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Veleso Energy

Rising Rig Utilisation

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Global jack-up rig marketed utilisation (i.e. rigs that already have contracts on-hand, and hence are off-market) has now reached as high as 91%, steadily recovering from a low of 70% in 2017. Riding on this trend, we believe VELESTO's current healthy rig utilisation is expected to last at least until end-2023. We maintain our forecasts, TP of RM0.16 and OUTPERFORM call.

3QFY22 analyst briefing. We attended VELESTO's post 3QFY22 results analyst briefing. To recap, 3QFY22 managed a successful turnaround into a core profit of RM8.6m (from core loss of RM42.6m in 2QFY22, and core loss of RM47.8m in 3QFY21), amidst higher jack-up rig utilisation of 78% (versus 41% in 2QFY22, and 51% in 3QFY21).

Below are some of our key takeaways from the briefing:

- Jack-up drilling rig market remains strong.** Global demand for jack-up drilling rigs is still on a rise, underpinned by the recovery in activity levels for exploration and developments within the oil and gas industry. Global jack-up rig marketed utilisation (i.e. rigs that already have contracts on-hand, and hence are off-market) has now reached as high as 91%, steadily recovering from a low of 70% in 2017.
- Rig utilisation to remain promising for VELESTO.** Trickleing down to VELESTO, the recovery in the global market is also benefitting VELESTO, which solely operates within local waters. Based on the group's rig schedule, we believe the current high rig utilisation rates should maintain at least until end-2023, thus implying further profitable quarters to come.

Overall, we came away from the briefing feeling mostly positive, reiterating our view on VELESTO being a prime beneficiary of the resurgence of the drilling market.

Forecasts. Unchanged.

Maintain OUTPERFORM, with unchanged TP of RM0.16 – pegged to 15x PER, in-line with the ascribed valuations for other local-centric equipment and service providers within our coverage universe (e.g. DAYANG). There is no adjustment to our TP based on ESG given a 3-star rating (see page 4).

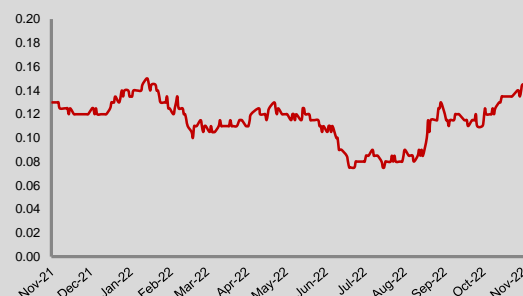
Overall, we like VELESTO for: (i) being a prime beneficiary of the recovery of the local drilling jack-up rig market, being the largest jack-up provider in the country, (ii) sustainability of its earnings turnaround story.

Risks to our call include: (i) a significant pull-back in oil prices weighing on oil & gas activities, (ii) escalation in operating costs, and (iii) project execution risks.

OUTPERFORM ↔

Price : **RM0.145**
Target Price : **RM0.160** ↔

Share Price Performance



KLCI	1,488.80
YTD KLCI chg	-5.0%
YTD stock price chg	20.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	VEB MK Equity
Market Cap (RM m)	1,191.3
Shares Outstanding	8,215.6
52-week range (H)	0.16
52-week range (L)	0.08
3-mth avg daily vol:	31,486,230
Free Float	39%
Beta	1.0

Major Shareholders

Amanah Saham Nasional	44.4%
Yayasan Pelaburan Bumiputera	7.5%
Urusharta Jamaah Sdn Bhd	4.9%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Revenue	377.5	419.1	685.1
EBIT	(44.9)	(51.7)	145.5
PBT	(82.2)	(81.7)	115.5
Net Profit (NP)	(90.8)	(61.3)	86.6
Core NP	(172.3)	(61.3)	86.6
Consensus CNP		(25.2)	73.3
Earnings revision (%)		-	-
Core EPS (sen)	(2.1)	(0.7)	1.1
C. EPS growth (%)	315.2	-64.4	-241.5
DPS (sen)	0.0	0.0	0.0
BVPS (RM)	0.3	0.3	0.3
Core PER (x)	-6.9	-19.4	13.7
Price/BV (x)	0.5	0.5	0.5
Net Gearing (x)	0.1	0.1	0.0
Div. Yield (%)	0.0	0.0	0.0

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	670.8	546.9	377.5	419.1	685.1	Growth (%)					
EBIT	123.9	(412.6)	(44.9)	(51.7)	145.5	Revenue	17.0	-18.5	-31.0	11.0	63.5
Finance costs	(81.5)	(64.4)	(39.8)	(30.0)	(30.0)	EBIT	81.1	-432.9	-89.1	15.0	-381.6
PBT	42.5	(477.0)	(82.2)	(81.7)	115.5	PBT	-353.7	-1222.5	-82.8	-0.7	-241.5
Taxation	(9.4)	(14.8)	(8.6)	20.4	(28.9)	Net profit	-285.7	-1580.4	-81.5	-32.6	-241.5
Minority Interest	0.1	0.0	0.0	0.0	0.0	Core Net Profit	-276.0	-229.8	315.2	-64.4	-241.5
Net Profit	33.2	(491.7)	(90.8)	(61.3)	86.6	Profitability (%)					
Core Net Profit	32.0	(41.5)	(172.3)	(61.3)	86.6	EBIT margin	18.5	-75.4	-11.9	-12.3	21.2
Balance Sheet						PBT Margin	6.3	-87.2	-21.8	-19.5	16.9
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	Core Net Margin	4.8	-7.6	-45.6	-14.6	12.6
Fixed Assets	3,410.2	2,720.7	2,293.1	2,110.5	1,942.5	Effective Tax Rate	22.2	-3.1	-10.5	25.0	25.0
Intangible Assets	0.0	0.0	0.0	0.0	0.0	ROE	1.1	-1.8	-7.6	-2.8	3.8
Other FA	15.2	11.9	11.1	11.1	11.1	ROA	0.7	-1.2	-5.7	-2.1	2.9
Inventories	187.4	199.6	173.5	173.5	173.5	DuPont Analysis					
Receivables	281.5	147.1	177.6	177.6	177.6	Net Margin (%)	4.8	-7.6	-45.6	-14.6	12.6
Other CA	139.4	113.7	55.7	55.7	55.7	Assets T/over (x)	0.2	0.2	0.1	0.1	0.2
Cash	240.0	261.2	293.5	384.9	612.4	Leverage Factor(x)	1.5	1.5	1.3	1.3	1.3
Total Assets	4,273.7	3,454.2	3,004.5	2,913.3	2,972.8	ROE (%)	1.1	-1.8	-7.6	-2.8	3.8
Payables	118.5	89.5	94.9	94.9	94.9	Leverage					
ST Borrowings	312.3	182.7	279.9	279.9	279.9	Debt/Asset (x)	0.3	0.3	0.2	0.2	0.2
Other ST Liability	50.5	34.4	64.1	64.1	64.1	Debt/Equity (x)	0.5	0.5	0.3	0.3	0.2
LT Borrowings	981.0	871.1	302.1	271.9	244.7	Net Debt/(Cash)	1,053	793	289	167	(88)
Other LT Liability	8.1	5.7	5.6	5.6	5.6	Net Debt/Equity (x)	0.4	0.3	0.1	0.1	0.0
Minorities Int.	1.3	1.2	0.0	0.0	0.0	Valuations					
Net Assets	2,802.1	2,269.6	2,258.1	2,196.8	2,283.5	Core EPS (sen)	0.4	-0.5	-2.1	-0.7	1.1
Share Capital	4,054.8	1,844.8	1,844.8	1,844.8	1,844.8	DPS (sen)	0.0	0.0	0.0	0.0	0.0
Other Reserves	(1,253)	425	413	352	439	BVPS (RM)	0.3	0.3	0.3	0.3	0.3
Equity	2,802.1	2,269.6	2,258.1	2,196.8	2,283.5	Core PER (x)	37.3	-28.7	-6.9	-19.4	13.7
Cashflow Statement						Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	P/BV (x)	0.4	0.5	0.5	0.5	0.5
Operating CF	202.7	285.7	(28.8)	130.9	313.5						
Investing CF	(54.7)	(25.3)	560.5	(20.0)	(20.0)						
Financing CF	(162.0)	(222.9)	(463.4)	(19.5)	(66.1)						

Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	OP	0.450	0.630	40.00%	2,663.1	N	12/2022	12.4	11.7	7.9%	-5.1%	3.6	3.8	0.6	16.8%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.40	1.70	21.43%	1,620.9	Y	12/2022	10.2	11.2	170.1%	10.1%	13.7	12.4	1.1	8.6%	0.0	0.0%
DIALOG GROUP BHD	OP	2.27	3.10	36.56%	12,808.6	Y	06/2023	9.5	9.9	5.1%	4.8%	24.0	22.9	2.4	10.2%	2.8	1.2%
MISC BHD	MP	7.20	7.30	1.39%	32,139.0	Y	12/2022	43.1	33.8	1.9%	-21.6%	16.7	21.3	0.9	5.6%	33.0	4.6%
PETRONAS CHEMICALS GROUP BHD	OP	8.54	11.00	28.81%	68,320.0	Y	12/2022	87.2	68.8	-3.9%	-21.1%	9.8	12.4	1.8	19.0%	43.6	5.1%
PETRONAS DAGANGAN BHD	MP	23.78	23.90	0.50%	23,624.3	Y	12/2022	70.4	74.0	27.6%	5.2%	33.8	32.1	4.2	12.5%	70.4	3.0%
UZMA BHD	MP	4.35	4.65	6.90%	1,174.5	Y	12/2022	161.1	98.1	82.8%	-39.1%	2.7	4.4	0.5	20.1%	16.0	3.7%
VELESTO ENERGY BHD	OP	0.460	0.670	45.65%	161.9	Y	06/2023	6.6	7.3	57.9%	11.4%	7.0	6.3	0.3	4.3%	0.0	0.0%
WAH SEONG CORP BHD	OP	0.145	0.160	10.34%	1,191.3	Y	12/2022	(0.7)	1.1	-135.6%	41.3%	N.A.	13.8	0.5	-2.8%	0.0	0.0%
YINSON HOLDINGS BHD	OP	0.650	0.800	23.08%	503.3	Y	12/2022	6.2	8.8	101.7%	43.1%	10.5	7.4	0.8	7.8%	0.0	0.0%
Simple Average	OP	2.35	3.15	34.04%	6,809.2	N	01/2023	21.9	24.1	16.3%	10.3%	10.7	9.7	1.8	18.3%	6.0	2.6%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Corporate Social Responsibility	★	★			
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Diversification from pure O&G	★	★			
	Emission Targets and Climate Goals	★	★	★		
	Occupational Health and Safety	★	★			
	Pollution control	★	★	★		
	Supply chain auditing	★	★	★		
	Energy efficiency	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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