

SECTOR UPDATE

Offshore Marine – Singapore

A Perfect Storm

As recently as a month ago, oil prices appeared fragile with angst about lower Chinese demand and higher supply from OPEC+. China's recent massive stimulus measures plus significantly worsening Israel-Iran tensions saw a 14% rally in oil prices since the end of September. Upstream oil companies like RHP and REXI are direct beneficiaries of the higher oil prices. We raise our target price for STM to S\$2.80 on the back of potential removal of its regulatory overhang and positive sentiment towards the sector.

WHAT'S NEW

- Oil prices in a perfect storm.** Prior to China's recent stimulus measures, consensus had downgraded oil prices for 2024 and 2025, citing weak Chinese economic growth as one of the primary reasons for the bearish outlook. Since then, the Chinese government's massive stimulus measures to reinvigorate its economy has markedly changed sentiment for the better. In addition, the escalation of tensions between Israel and Iran has added a risk premium to the oil price in our view. These two events have caused the Brent oil price to rally 14% since the end of September.
- How important is Iran's oil industry?** In 2023, Iran's total oil production was estimated at 4.7mmbpd, which equates to around 4.8% of global oil production. Despite US sanctions, the country has managed to increase its oil exports to multi-year highs of 1.7mmbpd in August. While OPEC's estimated spare capacity of 4.55mmbpd would be able to cope with any short-term outage to Iran's oil exports, a shutdown of Iran's oil facilities by an Israeli attack would have a short-term squeeze on oil prices in our view. Iran also has 2.6mmbpd of refining capacity, equating to 22% of the Middle East's capacity, with most of its oil and gas facilities located in the south, where the Kharg Island terminal is situated and from which around 90% of Iranian oil exports are shipped.
- Singapore plays.** Direct beneficiaries of a higher oil price are upstream oil producers such as RH Petrogas (RHP SP/BUY/Target: S\$0.231) and Rex International (REXI SP/SELL/Target: S\$0.08) with the key difference in the two stocks being the former's steadier oil production performance compared to the latter's. Indirect beneficiaries are offshore marine names like Seatrium (STM SP/BUY/Target: S\$2.80) and Marco Polo Marine (MPM SP/BUY/Target: S\$ 0.061), although these may take longer to play out as higher-for-longer oil prices would be required for the industry to witness stronger new order wins. We also highlight potential earnings upside for SCI given its historical ability to trade around its pipeline and LNG positions to earn higher margins in its Singapore utilities business.

ACTION

- Maintain offshore marine sector view at OVERWEIGHT.** Given the incrementally bullish outlook for the Chinese economy as well as the oil price, our conviction levels for STM has improved with the potential removal of its regulatory overhang in the near term being a share-price catalyst. We have upgraded our target price on STM to S\$2.80 by raising our target P/B multiple to +1SD (our previous target price was S\$2.31 using a target 1x P/B multiple).

PEER COMPARISON – SHIPYARDS

Company	Ticker	Rec	Price (\$)		Upside to TP (%)	PE (x)			2024F (%)		M.cap \$m	P/B (x)	Net debt/Equity* (%)
			7 Oct	Target		2023	2024E	2025E	Yield	ROE			
Keppel Ltd	KEP SP	BUY	6.65	8.86	33.2	2.9	14.8	13.2	5.1	7.8	12,010	1.1	98.4
Marco Polo Marine	MPM SP	BUY	0.059	0.061	3.4	8.4	9.2	8.6	2.5	12.6	221	1.3	(27.6)
Rex International	REXI SP	SELL	0.139	0.08	(42.4)	n.a.	5.8	5.5	13.8	25.7	181	1.4	(8.8)
RH Petrogas	RHP SP	BUY	0.205	0.231	12.7	49.2	8.1	11.9	0.0	35.2	171	2.8	(98.3)
Seatrium	STM SP	BUY	2.10	2.80	33.3	n.a.	68.1	24.2	0.0	1.6	7,132	1.1	28.4
Semb Industries	SCI SP	BUY	5.56	7.47	34.4	10.5	10.3	9.8	2.3	20.0	9,927	2.0	144.3
Yangzijiang Sblgd	YZJSGD SP	BUY	2.55	3.40	33.3	13.0	8.7	7.2	3.4	25.7	10,074	2.4	(71.6)

Note*: Negative denotes net cash
Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

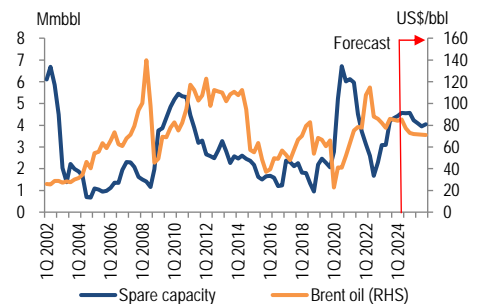
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KEY STOCKS FOR CHINA AND OIL EXPOSURE

Company	Ticker	Rec	Price (\$)	
			7 Oct	Target
Keppel Ltd	KEP SP	BUY	6.65	8.86
Marco Polo Marine	MPM SP	BUY	0.059	0.061
Rex International	REXI SP	SELL	0.139	0.08
RH Petrogas	RHP SP	BUY	0.205	0.231
Seatrium	STM SP	BUY	2.10	2.80
Semb Industries	SCI SP	BUY	5.56	7.47
Yangzijiang Sblgd	YZJSGD SP	BUY	2.55	3.40

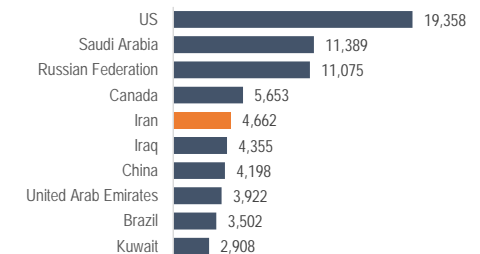
Source: Bloomberg, UOB Kay Hian

OPEC SPARE CAPACITY VS BRENT OIL PRICE



Source: US Energy Information Administration, Bloomberg

TOP 10 LARGEST OIL PRODUCERS GLOBALLY (2023, '000BPD)



Note: Includes crude oil, shale oil, oil sands, condensates and natural gas liquids

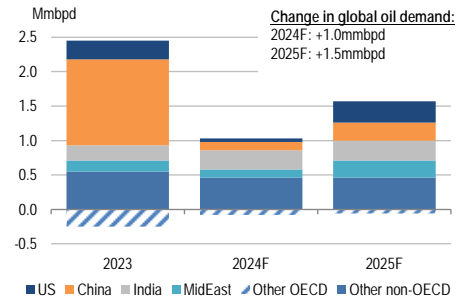
Source: Statistical Review of World Energy 2024

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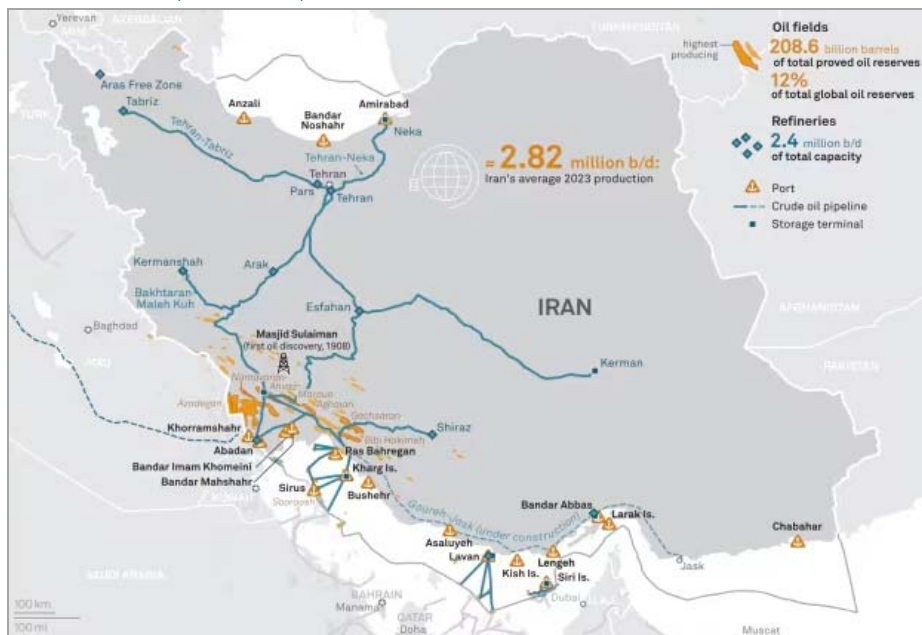
- RH Petrogas.** A share price catalyst in the near term is the drilling of one well in the Arar Block of the northern part of the Basin PSC in 4Q24 that will target around 2mmbbl of recoverable oil. We have a BUY rating on RHP with a SOTP-based target price of S\$0.231. As at end-1H24, the company did not have any external debt or shareholder loans, and cash and bank balances of nearly US\$46m. Based on yesterday's closing share price, around one-third of the company's market cap is in cash. On an ex-cash PE basis, RHP trades at a very undemanding 2025 PE of 7.5x.
- Rex International.** Maintain our SELL rating with a target price of S\$0.08 which represents 1x P/B. Without decent visibility on the company's oil production nor its realised oil price, we have elected to use a book-value methodology instead of a discounted cash flow or earnings multiple.

INCREMENTAL OIL DEMAND GROWTH PER YEAR



Source: US Energy Information Administration (Jul 24)

IRAN'S OIL FIELDS, REFINERIES, PORTS AND PIPELINES

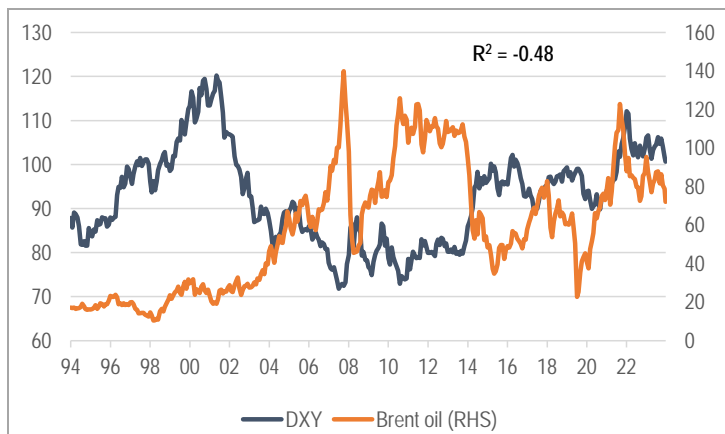


Source: S&P Global Commodity Insights

RISKS TO OUR THESIS

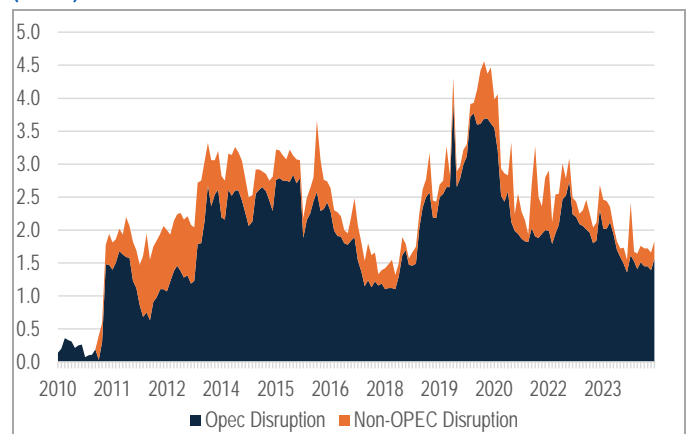
- Delays in project sanctioning due to supply chain issues; lack of financing for fossil fuel-related industries; global recession leading to lower oil prices and lower capex spending.

NEGATIVE CORRELATION BETWEEN US DOLLAR INDEX & BRENT OIL PRICE



Note: R2 is statistically significant negative correlation given sample size of 361
Source: Bloomberg

DISRUPTIONS TO GLOBAL OIL PRODUCTION: OPEC VS NON-OPEC (MMBL)



Source: US Energy Information Agency

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