

28 February 2025

Veleso Energy

Going Into Maintenance Mode

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VELESTO's FY24 results exceeded both our and consensus expectations, supported by higher-than-anticipated charter rates. We maintain our view for weaker earnings in FY25 following the earlier-than-expected suspension of Naga 8's contract, adding pressure on VELESTO to secure new jobs for Naga 8 as well as renew contracts for Naga 3 and 5. Amid the softer rig rate and utilisation outlook, these factors appear to have been priced in, with the stock currently trading at an FY25F PER of 10.2x, which is at -1SD levels. We maintain earnings and TP of RM0.21 and OUTPERFORM rating.

Its FY24 core profit of RM207.7m was above our (114%) and consensus (117%) expectations due to higher-than-expected average daily charter rates (DCR) while rig utilisation remained largely within expectation. A single interim dividend of RM0.01/share was declared for the quarter, which brought cumulative FY24 DPS to RM0.013/share, below our expectation (RM0.026/share).

YoY, VELESTO's FY24 revenue rose 12% YoY, supported by higher daily charter rates (DCR) of USD126,000 (vs. USD99,000), despite a decline in rig utilisation (82% vs. 94%) as Naga 3 and Naga 5 were idle in 4QFY24. Core profit more than doubled (+107% YoY), as interest costs dropped and operating costs remained flat.

QoQ, 4QFY24 revenue fell 22%, largely due to a decline in work orders after completing most of the i-RDC project in 3QFY24. However, core profit jumped 29% QoQ thanks to improved rig utilisation and lower depreciation costs. Importantly, the i-RDC contract's prior revenue contribution was minimal, so its sequential decline had little impact on profitability.

Outlook. Looking ahead, Carigali Hess has indicated that Naga 8's charter will conclude in April 2025, earlier than initially expected, following quicker completion of its drilling programme. Consequently, we expect VELESTO's FY25F rig utilisation to drop to 75% (from 87% in FY24) and Petronas Activity Outlook reaffirms our view. With Naga 3 and Naga 5 also needing new drilling contracts, DCRs may face some pressure, particularly given a softer drilling outlook as reflected in the recent Petronas Activity Outlook (2025–2027).

Forecasts. Maintained.

Valuations. Correspondingly, we maintain our TP at to RM0.21 with FY25F PER held at 12x. Our target PER remains at a slight premium compared to its peer SEADRILL (11x) as it remains the preferred drilling contractor choice for Petronas. Nevertheless, we believe the valuation is justified at -0.5SD of its 2-year mean. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 4).

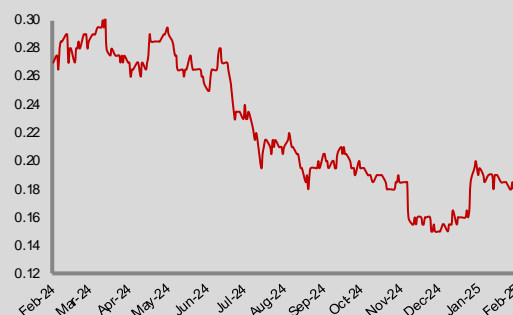
Investment case. We like VELESTO due to: (i) the positive outlook of the local and regional jack-up rig market buoyed by strong demand; (ii) its strengthened bargaining power as a result of it being the only major drilling player in Malaysia, and (iii) consistent reduction in gearing. Maintain OUTPERFORM.

Risks to our call include: (i) a sharp plunge in crude oil prices, (ii) worse-than-expected capex deferral by Petronas, and (ii) longer-than-expected maintenance duration for rigs.

OUTPERFORM ↔

Price : RM0.175
Target Price : RM0.21 ↔

Share Price Performance



KLCI	1,586.60
YTD KLCI chg	-3.4%
YTD stock price chg	12.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	VEB MK Equity
Market Cap (RM m)	1,437.7
Shares Outstanding	8,215.6
52-week range (H)	0.32
52-week range (L)	0.15
3-mth avg. daily vol:	29,797,010
Free Float	44%
Beta	0.7

Major Shareholders

Amanah Saham Nasional	42.3%
Yayasan Pelaburan Bu	7.1%
Hong Leong Value Fun	3.5%

Summary Earnings Table

FY Dec (RM m)	2024A	2025F	2026F
Revenue	1360.4	1250.7	1293.9
EBIT	293.2	187.0	230.3
PBT	267.0	187.2	231.5
Net Profit (NP)	207.7	140.4	173.6
Core NP	207.7	140.4	173.6
Consensus CNP	-	135.6	128.6
Earnings Revision (%)	-	-	-
Core EPS (sen)	2.5	1.7	2.1
C. EPS Growth (%)	108.7	-32.4	23.6
DPS (sen)	1.3	0.7	0.8
BVPS (RM)	0.3	0.3	0.4
Core PER (x)	6.9	10.2	8.3
Price/BV (x)	0.6	0.5	0.5
Net Gearing (x)	-	-	-0.1
Div. Yield (%)	7.1	3.9	4.8

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Results Highlights

	4Q	3Q	Q-o-Q	4Q	Y-o-Y			Y-o-Y
	FY24	FY24		FY24		FY24	FY23	
FYE Dec (RM m)								
Revenue	276.1	352.4	-21.7%	358.9	-23.1%	1360.4	1214.7	12.0%
EBITDA	130.7	121.6	7.5%	144.4	-9.5%	538.8	365.0	47.6%
Depreciation & amortisation	-57.3	-63.5	-9.8%	-55.8	2.8%	-245.7	-203.4	20.8%
Investment Income	2.3	1.4	66.3%	1.3	77.4%	6.9	4.1	66.6%
Finance Costs	-3.8	-10.7	-64.5%	-10.1	-62.4%	-33.2	-44.5	-25.3%
Associates	0.1	0.1	1.8%	0.0	16.3%	0.2	0.1	130.1%
Profit Before Tax	71.9	48.8	47.4%	79.9	-10.0%	267.0	121.2	120.3%
Taxation	-16.7	-5.8	186.1%	-13.2	26.9%	-59.3	-21.7	173.3%
Non-controlling Interests	0.0	0.0	-	0.0	-	0.0	0.0	-
Net Profit	55.2	42.9	28.5%	66.7	-17.3%	207.7	99.5	108.7%
EI	0.0	0.0	-	0.0	-	0.0	0.8	-100.0%
Core Net Profit	55.2	42.9	28.5%	66.7	-17.3%	207.7	100.3	107.1%
Core EPS (sen)	0.7	0.5	28.5%	0.8	-17.3%	0.0	0.0	107.1%
EBITDA margin	47.3%	34.5%		40.2%		39.6%	30.0%	
PBT margin	26.0%	13.8%		22.3%		19.6%	10.0%	
Net margin	20.0%	12.2%		18.6%		15.3%	8.2%	
Core net margin	20.0%	12.2%		18.6%		15.3%	8.3%	
Effective tax rate	23.3%	12.0%		16.5%		22.2%	17.9%	

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	0.575	0.600	4.3%	3,408.5	Y	12/2024	15.1	11.9	167.5%	-21.6%	3.8	4.8	0.5	14.5%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.80	3.39	88.3%	2,084.0	Y	12/2025	26.0	24.5	10.3%	-6.0%	6.9	7.4	1.0	15.2%	6.0	3.3%
DIALOG GROUP BHD	MP	1.61	1.94	20.5%	9,084.7	Y	06/2025	8.6	8.7	-19.9%	1.5%	18.7	18.4	1.5	8.0%	4.0	2.5%
KEYFIELD INTERNATIONAL	OP	2.09	3.18	52.2%	1,680.6	Y	12/2025	28.9	31.6	5.3%	9.4%	7.3	6.7	2.4	38.3%	5.0	2.4%
MISC BHD	MP	7.35	7.78	5.9%	32,808.5	Y	12/2025	50.1	47.0	2.9%	-6.2%	14.7	15.6	0.9	5.9%	36.0	4.9%
PETRONAS CHEMICALS GROUP	MP	3.78	5.07	34.1%	30,240.0	Y	12/2025	33.8	39.7	130.0%	17.4%	11.2	9.5	0.8	6.9%	17.0	4.5%
PETRONAS DAGANGAN BHD	OP	20.36	21.20	4.1%	20,226.7	Y	12/2025	110.4	113.0	-0.8%	2.3%	18.4	18.0	3.3	18.0%	88.0	4.3%
VELESTO ENERGY BHD	OP	0.175	0.210	20.0%	1,437.7	Y	12/2025	1.7	2.1	-32.4%	23.6%	10.2	8.3	0.5	7.1%	1.7	0.0%
WASCO BHD	OP	0.990	1.83	84.8%	766.6	Y	12/2024	16.1	17.6	61.5%	9.5%	6.2	5.6	0.9	16.2%	2.0	2.0%
YINSON HOLDINGS BHD	OP	2.29	3.87	69.0%	6,521.7	N	01/2025	16.6	20.3	38.1%	22.1%	13.8	11.3	1.3	9.7%	5.0	2.2%
SECTOR AGGREGATE					109,576.9					35.3%	4.2%	12.2	11.7	1.2	12.3%		2.8%

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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