

30 November 2021

# Velesto Energy Berhad

## 9MFY21 Missed Expectations

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Despite the sequentially narrowed losses, 3QFY21 results still missed expectations given poor rig utilisation. Local demand for jack-up rig is still expected to remain weak, with only two of the group's six rigs having contracts at hand going into FY22. Maintain UP with TP of RM0.10.

**9MFY21 missed expectations.** 9MFY21 core net loss of RM179m completely missed expectations against our full-year loss forecast of RM85m, and consensus of RM111m, due to the poor rig utilisations. No dividends were announced, as expected.

**Still in the red.** QoQ, 3QFY21 core net loss managed to narrow 37%, largely thanks to the higher rig utilisation of 51% versus 38%. However, YoY, losses widened over 7x due to the weaker rig utilisation of 51% versus 60%. Cumulatively, 9MFY21 plunged into the red, from a core profit of RM5.5m, similarly on the back of a weaker rig utilisation of 39% versus 68%.

**Utilisation outlook remains weak.** In line with Petronas' existing activity outlook, local demand for jack-up rigs is still expected to remain weak in the coming 1-2 years. Going into FY22, only two out of a total of six rigs available have jobs on hand. Conversely, on a more encouraging note, after the insurance claims following the sinking of Naga 7, the group managed to reduce its borrowings by 40% QoQ, with its net-gearing now standing at 0.2x, from 0.4x in the previous quarter. We believe the improved balance sheet and smaller fleet will better help the group to weather through the current challenging market conditions while awaiting a recovery.

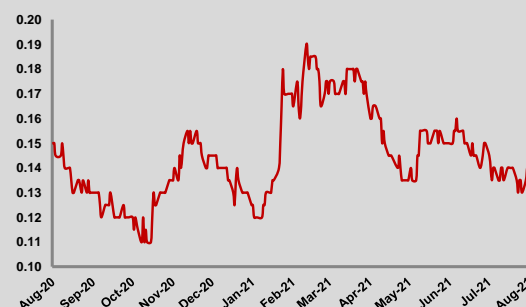
**Maintain UNDERPERFORM**, with a lowered TP of RM0.10 (from RM0.13 previously). In light of the continued losses and weak rig utilisation outlook, we have lowered our ascribed valuation down a notch to 0.4x (from 0.5x previously) – in line with 1SD below the stock's mean valuation. Post results, we have also widened our FY21E/FY22E losses by 2.2x/4.5x, after lowering our rig utilisation assumption to 45%/50% (from 50%/65% previously), coupled with weaker margins assumptions.

**Risks to our call include:** (i) unexpected recovery in utilisation, (ii) stronger-than-expected charter rates, (iii) higher-than-expected margins, and (iv) weaker-than-expected Ringgit.

# UNDERPERFORM ↔

Price : RM0.130  
Target Price : RM0.100 ↓

### Share Price Performance



KLCI	1,510.57
YTD KLCI chg	-7.2%
YTD stock price chg	-7.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	VEB MK Equity
Market Cap (RM m)	1,068.0
Shares Outstanding	8,215.6
52-week range (H)	0.20
52-week range (L)	0.12
3-mth avg daily vol:	11,295,080
Free Float	43%
Beta	1.8

### Major Shareholders

Amanah Saham Nasional	44.6%
Yayasan Pelaburan Bumiputera	7.5%
Urusharta Jamaah Sdn Bhd	5.0%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Revenue	546.9	305.9	351.7
EBIT	(412.6)	(188.3)	(66.9)
PBT	(477.0)	(248.3)	(96.9)
<b>Net Profit (NP)</b>	<b>(491.7)</b>	<b>(186.2)</b>	<b>(72.7)</b>
<b>Core NP</b>	<b>(41.5)</b>	<b>(186.2)</b>	<b>(72.7)</b>
Consensus CNP		(111.1)	33.1
Earnings revision (%)		119.8	354.8
Core EPS (sen)	(0.5)	(2.3)	(0.9)
C. EPS growth (%)	-229.8	348.8	-61.0
DPS (sen)	0.0	0.0	0.0
BVPS (RM)	0.3	0.3	0.2
Core PER (x)	-25.7	-5.7	-14.7
Price/BV (x)	0.5	0.5	0.5
Net Gearing (x)	0.3	0.4	0.1
Div. Yield (%)	0.0	0.0	0.0

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<b>Income Statement</b>								
	<b>3Q</b>	<b>2Q</b>	<b>Q-o-Q</b>	<b>3Q</b>	<b>Y-o-Y</b>	<b>9M</b>	<b>9M</b>	<b>Y-o-Y</b>
<b>Y/E : Dec (RM m)</b>	<b>FY21</b>	<b>FY21</b>		<b>FY20</b>		<b>FY21</b>	<b>FY20</b>	
Revenue	91.5	83.6	9.6%	130.7	-29.9%	219.0	447.9	-51.1%
Operating Expenses	(133.9)	(143.9)	-6.9%	(115.7)	15.8%	(372.5)	(395.8)	-5.9%
Asset Written Off	(3.8)	(460.5)	-99.2%	0.0	N.A.	(464.3)	0.0	N.A.
Other Operating Income	7.9	551.8	-98.6%	0.5	1465.0%	559.7	0.6	N.M.
<b>Profit From Operations</b>	<b>(38.3)</b>	<b>30.9</b>	<b>-223.9%</b>	<b>15.5</b>	<b>-347.6%</b>	<b>(58.1)</b>	<b>52.7</b>	<b>-210.2%</b>
Finance Costs	(10.1)	(10.8)	-6.3%	(14.4)	-29.8%	(31.7)	(51.5)	-38.4%
Associates	0.0	0.0	-12.5%	0.0	-12.5%	0.1	0.1	-16.2%
Investment Income	0.4	0.7	-32.8%	1.8	-74.7%	2.3	5.8	-60.9%
<b>Profit Before Tax</b>	<b>(48.0)</b>	<b>20.8</b>	<b>-330.4%</b>	<b>2.8</b>	<b>-1785.4%</b>	<b>(87.4)</b>	<b>7.0</b>	<b>-1340.8%</b>
Taxation	(4.1)	(4.5)	-9.9%	(2.4)	73.0%	(8.8)	(5.5)	60.6%
Non-controlling Interests	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
<b>Net Profit</b>	<b>(52.0)</b>	<b>16.3</b>	<b>-419.9%</b>	<b>0.5</b>	<b>N.M.</b>	<b>(96.2)</b>	<b>1.6</b>	<b>N.M.</b>
<b>Core Net Profit</b>	<b>(47.8)</b>	<b>(75.2)</b>	<b>-36.5%</b>	<b>(6.6)</b>	<b>624.1%</b>	<b>(178.9)</b>	<b>5.5</b>	<b>N.M.</b>
<i>Rig utilisation</i>	<i>51%</i>	<i>38%</i>		<i>60%</i>		<i>39%</i>	<i>68%</i>	
Operating margin	-41.8%	37.0%		11.8%		-26.5%	11.8%	
PBT margin	-52.4%	24.9%		2.2%		-39.9%	1.6%	
Net margin	-56.9%	19.5%		0.4%		-43.9%	0.3%	
Core net margin	-52.2%	-90.0%		-5.0%		-81.7%	1.2%	
Effective tax rate	-8.5%	21.8%		83.2%		-10.1%	77.9%	

Source: Company

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### Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BUMI ARMADA BHD	0.460	2,717.2	N	12/2021	4.7%	-0.4%	35.9%	-13.2%	5.7	4.2	4.8	0.9	0.7	18.6%	0.0%	0.570	OP
DAYANG ENTERPRISE HLDGS BHD	0.795	920.4	Y	12/2021	-14.5%	12.0%	-98.5%	4844.4%	13.8	937.5	19.0	0.6	0.6	0.1%	1.9%	1.00	MP
DIALOG GROUP BHD	2.57	14,501.4	Y	06/2022	-38.1%	28.1%	-7.9%	15.4%	24.1	26.2	22.7	3.5	3.2	12.8%	1.2%	3.50	OP
MISC BHD	6.65	29,683.9	Y	12/2021	7.8%	14.2%	-10.0%	1.4%	13.7	15.3	15.1	0.9	0.8	5.7%	5.0%	8.05	OP
PETRONAS CHEMICALS GROUP BHD	8.21	65,680.0	Y	12/2021	48.1%	-8.1%	247.1%	-34.4%	34.2	9.9	15.0	2.2	1.9	20.7%	5.1%	8.75	MP
PETRONAS DAGANGAN BHD	19.70	19,571.0	Y	12/2021	10.2%	10.2%	91.6%	32.4%	68.7	35.8	27.1	3.5	3.5	9.7%	3.1%	18.90	MP
SAPURA ENERGY BHD	0.090	1,438.1	Y	01/2022	11.9%	-40.6%	-879.6%	-118.9%	N.A.	N.A.	N.A.	0.2	0.2	-30.4%	0.0%	0.070	UP
SERBA DINAMIK HOLDINGS	0.350	1,298.4	Y	06/2022	-31.6%	10.0%	-38.2%	6.2%	1.7	2.7	2.6	0.3	0.3	11.5%	0.0%	UR	UR
UZMA BHD	0.440	154.9	Y	06/2022	15.2%	10.0%	4.6%	11.9%	6.5	6.2	5.5	0.3	0.3	4.9%	0.0%	0.670	OP
VELESTO ENERGY BHD	0.130	1,068.0	Y	12/2021	-44.1%	15.0%	-548.7%	-139.0%	N.A.	N.A.	N.A.	0.5	0.5	-8.6%	0.0%	0.100	UP
WAH SEONG CORP BHD	0.700	542.0	Y	12/2021	-14.8%	41.7%	-132.8%	-20.6%	N.A.	N.A.	37.9	0.8	0.8	-2.6%	0.0%	0.630	UP
YINSON HOLDINGS BHD	5.63	5,995.7	N	01/2022	-6.6%	-15.5%	-20.3%	-18.1%	9.7	12.1	14.8	3.3	2.7	24.7%	1.1%	7.35	OP
<b>Simple Average</b>					<b>-4.3%</b>	<b>6.4%</b>	<b>-</b>	<b>113.1%</b>	<b>19.8</b>	<b>116.6</b>	<b>16.4</b>	<b>1.4</b>	<b>1.3</b>	<b>5.6%</b>	<b>1.4%</b>		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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