

24 May 2024

Velesto Energy

A Strong Start to FY24

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VELESTO's 1QFY24 results met expectations. Its 1QFY24 earnings jumped 2.4x YoY due to higher rig utilisation and charter rates on a moderate increase in cost. We see a dip in rig utilisation in 2HFY24 before improving in FY25F. The tight market at present gives VELESTO the opportunity to secure new charters at higher rates. We maintain our forecasts, TP of RM0.34 and OUTPERFORM call.

Its 1QFY24 core net profit came in at 32% and 29% of our full-year forecast and the full-year consensus estimate, respectively. However, we consider the results within expectations as we expect slightly weaker 2H given that three rigs will undergo the special periodical survey (SPS), which will put a dent to rig utilisation. No dividends were declared for the quarter.

YoY, its 1QFY24 topline rose 18% driven by an increase in overall rig utilisation from 90% to 94% and a higher daily charter rate (DCR) of USD 107,000/day (from USD 86,000/day previously). Its core profit soared 2.4x on a moderate increase in operating cost and lower finance cost.

QoQ, its 1QFY24 revenue declined by 6% due to fewer work orders for its integrated rig, drilling, and completion (i-RDC) services. Its rig utilisation remained relatively flat but the average DCR saw a slight increase. However, its core profit dropped by 30% on higher repair costs and depreciation.

Outlook. Currently, all its six rigs are operational. However, two rigs, Naga 2 and Naga 5, will complete their current charters at the start of 3QFY24 and will then begin their SPS. Naga 6 is set to start its SPS in 4QFY24. Consequently, its rig utilisation will decrease in 2HFY24. It is poised to secure new charters at higher DCR, given the robust demand for jack-up rigs at present, paving the way for better FY25F earnings.

Forecasts. Maintained.

Valuations. We maintain our TP of RM0.34 pegged to unchanged 15x FY25 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).

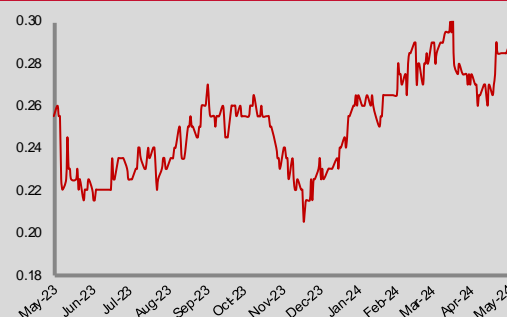
Investment case. We like VELESTO due to: (i) the positive outlook of the local jack-up rig market buoyed by strong demand amidst firm crude oil prices; (ii) its strengthened bargaining power as a result, paving the way for better DCR on contract renewals, and (iii) potential upside surprises to its margins on early signs of easing 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 : **RM0.295**
Target Price : **RM0.34** ↔

Share Price Performance



KLCI	1,629.18
YTD KLCI chg	12.0%
YTD stock price chg	28.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	VEB MK Equity
Market Cap (RM m)	2,423.6
Shares Outstanding	8,215.6
52-week range (H)	0.32
52-week range (L)	0.20
3-mth avg. daily vol:	61,472,280
Free Float	44%
Beta	0.8

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	-	164.5	199.3
Earnings Revision (%)	-	-	-
Core EPS (sen)	1.2	1.8	2.3
C. EPS Growth (%)	-198.0	46.6	28.8
DPS (sen)	0.0	0.0	0.0
BVPS (RM)	0.3	0.3	0.3
Core PER (x)	24.3	16.6	12.9
Price/BV (x)	1.0	0.9	0.9
Net Gearing (x)	0.1	0.0	-0.1
Div. Yield (%)	0.0	0.0	0.0

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Results Highlights

	1Q FY24	4Q FY23	Q-o-Q	1Q FY23	Y-o-Y
FYE Dec (RM m)					
Revenue	338.6	358.9	-5.7%	287.3	17.9%
EBITDA	133.8	144.4	-7.4%	74.3	80.1%
Depreciation & amortisation	-65.6	-55.8	17.7%	-47.4	38.4%
Investment Income	1.3	1.3	3.1%	0.8	64.9%
Finance Costs	-9.3	-10.1	-8.0%	-12.2	-23.6%
Associates	0.1	0.0	8.2%	0.0	120.8%
Profit Before Tax	60.2	79.9	-24.6%	15.5	288.6%
Taxation	-13.4	-13.2	1.5%	-1.3	954.5%
Non-controlling Interests	0.0	0.0	nm	0.0	nm
Net Profit	46.8	66.7	-29.8%	14.2	229.1%
EI	-	-	nm	-0.6	-100.0%
Core Net Profit	46.8	66.7	-29.8%	13.6	244.2%
Core EPS (sen)	0.6	0.8	-29.8%	0.2	244.1%
EBITDA margin	39.5%	40.2%		25.9%	
PBT margin	17.8%	22.3%		5.4%	
Net margin	13.8%	18.6%		5.0%	
Core net margin	13.8%	18.6%		4.7%	
Effective tax rate	22.2%	16.5%		8.2%	

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%	3,408.5	N	12/2024	13.8	12.6	144.4%	-8.8%	4.2	4.6	0.5	13.4%	0.0	0.0%
DIALOG GROUP BHD	OP	2.47	3.18	28.7%	13,937.2	Y	06/2024	10.2	10.6	13.9%	4.1%	24.3	23.3	2.3	10.0%	4.3	1.7%
ICON OFFSHORE BHD	MP	0.745	0.70	7.4%	463.6	Y	12/2024	2.4	6.8	285.3%	52.9%	31.6	10.9	1.1	8.0%	0.0	0.0%
KEYFIELD INTERNATIONAL	OP	2.39	1.90	-20.5%	1,912.0	N	12/2024	15.4	17.9	17.1%	15.6%	15.5	13.4	2.9	26.1%	3.0	1.3%
MISC BHD	MP	8.45	7.69	-9.0%	37,718.7	Y	12/2024	51.9	53.9	7.0%	3.9%	16.3	15.7	0.9	5.8%	30.0	3.6%
PETRONAS CHEMICALS GROUP	MP	6.92	6.88	-0.6%	55,360.0	Y	12/2024	44.9	45.9	111.1%	2.3%	15.4	15.1	1.3	8.7%	22.4	3.2%
PETRONAS DAGANGAN BHD	MP	20.42	23.70	16.1%	20,286.3	Y	12/2024	99.7	109.8	1.1%	10.1%	20.5	18.6	3.4	16.9%	79.8	3.9%
PETRON MALAYSIA REFINING	MP	5.09	4.74	-6.9%	1,374.3	Y	12/2024	99.6	89.6	-1.1%	-10.0%	5.1	5.7	0.5	10.6%	20.0	3.9%
VELESTO ENERGY BHD	OP	0.295	0.340	15.3%	2,423.6	Y	12/2024	1.8	2.3	46.6%	28.8%	16.6	12.9	0.9	5.7%	0.0	0.0%
WASCO BHD	OP	1.56	1.48	-5.1%	1,207.9	Y	12/2024	12.1	14.8	20.0%	22.6%	12.9	10.5	1.5	12.5%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.38	3.41	43.3%	7,204.4	N	01/2025	17.4	19.4	45.2%	11.0%	13.6	12.3	1.4	10.2%	5.0	2.1%
SECTOR AGGREGATE					149,033.8					43.1%	3.9%	15.4	14.8	1.5	11.3%		1.6%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Community Investment	★	★			
	Workers Safety & Wellbeing	★	★	★	★	
	Corporate Governance	★	★	★	★	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Transition to Low-Carbon Future	★	★			
	Conservation & Biodiversity	★	★	★		
	Effluent/Waste Management	★	★			
	Water Management	★	★	★		
	Supply Chain Management	★	★	★		
	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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