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Veleso Energy

Rig Rate Bonanza

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VELESTO has obtained contract extensions for Naga 2, 4, and 6 with daily charter rates (DCRs) of between USD114,000 and USD133,000, surpassing our estimates. We keep our FY24F forecast on maintenance for four rigs but raise our FY25F earnings forecast by 10%. Correspondingly, we lift our TP by 10% to RM0.34 (from RM0.31) and maintain our OUTPERFORM call.

VELESTO has obtained contract extensions for its Naga 2, Naga 4, and Naga 6 jack-up rigs, with contract value of USD73m, USD95m, and USD97m, respectively. These extensions are for an additional two years starting from February 2024. The estimated implied DCR for Naga 2, Naga 4, and Naga 6, based on their extension values, are USD114,300, USD130,000, and USD133,000, respectively. This exceeds our initial DCR assumption of USD120,000 for FY24, indicating a favourable outcome for VELESTO.

Forecasts. We are keeping our FY24F forecast unchanged, adopting a conservative stance in light of the expected impact from four special periodic surveys (SPS) that may affect overall rig utilisation. However, we have raised our FY25F earnings forecast by 10%, adjusting for a higher average DCR of USD125,000, up from USD122,500, reflecting an improved outlook for DCRs.

Valuations. We lift our TP by 10% to RM0.34 from RM0.31 pegged to 15x FY25F PER, at a slight premium to valuations of regional drilling peers (PETROVIETNAM: 14x). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 4).

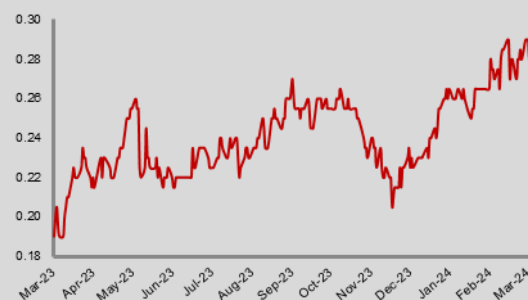
Investment case. We like VELESTO due to: (i) the positive outlook of the local jack-up rig market buoyed by strong demand amidst pick up in upstream capex; (ii) its strengthened bargaining power as a result, paving the way for better DCR on contract renewals, and (iii) potential upside surprises to its margins on early signs of easing in labour cost inflation. Maintain **OUTPERFORM**.

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

OUTPERFORM ↔

Price : **RM0.285**
Target Price : **RM0.34** ↑

Share Price Performance



KLCI	1,545.59
YTD KLCI chg	6.3%
YTD stock price chg	21.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	VEB MK Equity
Market Cap (RM m)	2,300.4
Shares Outstanding	8,215.6
52-week range (H)	0.32
52-week range (L)	0.18
3-mth avg. daily vol.	48,865,320
Free Float	40%
Beta	0.9

Major Shareholders

Amanah Saham Nasional	45.1%
Yayasan Pelaburan Bumiputera	7.1%
Hong Leong Value Fund	4.8%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Revenue	1214.7	1358.8	1457.4
EBIT	161.5	234.3	290.3
PBT	121.2	194.5	250.5
Net Profit (NP)	99.5	145.9	187.9
Core NP	99.5	145.9	187.9
Consensus CNP		158.7	184.9
Earnings Revision (%)		-	+9.8
Core EPS (sen)	1.2	1.8	2.3
C. EPS Growth (%)	-198.0	46.6	28.8
DPS (sen)	-	-	-
BVPS (RM)	0.3	0.3	0.3
Core PER (x)	23.5	16.0	12.5
Price/BV (x)	0.9	0.9	0.8
Net Gearing (x)	0.1	0.0	-0.1
Div. Yield (%)	-	-	-

Income Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	377.5	580.9	1,214.7	1,358.8	1,457.4
EBIT	-46.4	-55.9	161.5	234.3	290.3
Finance costs	-40.3	-30.6	-44.5	-40.0	-40.0
PBT	-84.1	-82.9	121.2	194.5	250.5
Taxation	-8.1	-18.6	-21.7	-48.6	-62.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	-92.3	-101.6	99.5	145.9	187.9
Core Net Profit	-92.3	-101.6	99.5	145.9	187.9

Balance Sheet

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	2,294	2,423	2,422	2,349	2,282
Intangible Assets	0	0	0	0	0
Other FA	10	9	10	10	10
Inventories	174	186	179	200	214
Receivables	178	340	367	393	409
Other CA	57	19	9	9	9
Cash	294	120	126	401	637
Total Assets	3,006	3,098	3,112	3,362	3,561

Payables	95	166	264	283	294
ST Borrowings	280	255	114	200	200
Other ST Liability	66	85	10	10	10
LT Borrowings	302	306	244	244	244
Other LT Liability	5	4	3	3	3
Minorities Int.	0	0	0	0	0
Net Assets	2,258	2,282	2,476	2,621	2,809

Share Capital	1,845	1,845	1,845	1,845	1,845
Other Reserves	413	437	631	777	964
Equity	2,258	2,282	2,476	2,621	2,809

Cashflow Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	-29.1	-25.0	383.2	279.4	326.2
Investing CF	524.7	-103.2	-121.8	-90.0	-90.0
Financing CF	-463.4	-55.8	-270.2	85.7	0.0

Financial Data & Ratios

FY Dec	2021A	2022A	2023A	2024F	2025F
Growth (%)					
Revenue	-31.0	53.9	109.1	11.9	7.3
EBIT	-89.0	20.5	-389.2	45.1	23.9
PBT	-82.4	-1.5	-246.2	60.5	28.8
Net profit	-81.3	10.1	-198.0	46.6	28.8
Core Net Profit	-81.3	10.1	-198.0	46.6	28.8

Profitability (%)

EBIT margin	-12.3	-9.6	13.3	17.2	19.9
PBT Margin	-22.3	-14.3	10.0	14.3	17.2
Core Net Margin	-24.4	-17.5	8.2	10.7	12.9
Effective Tax Rate	-9.7	-22.5	17.9	25.0	25.0
ROE	-4.1	-4.5	4.0	5.6	6.7
ROA	-3.1	-3.3	3.2	4.3	5.3

DuPont Analysis

Net Margin (%)	-24.4	-17.5	8.2	10.7	12.9
Assets T/over (x)	0.1	0.2	0.4	0.4	0.4
Leverage Factor(x)	1.3	1.4	1.3	1.3	1.3
ROE (%)	-4.1	-4.5	4.0	5.6	6.7

Leverage

Debt/Asset (x)	0.2	0.2	0.1	0.1	0.1
Debt/Equity (x)	0.3	0.2	0.1	0.2	0.2
Net Debt/(Cash)	289	441	233	44	-193
Net Debt/Equity (x)	0.1	0.2	0.1	0.0	-0.1

Valuations

Core EPS (sen)	-1.1	-1.2	1.2	1.8	2.3
DPS (sen)	0	0	0	0	0
BVPS (RM)	0.27	0.28	0.30	0.32	0.34
Core PER (x)	-25.4	-23.1	23.5	16.0	12.5
Div. Yield (%)	0	0	0	0	0
P/BV (x)	1.0	1.0	0.9	0.9	0.8

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	MP	0.575	0.580	0.9%	3,405.5	N	12/2024	13.8	12.6	144.4%	-8.8%	4.2	4.6	0.5	13.4%	0.0	1.9%
DIALOG GROUP BHD	OP	2.26	3.10	37.2%	12,752.2	Y	06/2024	9.3	10.3	4.0%	11.0%	24.3	21.9	2.2	9.1%	4.2	0.0%
ICON OFFSHORE	OP	0.690	0.800	15.9%	373.7	Y	12/2024	5.3	8.1	285.3%	52.9%	13.0	8.5	1.0	8.0%	0.0	4.0%
MISC BHD	MP	7.53	7.51	-0.3%	33,612.0	Y	12/2024	51.9	53.9	7.0%	3.9%	14.5	14.0	0.8	5.8%	30.0	3.3%
PETRONAS CHEMICALS GROUP BHD	MP	6.79	6.88	1.3%	54,320.0	Y	12/2024	44.9	45.9	111.1%	2.3%	15.1	14.8	1.3	8.7%	22.4	3.7%
PETRONAS DAGANGAN BHD	MP	21.80	23.70	8.7%	21,657.3	Y	12/2024	99.7	109.8	1.1%	10.1%	21.9	19.9	3.6	16.9%	79.8	4.4%
PETRON MALAYSIA REFINING	MP	4.58	4.74	3.5%	1,236.6	Y	12/2024	99.6	89.6	-1.1%	-10.0%	4.6	5.1	0.5	10.6%	20.0	0.0%
UZMA BHD	OP	1.29	1.45	12.4%	499.5	Y	06/2024	13.4	14.1	32.8%	5.6%	9.6	9.1	0.9	9.9%	0.0	0.0%
VELESTO ENERGY BHD	OP	0.285	0.340	19.3%	2,341.4	Y	12/2024	1.8	2.1	46.6%	17.3%	16.0	13.7	0.9	5.7%	0.0	0.0%
WAH SEONG CORP BHD	OP	1.29	1.48	14.7%	998.9	Y	12/2024	12.1	14.8	20.0%	22.6%	10.7	8.7	1.3	12.5%	0.0	1.6%
YINSON HOLDINGS BHD	OP	2.45	3.41	39.2%	7,122.3	N	01/2025	12.9	18.4	24.7%	42.6%	19.0	13.3	1.7	9.4%	3.9	1.7%
Sector Aggregate					141,063.5					41.7%	5.1%	15.1	14.4	1.4	9.9%		1.9%

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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