

26 February 2026

Velesto Energy

Shareholder Payback

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VELESTO's FY25 earnings were slightly above our but within consensus expectations. DPS of RM0.0225/share was declared, slightly above expectations. YoY, earnings were lower due to lower rig utilisation as upstream drilling activities waned but the group's cost rationalisation measures significantly offset the negative impact. We raise FY26F earnings slightly on higher rig utilisation and held TP at RM0.32 pegged to 1x FY27F PBV, to reflect its balance sheet strength and still decent dividends in the short to medium term. **Maintain MARKET PERFORM.**

Its FY25 core profit of RM174.2m (after excluding EI of RM28m reversal of cost provision) was slight above our but within consensus expectations at 107% and 102%, respectively. The main reason for the slight outperformance was due to stronger-than-expected rig utilisation. The group declared a DPS of RM0.0225/share, bringing full year DPS to RM0.03/share, slightly above expectations as well.

YoY, VELESTO's 9MFY25 top line dropped 34% YoY due to lower rig utilisation (72% vs. 87% a year ago) while DCRs were flattish. There were also no i-RDC contribution in FY25. Core profit declined slower by 16% YoY as its depreciation (absence of SPS accelerated depreciation cost) and finance costs have declined materially YoY. That aside, savings in overheads were also observed YoY due to the group's rationalisation measures.

QoQ, revenue was flat as higher rig utilisation (83% vs. 81%) was offset by lower services revenue (threading, inspection and repair for oil country tubular goods). Core profit was largely flat as well.

Outlook. VELESTO's five rigs are expected to be mostly chartered out in FY26 but mind that there will be gaps of 1 or 2 months in between jobs. Hence, rig utilisation will not be a major issue. Naga 8 has also just secured a short-term contract from Jadestone Energy for East Belumut Phase 9 Infill Drilling for four months. The implied DCR is highly favourable at c. USD137,000/day, above market DCR of closer to USD110,000/day due to higher specification of the rig. Hence, we are confident that in FY26, VELESTO will be able to more than sufficiently hit our USD110,000/day assumption.

Forecasts. FY26F earnings were lifted slightly by 3% as we adjust overall rig utilisation to 76% from 74%.

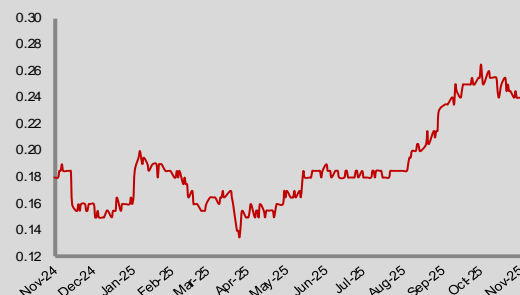
Valuations. We maintain our TP at RM0.32 pegged to 1x FY27F PBV (rolled over by a year) which is already at +2SD of its 2-year average due to the company's larger room to pay higher dividends as well as its stronger balance sheet position outlook. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 4).

Investment case. We like VELESTO due to: (i) strong free cash flow trajectory moving forward as less capex are planned in the medium term, (ii) rig utilisation will be stronger YoY offsetting potential downsides in DCRs in FY26F, and (iii) the group's ability to pay above PAT level for dividends without affecting its cash position. The higher-than-PAT dividend payout could not be sustained for more than two years in our view as it will eventually erode its retained earnings if earnings do not improve further. **Maintain MARKET PERFORM.**

MARKET PERFORM ↔

Price : RM0.315
Target Price : RM0.32 ↔

Share Price Performance



KLCI 1,747.81
YTD KLCI chg 4.0%
YTD stock price chg 14.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	VEB MK Equity
Market Cap (RM m)	2,587.9
Shares Outstanding	8,215.6
52-week range (H)	0.33
52-week range (L)	0.13
3-mth avg. daily vol:	36,972,280
Free Float	49%
Beta	0.8

Major Shareholders

Amanah Saham Nasional	43.8%
Yayasan Pelaburan Bumiputera	7.7%
Hong Leong Value Fund	4.2%

Summary Earnings Table

FY Dec (RM m)	2025A	2026F	2027F
Revenue	898.6	770.0	812.4
EBIT	238.4	239.6	282.1
PBT	235.7	240.8	284.3
Net Profit (NP)	202.2	180.6	213.2
Core NP	174.2	180.6	213.2
Consensus CNP	-	172.6	177.5
Earnings Revision (%)	-	+3.2	-
Core EPS (sen)	2.1	2.2	2.6
C. EPS Growth (%)	-16.1	3.7	18.1
DPS (sen)	3.0	1.5	1.8
BVPS (RM)	0.3	0.3	0.3
Core PER (x)	14.9	14.3	12.1
Price/BV (x)	1.1	1.1	1.0
Net Gearing (x)	-0.1	-0.1	-0.1
Div. Yield (%)	9.4	4.9	5.8



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Risks to our call include: (i) global recession bringing oil prices lower; (ii) higher occurrence of breakdown in its aging rig fleet; and (iii) weaker than expected jack-up rig demand in the Middle East.

Results Highlights								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y			Y-o-Y
	FY25	FY25		FY24		FY25	FY4	
FYE Dec (RM m)								
Revenue	233.9	240.1	-2.6%	276.1	-15.3%	898.6	1360.4	-33.9%
EBITDA	96.0	115.4	-16.8%	130.7	-26.5%	445.8	538.8	-17.3%
Depreciation & amortisation	-52.6	-48.4	8.7%	-57.3	-8.3%	-207.4	-245.7	-15.6%
Investment Income	1.0	1.2	-12.4%	2.3	-54.9%	5.4	6.9	-21.8%
Finance Costs	-1.9	-1.9	-1.7%	-3.8	-51.1%	-8.3	-33.2	-75.0%
Associates	0.1	0.1	-41.0%	0.1	8.8%	0.2	0.2	1.4%
Profit Before Tax	42.6	66.4	-35.8%	71.9	-40.7%	235.7	267.0	-11.7%
Taxation	6.3	-16.2	-139.0%	-16.7	-137.9%	-33.5	-59.3	-43.5%
Non-controlling Interests	0.0	0.0	-	0.0	-	0.0	0.0	-
Net Profit	49.0	50.2	-2.4%	55.2	-11.2%	202.2	207.7	-2.7%
EI	0.0	0.0	-	0.0	-	-28.0	0.0	-
Core Net Profit	49.0	50.2	-2.4%	55.2	-11.2%	174.2	207.7	-16.1%
Core EPS (sen)	0.6	0.6	-2.4%	0.7	-11.2%	0.0	0.0	-100.0%
EBITDA margin	41.0%	48.1%		47.3%		49.6%	39.6%	
PBT margin	18.2%	27.7%		26.0%		26.2%	19.6%	
Net margin	20.9%	20.9%		20.0%		22.5%	15.3%	
Core net margin	20.9%	20.9%		20.0%		19.4%	15.3%	
Effective tax rate	-14.9%	24.5%		23.3%		14.2%	22.2%	

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	OP	0.315	0.450	42.9%	1,867.3	Y	12/2025	6.1	5.4	-45.7%	-10.9%	5.2	5.8	0.4	7.6%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	MP	1.87	1.60	-14.4%	2,165.0	Y	12/2026	16.1	18.8	7.8%	17.0%	11.6	9.9	1.1	9.8%	11.0	5.9%
DIALOG GROUP BHD	OP	1.82	2.28	25.3%	10,269.7	Y	06/2026	10.4	11.4	31.4%	9.7%	17.5	15.9	1.7	9.9%	5.0	2.7%
LIANSON FLEET GROUP BHG	OP	1.99	2.40	20.6%	2,320.4	Y	12/2025	8.7	10.3	0.0%	18.7%	23.0	19.4	2.2	11.9%	0.0	0.0%
KEYFIELD INTERNATIONAL	MP	1.51	1.60	6.0%	1,218.8	Y	12/2026	14.0	17.5	-49.6%	24.3%	10.8	8.6	1.6	15.6%	6.0	4.0%
MISC BHD	OP	8.10	8.60	6.2%	36,156.3	Y	12/2026	47.3	49.5	-0.4%	4.6%	17.1	16.4	1.0	6.2%	36.0	4.4%
PETRONAS CHEMICALS GROUP	OP	3.18	4.10	28.9%	25,440.0	Y	12/2026	4.0	4.1	-48.7%	0.6%	78.7	78.2	0.7	0.9%	2.0	0.6%
PETRONAS DAGANGAN BHD	MP	21.96	21.20	-3.5%	21,816.2	Y	12/2026	116.9	116.5	5.7%	-0.4%	18.8	18.9	3.5	19.1%	94.0	4.3%
VELESTO ENERGY BHD	MP	0.315	0.320	1.6%	2,587.9	Y	12/2026	2.0	2.1	-21.5%	7.3%	15.9	14.8	0.9	6.1%	3.0	9.5%
WASCO BHD	OP	0.960	1.32	37.5%	743.3	Y	12/2026	1.5	1.7	-41.5%	9.4%	62.9	57.5	6.0	10.1%	5.0	5.2%
YINSON HOLDINGS BHD	OP	2.37	2.84	19.8%	6,926.0	N	01/2026	16.6	20.4	20.3%	22.3%	14.2	11.6	1.4	10.1%	6.0	2.5%
SECTOR AGGREGATE					111,749.2					12.1%	5.3%	19.1	18.1	1.7	9.8%		3.3%

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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