

12 July 2023

Veleso Energy

NAGA 3 To Drill 2 Wells for PTTEP

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VELESTO has secured a USD13m drilling contract from PTT Exploration and Production Plc (PTTEP). This is for PTTEP's 2022-23 Exploration Drilling Programs. The group has assigned NAGA 3 for this contract (start: Feb CY23) to drill two firm wells. We are largely neutral on this announcement as it has been well flagged and within our assumptions. We maintain our forecasts, TP of RM0.19 and UNDERPERFORM call.

We estimate that VELESTO will derive daily charter rate (DCR) of circa USD100k for this contract. This falls within the company's earlier guidance that DCRs at Malaysian waters currently range between USD90k-131k.

We understand that DCRs have been raised higher following successful negotiations between VELESTO and Petronas for existing umbrella drilling contracts. Therefore, PTTEP, which has a farm-in agreement with Petronas on this field offshore Sarawak, will award drilling contracts based on the higher rates.

Moving forward, NAGA 3 may potentially be awarded a 2-month extension for this contract. This is before it starts its new contract for Petronas Carigali from end-Aug CY23 until end-Sept CY24.

Based on our estimates, this job will result in earnings accretion amounting to 10% of VELESTO's FY23F profit. Nevertheless, we have earlier incorporated the following assumptions to our FY23F earnings: (i) 75% utilization for NAGA 3, and (ii) average fleet DCR of USD95k.

Forecasts. Maintained.

We also maintain our TP of RM0.19 based on 15x FY24F PER. This is in line with ascribed valuations for local-centric service providers within our coverage (i.e. DAYANG). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 4).

We prefer to avoid VELESTO as: (i) costs inflation may lead to margin pressure arising from higher manpower and materials costs, (ii) catalysts have already played out (i.e. rebound in rig fleet utilization and DCRs), and (iii) rising interest rates translate to earnings drag from higher financing costs. Maintain **UNDERPERFORM**.

Risks to our call include: (i) fleet expansion via acquisition of new jack-up rigs, (ii) inflated DCRs as jack-up market tightens further, and (iii) topline boost from a strong USD/MYR.

UNDERPERFORM ↔

Price : RM0.235
Target Price : RM0.19 ↔

Share Price Performance



KLCI	1,391.46
YTD KLCI chg	-7.0%
YTD stock price chg	56.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	VEB MK EQUITY
Market Cap (RM m)	1,930.7
Shares Outstanding	8,215.6
52-week range (H)	0.29
52-week range (L)	0.08
3-mth avg daily vol:	28,651,610
Free Float	40%
Beta	1.1

Major Shareholders

Amanah Saham Nasional	44.3%
Yayasan Pelaburan Bumiputera	7.1%
Hong Leong Value Fund	4.8%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Revenue	580.9	685.1	800.8
EBIT	(54.8)	111.3	171.0
PBT	(81.8)	81.3	141.0
Net Profit (NP)	(100.4)	61.0	105.7
Core NP	(95.5)	61.0	105.7
Consensus CNP	-	88.4	123.0
Earnings revision (%)	-	-	-
Core EPS (sen)	(1.2)	0.7	1.3
C. EPS growth (%)	-44.6	-163.8	73.5
DPS (sen)	0.0	0.0	0.0
BVPS (RM)	0.28	0.29	0.30
Core PER (x)	-20.2	31.7	18.3
Price/BV (x)	0.8	0.8	0.8
Net Gearing (x)	0.2	0.1	0.0
Div. Yield (%)	0.0	0.0	0.0



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Income Statement						Financial Data & Ratios					
FYE Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FYE Dec	2020A	2021A	2022A	2023F	2024F
Revenue	546.9	377.5	580.9	685.1	800.8	Growth (%)					
EBIT	(412.6)	(45.0)	(54.8)	111.3	171.0	Revenue	-18.5	-31.0	53.9	18.0	16.9
Finance costs	(64.4)	(40.3)	(30.6)	(30.0)	(30.0)	EBIT	-432.9	-89.1	21.7	-303.2	53.7
PBT	(477.0)	(82.7)	(81.8)	81.3	141.0	PBT	-1222.5	-82.7	-1.1	-199.4	73.5
Taxation	(14.8)	(8.1)	(18.6)	(20.3)	(35.2)	Net profit	-1580.4	-81.5	10.5	-160.7	73.5
Minority Interest	0.0	0.0	0.0	0.0	0.0	Core Net Profit	-229.8	315.2	-44.6	-163.8	73.5
Net Profit	(491.7)	(90.8)	(100.4)	61.0	105.7	Profitability (%)					
Core Net Profit	(41.5)	(172.3)	(95.5)	61.0	105.7	EBIT margin	-75.4	-11.9	-9.4	16.2	21.4
Balance Sheet						PBT Margin	-87.2	-21.9	-14.1	11.9	17.6
FYE Dec (RM m)	2020A	2021A	2022A	2023F	2024F	Core Net Margin	-7.6	-45.6	-16.4	8.9	13.2
Fixed Assets	2,720.7	2,294.3	2,423.1	2,255.1	2,100.5	Effective Tax Rate	-3.1	-9.8	-22.8	25.0	25.0
Intangible Assets	0.0	0.0	0.0	0.0	0.0	ROE	-1.8	-7.6	-4.2	2.6	4.3
Other FA	11.9	10.0	9.2	9.2	9.2	ROA	-1.2	-5.7	-3.1	1.9	3.1
Inventories	199.6	173.5	186.3	219.7	256.8	DuPont Analysis					
Receivables	147.1	177.6	340.1	401.2	468.9	Net Margin (%)	-7.6	-45.6	-16.4	8.9	13.2
Other CA	113.7	57.1	19.3	19.3	19.3	Assets T/over (x)	0.2	0.1	0.2	0.2	0.2
Cash	261.2	293.5	120.0	299.3	511.0	Leverage Factor(x)	1.5	1.3	1.4	1.4	1.4
Total Assets	3,454.2	3,006.0	3,098.1	3,203.9	3,365.8	ROE (%)	-1.8	-7.6	-4.2	2.6	4.3
Payables	89.5	95.2	165.7	195.4	228.4	Leverage					
ST Borrowings	182.7	279.9	255.0	300.7	351.5	Debt/Asset (x)	0.3	0.2	0.2	0.2	0.2
Other ST Liability	34.4	65.7	85.4	85.4	85.4	Debt/Equity (x)	0.5	0.3	0.2	0.2	0.2
LT Borrowings	871.1	302.1	306.3	275.6	248.1	Net Debt/(Cash)	793	289	441	277	89
Other LT Liability	5.7	4.9	4.1	4.1	4.1	Net Debt/Equity (x)	0.3	0.1	0.2	0.1	0.0
Minorities Int.	1.2	0.0	0.0	0.0	0.0	Valuations					
Net Assets	2,269.6	2,258.1	2,281.7	2,342.6	2,448.4	Core EPS (sen)	-0.5	-2.1	-1.2	0.7	1.3
Share Capital	1,844.8	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	425	413	437	498	604	BVPS (RM)	0.3	0.3	0.3	0.3	0.3
Equity	2,269.6	2,258.1	2,281.7	2,342.6	2,448.4	Core PER (x)	-46.5	-11.2	-20.2	31.7	18.3
Cashflow Statement						Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
FYE Dec (RM m)	2020A	2021A	2022A	2023F	2024F	P/BV (x)	0.9	0.9	0.8	0.8	0.8
Operating CF	285.7	(29.1)	(25.0)	279.3	325.5						
Investing CF	(25.3)	524.7	(103.2)	(20.0)	(20.0)						
Financing CF	(222.9)	(463.4)	(55.8)	(79.9)	(93.9)						

Source: Kenanga Research

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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	0.490	0.620	26.5%	2,902.1	N	12/2023	11.9	13.6	-8.2%	13.8%	4.1	3.6	0.5	12.7%	0.0	0.0%
DIALOG GROUP BHD	OP	2.23	3.10	39.0%	12,582.9	Y	06/2023	9.5	9.9	5.1%	4.8%	23.6	22.5	2.3	10.2%	2.8	1.3%
MISC BHD	MP	7.09	7.60	7.2%	31,648.0	Y	12/2023	57.5	55.0	8.1%	-4.3%	12.3	12.9	0.8	6.8%	33.0	4.7%
PETRONAS CHEMICALS GROUP BHD	UP	6.14	6.20	1.0%	49,120.0	Y	12/2023	25.0	43.2	-69.0%	72.9%	24.6	14.2	1.2	5.0%	12.0	2.0%
PETRONAS DAGANGAN BHD	MP	22.40	24.90	11.2%	22,253.4	Y	12/2023	106.0	92.6	41.3%	-12.6%	21.1	24.2	3.9	18.3%	106.0	4.7%
PETRON MALAYSIA REFINING	MP	4.54	4.65	2.4%	1,225.8	Y	12/2023	103.0	97.8	-7.6%	-5.0%	4.4	4.6	0.5	11.9%	21.0	4.6%
UZMA BHD	OP	0.675	0.900	33.3%	261.4	Y	06/2023	7.7	9.9	85.0%	28.5%	8.8	6.8	0.4	5.1%	0.0	0.0%
VELESTO ENERGY BHD	UP	0.235	0.190	-19.1%	1,930.7	Y	12/2023	0.7	1.3	-36.1%	73.3%	31.7	18.3	0.8	2.6%	0.0	0.0%
WASCO BHD	OP	0.915	0.970	6.0%	708.5	Y	12/2023	10.7	12.8	6.1%	19.1%	8.5	7.1	1.1	13.4%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.55	3.65	43.1%	7,411.9	N	01/2024	20.8	25.2	-18.4%	21.2%	12.2	10.1	1.6	13.7%	2.0	0.8%
Simple Average					131,630.8					-33.0%	19.1%	16.4	13.8	1.3	9.9%		1.8%

Source: Kenanga Research

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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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