	2,216	0.0	0.0	107.8	-	-	1.9	164,265	25.8	
CNE LN	CAIRN ENERGY PLC	GBp 191.20	1,313	0.0	15.6	-29.7	16.1	-	1.3	263,001	-8.7	
ENQLN	ENQUEST PLC	GBp 24.95	647	0.0	-	-	-	2.8	-	90,552	121.8	
SQZ LN	SERICA ENERGY PLC	GBp 226.00	834	3.0	1.5	6.5	-	6.2	1.5	89,374	96.5	
International Oil Companies (IOC)												
XOM US	EXXON MOBIL CORP	USD 62.59	264,979	8.4	5.6	41.7	38.6	13.5	1.1	1,316,557	51.8	
CVX US	CHEVRON CORP	USD 109.61	211,976	6.1	4.9	32.1	43.5	15.4	1.2	1,050,060	29.8	
RDSA NA	ROYAL DUTCH SHELL PLC-A SHS	EUR 21.08	189,763	3.7	3.5	48.1	34.4	9.6	0.9	208,268	44.2	
857 HK	PETROCHINA CO LTD-H	HKD 4.03	160,626	4.3	6.6	25.8	6.0	7.2	0.3	563,002	67.9	
BP/LN	BP PLC	GBp 363.60	99,922	9.1	4.4	58.5	11.7	8.9	1.0	11,986,180	42.7	
EQNR NO	EQUINOR ASA	NOK 228.95	88,494	2.4	2.5	51.0	-	10.3	1.6	680,238	58.0	
ENI IM	ENI SPA	EUR 12.21	51,038	4.2	6.9	44.5	-	13.5	0.8	170,855	42.8	
REP SM	REPSOL SA	EUR 11.58	20,508	11.1	5.2	48.2	34.6	8.1	0.7	82,874	40.4	

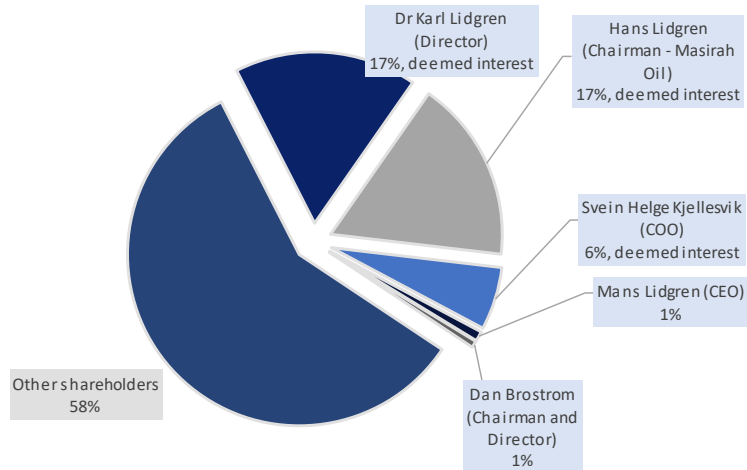
Source: Bloomberg, KGI Research

Shareholders – Alignment of interest

Rex has an experienced management team whose interests align with minority shareholders. Management who are also shareholders accounts for 42% of the total outstanding shares.

The two largest shareholders, Dr. Karl Lidgren and Hans Lidgren, each has a 17.2% stake / combined deemed interest of 34.71% in Rex. The two of them are brothers whom, since the 1980s, have utilized satellite altimeter data in oil exploration activities which enabled major oil and gas findings.

Figure 2: Rex's shareholder list

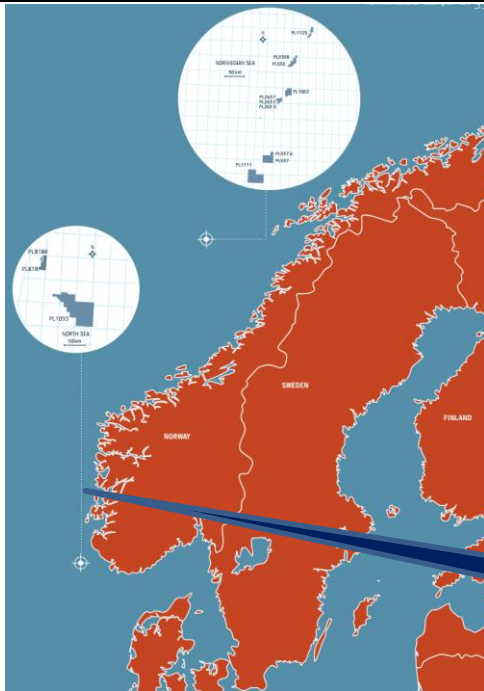


Source: Company data, KGI Research

Business summary

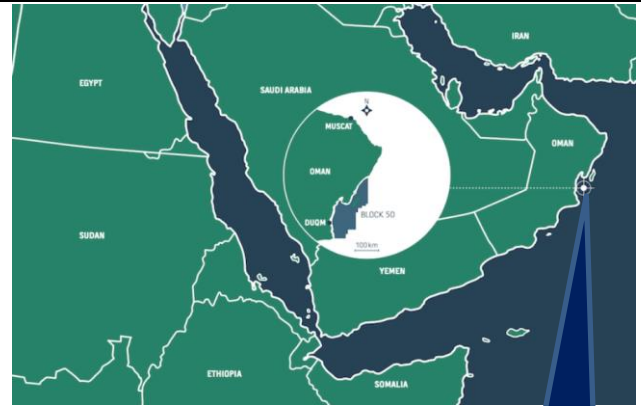
Rex has two oil producing fields. The fields are located offshore Oman and Norway (pending regulatory approval; expected to be completed in 4Q2021 with an effective date of 1 January 2021) and are expected to produce an average of around 15,000 barrels of oil equivalent per day in FY2021. In addition, Rex is an active explorer in the Norwegian continental shelf, having amassed more than 10 licenses, including 3 discovery assets with commercial development potential.

Figure 3: Rex’s concessions in Norway



Source: Company data, KGI Research

Figure 4: Rex’s Oman field



Source: Company data, KGI Research

Brage oil producing field (pending approval)

Oman Block 50 oil producing field

NORWAY	OMAN
<p>Business in Norway is conducted through Rex’s 90.00% owned Lime Petroleum AS (LPA). LPA is an Oslo-based pre-qualified oil exploration company established in 2012, with a portfolio of licences focusing on mature areas close to existing oil and gas infrastructure in the Norwegian Continental Shelf.</p> <p>LPA’s key asset will be the soon-to-be acquired 33.8% stake in the oil producing <u>Brage Field</u>, located in the northern part of the North Sea. The Brage Field operates in water depth of 140 metres and currently produces around <u>3.5k barrels of oil equivalent per day</u>. While the acquisition of Brage is expected to complete before the end of 2021, LPA will recognise Brage’s contribution from 1 Jan 2021. Net 2P reserves of about 7.3 MMboe from the Brage Field will also be added to LPA’s current attributable 2C Contingent Resources of 27.7 MMboe.</p>	<p>Rex’s business in Oman is conducted through its 86.37% owned Masirah Oil Ltd (MOL). MOL’s key asset is the 100%-owned Block 50 concession in Oman.</p> <p>MOL’s key asset is the oil producing <u>Yumna Field</u>. The Yumna Field lies within the Block 50 licence located on the eastern coast of the Sultanate of Oman, in a water depth of some 30 metres and with a current production rate of around <u>11.6k barrels of oil equivalent per day</u>. The licence is 100% owned and operated by MOL. The Yumna Field is the first discovery in Block 50 Oman and is located in the Masirah Graben geological feature.</p>

Figure 5: Rex’s corporate structure



Source: Company, KGI Research

Financial summary

FYE 31 December					
INCOME STATEMENT (USD mn)	2019	2020	2021F	2022F	2023F
Revenues	135	46,664	192,720	129,648	82,344
Production and operating expenses	–	(23,841)	(30,660)	(30,660)	(30,660)
Depletion of oil and gas properties	–	(21,484)	(22,995)	(22,995)	(22,995)
Other expenses	(2,266)	(2,147)	(659)	(679)	(699)
Gross profit	(2,131)	(808)	138,406	75,314	27,990
Administration expenses	(17,147)	(15,291)	(15,597)	(15,909)	(16,227)
Other income/(expenses), including Brage	36,563	(4,720)	27,496	14,953	14,097
Results from operating activities	17,285	(20,819)	150,305	74,358	25,860
Finance income	848	777	778	778	778
Finance costs	(1,537)	(961)	(6,630)	(6,630)	(6,630)
Profit for the year	22,229	(15,212)	144,453	68,506	20,008
Non-controlling interests	2,828	(994)	(2,750)	(1,495)	(1,410)
PATMI	19,401	(14,218)	147,202	70,001	21,418
Earnings per share (Sing cents)	2.0	(1.5)	15.0	7.0	2.1
DPS (Sing cents)	–	–	–	–	–
BALANCE SHEET (USD mn)	2019	2020	2021F	2022F	2023F
Trade and other receivables	23,302	37,200	37,200	37,200	37,200
Quoted investments	40,001	25,925	25,925	25,925	25,925
Cash and cash equivalents	21,930	20,375	155,468	217,140	229,842
Total current assets	85,233	83,500	218,593	280,265	292,967
Exploration and evaluation assets	89,967	30,376	30,376	30,376	30,376
Oil and gas properties	–	76,266	95,871	72,876	49,881
Other intangible assets	4,215	3,365	3,365	3,365	3,365
Property, plant and equipment	1,388	2,160	1,733	1,936	2,613
Total non-current assets	95,570	112,167	181,517	188,350	195,657
Total assets	180,803	195,667	400,110	468,616	488,623
Loans and borrowings	15,790	18,010	78,000	78,000	78,000
Trade and other payables	7,216	22,053	22,053	22,053	22,053
Lease liabilities	391	422	422	422	422
Total current liabilities	23,397	40,485	100,475	100,475	100,475
Deferred tax liabilities	489	13,173	13,173	13,173	13,173
Provisions	1,628	1,210	1,210	1,210	1,210
Lease liabilities	893	573	573	573	573
Total non-current liabilities	3,010	14,956	14,956	14,956	14,956
Total liabilities	26,407	55,441	115,431	115,431	115,431
Unitholders' funds and reserves	154,396	140,226	284,679	353,185	373,192
Total liabilities and equity	180,803	195,667	400,110	468,616	488,623
CASH FLOW STATEMENT (USD mn)	2019	2020	2021F	2022F	2023F
Profit before tax	15,499	(20,114)	144,453	68,506	20,008
Adjustments	(32,099)	24,807	1,927	1,296	823
Operating cash flows before WC changes	(16,600)	4,693	146,380	69,802	20,831
Change in working capital	21,362	19,543	–	–	–
Income tax paid	6,730	4,902	–	–	–
Cash flows from operations	4,762	24,236	146,380	69,802	20,831
Exploration and evaluation expenditure	(22,580)	(38,039)	(20,557)	–	–
Acquisition of subsidiaries	(72)	(1,316)	(1,500)	(1,500)	(1,500)
Others, acquisitions	41,497	13,763	(42,600)	–	–
Cash flows from investing	18,845	(25,592)	(64,657)	(1,500)	(1,500)
Interest paid	(916)	(933)	(6,630)	(6,630)	(6,630)
Other financing cashflow	(6,714)	1,555	60,000	–	–
Cash flows from financing	(7,630)	622	53,370	(6,630)	(6,630)
FX Effects, Others	648.0	(821.0)	–	–	–
Net increase in cash	15,977	(734)	135,093	61,672	12,701
Beginning Cash	5,305	21,930	20,375	155,468	217,140
Ending cash	21,930	20,375	155,468	217,140	229,842
KEY RATIOS	2019	2020	2021F	2022F	2023F
EPS (SGD cents)	1.35	1.35	1.35	1.35	1.35
Price/Earnings (x)	15.3	(21.2)	2.1	4.4	14.5
NAV per share (SGD cents)	14.7	13.1	27.6	34.3	35.9
Price/NAV (x)	2.1	2.4	1.1	0.9	0.9
Profitability					
EBITDA Margin (%)	–	–	–	–	–
Net Margin (%)	16,465.9	(32.6)	75.0	52.8	24.3
ROE (ex. Property FV gain) (%)	11.4	(8.1)	48.5	15.8	4.2
ROA (ex. Property FV gain) (%)	17.1	(11.3)	72.3	22.4	5.7
Financial Structure					
Interest Coverage Ratio (x)	11.2	(21.7)	22.7	11.2	3.9
Net Gearing Ratio (%)	(32.8)	(22.2)	(38.0)	(48.5)	(49.3)

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2021. KGI Securities (Singapore) Pte. Ltd. All rights reserved.

KGI Research Programme

This report is prepared by KGI Securities (Singapore) Pte. Ltd. ("KGISS") under the KGI Research Programme. KGISS will receive fees for providing research coverage on each participating company ("Listco") under the Programme.