

17 January 2024

Veleso Energy

“Rig”orous Outlook

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VELESTO anticipates stronger average daily charter rates (DCR) in FY24 following the contract renewals for four rigs, but flattish utilisation at 80%-85% due to significant maintenance activities. We raise our FY23-24F earnings forecasts by 20% and 46%, lift our TP by 53% to RM0.26 (from RM0.17) and upgrade our call to MARKET PERFORM from UNDERPERFORM.

We came away from an engagement with VELESTO feeling positively upbeat on the local rig market outlook. The key takeaways are as follows:

- Rig utilisation to surge in 4QFY23.** VELESTO projects a substantial increase in rig utilisation rates in the upcoming reporting quarter, targeting a 90% utilization rate as multiple rigs entered full operations. The average daily charter rate (DCR) for the rigs is anticipated to remain at USD97,000/day in 4QFY23, consistent with the achieved rates in 3QFY23.
- More DCR renewals in FY24.** In addition to NAGA 8, which has secured a DCR of USD137,000/day, Naga 2, 4, and 5 will undergo charter renewals at various points in FY24. VELESTO indicates that the DCR for new contracts will fall within the range of USD120,000-130,000/day. Hence, this is expected to push the average DCR for the group close to USD120,000/day, potentially surpassing our initial expectation of USD107,000/day for FY24.
- Four rigs to come under scheduled maintenance.** Four rigs (Naga 2, Naga 3, Naga 5, and Naga 6) are scheduled for major maintenance in FY24. VELESTO anticipates that average rig utilization will fall within the range of 80%-85%, similar to FY23. The estimated major maintenance cost per rig is USD10m, and the company plans to depreciate these costs over the next five years, following its standard practice.

Forecasts. We upgrade our FY23-24F earnings projections by 20% and 46%, factoring in higher average DCR assumptions (FY23: adjusted from USD90,000/day to USD93,333/day, FY24: adjusted from USD107,000/day to USD118,300/day). Our assumptions for rig utilisation stand at 83% for FY23 and 84% for FY24.

Valuations. As a result, we lift our TP by 53% to RM0.26 from RM0.17 based on 15x FY24F PER, at a slight premium to valuations of regional drilling peers (PETROVIETNAM: 14x) due to VELESTO's supportive client, Petronas. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 4).

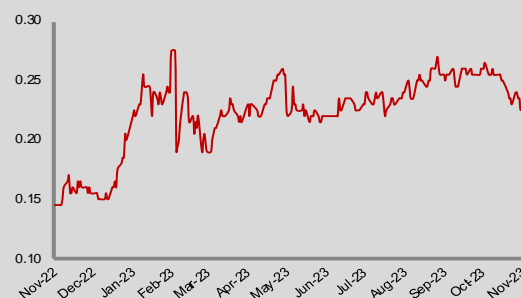
Investment case. We like VELESTO due to: (i) the positive outlook of the local jack-up rig market buoyed by strong demand amidst firm crude oil prices, (ii) its strengthened bargaining power as a result, paving the way for better DCR on contract renewals, and (iii) potential upside surprises to its margins on early signs of easing labour cost inflation. However, we acknowledge VELESTO's significant scheduled maintenance activities in FY24 which could limit its earnings upside. Nonetheless, its valuations have become more reasonable after our earnings upgrade. Raise to **MARKET PERFORM** from **UNDERPERFORM**.

Risks to our call include: (i) a sharp plunge in crude oil prices, (ii) lower-than-expected DCR on rig contract renewals, and (iii) longer-than-expected maintenance duration for rigs.

MARKET PERFORM ↑

Price : **RM0.27**
Target Price : **RM0.26** ↑

Share Price Performance



KLCI	1,452.74
YTD KLCI chg	-2.9%
YTD stock price chg	46.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	VEB MK Equity
Market Cap (RM m)	1,807.4
Shares Outstanding	8,215.6
52-week range (H)	0.29
52-week range (L)	0.14
3-mth avg daily vol:	30,169,800
Free Float	40%
Beta	0.8

Major Shareholders

Amanah Saham Nasional	45.1%
Yayasan Pelaburan Bu	7.1%
Hong Leong Value Fun	4.8%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Revenue	580.9	1,101.1	1,347.8
EBIT	(55.9)	114.0	232.3
PBT	(82.9)	74.8	186.9
Net Profit (NP)	(101.6)	56.1	140.1
Core NP	(101.6)	56.1	140.1
Consensus CNP	-	58.2	140.7
Earnings revision (%)	-	20.1	45.8
Core EPS (sen)	(1.2)	0.7	1.7
C. EPS growth (%)	10.1	-155.2	149.8
DPS (sen)	-	-	-
BVPS (RM)	0.28	0.28	0.30
Core PER (x)	-21.0	38.1	15.2
Price/BV (x)	0.9	0.9	0.9
Net Gearing (x)	0.2	0.2	0.2
Div. Yield (%)	-	-	-

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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	MP	0.535	0.580	8.4%	3,168.6	N	12/2023	10.3	13.6	-25.9%	31.9%	5.2	3.9	0.5	11.1%	0.0	0.0%
DIALOG GROUP BHD	OP	1.96	3.10	58.2%	11,059.4	Y	06/2024	9.9	10.3	10.7%	4.2%	19.8	19.0	1.9	9.7%	4.2	2.1%
MISC BHD	MP	7.35	7.00	-4.8%	32,808.5	Y	12/2023	46.8	49.6	-11.8%	6.0%	15.7	14.8	0.9	5.5%	30.0	4.1%
PETRONAS CHEMICALS GROUP BHD	MP	6.88	6.74	-2.0%	55,040.0	Y	12/2023	21.3	45.0	-73.1%	111.1%	32.3	15.3	1.4	4.3%	14.9	2.2%
PETRONAS DAGANGAN BHD	MP	21.12	22.40	6.1%	20,981.7	Y	12/2023	94.8	94.4	25.2%	-0.4%	22.3	22.4	3.5	16.1%	75.8	3.6%
PETRON MALAYSIA REFINING	MP	4.65	4.74	1.9%	1,255.5	Y	12/2023	109.3	99.6	-2.0%	-8.8%	4.3	4.7	0.5	12.6%	21.0	4.5%
UZMA BHD	OP	0.880	1.22	38.6%	340.7	Y	06/2024	11.8	12.2	16.9%	3.5%	7.5	7.2	0.6	8.7%	0.0	0.0%
VELESTO ENERGY BHD	MP	0.260	0.260	0.0%	2,136.0	Y	12/2023	0.7	1.7	-44.8%	149.7%	38.1	15.2	0.9	2.4%	0.0	0.0%
WAH SEONG CORP BHD	MP	1.02	0.940	-7.8%	789.8	Y	12/2023	8.8	10.4	-17.9%	18.1%	11.6	9.8	1.0	9.1%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.57	3.39	31.9%	7,470.9	N	01/2024	12.9	18.4	24.7%	42.6%	19.9	14.0	1.8	9.4%	3.9	1.5%
Simple Average					137,100.6					-40.3%	36.1%	19.9	14.6	1.3	8.9%		1.8%

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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