Velesto Energy

Dividends Buffers FY26 Weakness

By Lim Sin Kiat, CFA / limsk@kenanga.com.my

VELESTO's 1QFY26F earnings were below our and consensus expectations due to weaker-than-expected DCRs. Nevertheless, DPS of 0.75 sen was declared which trumped our expectation. Overall, VELESTO's rigs are generally transitioning into lower DCRs (compared to FY25) at least in the nearer term due to weaker rig demand locally. However, rig demand is expected to ramp up in FY27 as more oil producers are expected to ramp up drilling to boost production amid rising importance of energy security globally. We cut FY26F/FY27F earnings on lower DCR but raise our dividend yield expectation to 9% in FY26 (from 5% previously). TP of RM0.32 is maintained as we raise our target FY27F PBV to 1.2x (from 1.0x) to reflect better ROE. Maintain MARKET PERFORM.

Its 1QFY26 core profit of RM27.9m was slight below our and consensus expectations at 15% and 18%, respectively, due to lower-than-expected DCR achieved. However, the group declared a DPS of 0.75 sen/share, which is above our expectation (full-year of 1.5 sen) as the group do not paid interim dividends in 1Q of the financial year, as in the past.

YoY, VELESTO's 1QFY26 top line dropped 18% dragged by lower average DCR achieved (USD108,000/day vs. UD127,000/day) albeit being offset by stronger rig utilisation (75% vs. 67%). The lower DCR was reflective of weaker activities in the drilling market as FY26 charters were largely secured during FY25 (when Petronas spending was slower). As a result, core profit declined 47% as opex remained similar YoY.

QoQ, revenue declined 22% as well due to lower rig utilisation and lower DCR (USD108,000/day vs. USD112,000/day). Core profit declined by a steeper 43% as tax expenses were higher QoQ (4QFY25 tax credit was present).

Outlook. In the coming 2QFY26, earnings outlook remains challenging as many rigs will have higher downtime as they relocate according to the rig schedule (Naga 2, 4 and 6), which implies that the rig utilisation could be lower QoQ. Nevertheless, rig utilisation is expected to ramp up in 2HFY26 with only two more rigs still waiting for job wins while three are already chartered out. In 2027, only Naga 4 has the option to do an SPS to prep the rig for longer term charters if there Is any. In our view, while short-term earnings outlook remains unexciting, FY27F's outlook could be better YoY as national energy security agenda might ramp up upstream spending both regionally and globally. Hence, we expect rig utilisation to improve YoY in FY27 and in FY28, DCR will start moving up again once utilisations globally are close to 90%.

Forecasts. We cut FY26F/FY27F earnings by 22%/21% to account for lower DCR (USD110,000/day to USD105,000/day).

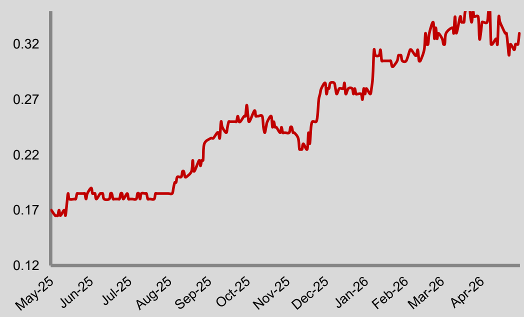
Valuations. We maintain our TP at RM0.32 pegged to higher 1.2x FY27F PBV (previously 1x) as we are more confident of the company's intention to pay dividend above PAT to match closer to its operating cash flows (c. RM300m per annum).

On top of that, we believe that the company's new dividend strategy will bring better ROE, expected to be at 7.5% in FY27 without fully pricing in the upside in DCRs yet, as it already will be higher than FY23 (4.0% and we compare it to FY27 as it was a year when drilling activities were ramping up) and back then it traded at 1x PBV. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 4).

MARKET PERFORM ↔

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

Share Price Performance



KLCI	1,727.27
YTD KLCI chg	2.8%
YTD stock price chg	20.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	VEB MK Equity
Market Cap (RM m)	2,726.4
Shares Outstanding	8,261.8
52-week range (H)	0.37
52-week range (L)	0.16
3-mth avg. daily vol:	44,076,400
Free Float	48%
Beta	0.7

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	794.7	830.0
EBIT	238.4	198.1	233.4
PBT	235.7	189.0	225.3
Net Profit (NP)	**202.2**	**141.7**	**169.0**
Core NP	**174.2**	**141.7**	**169.0**
Consensus CNP		157.0	155.0
Earnings Revision (%)		-21.5	-20.7
Core EPS (sen)	2.1	1.7	2.1
C. EPS Growth (%)	-16.1	-18.6	19.2
DPS (sen)	3.0	2.8	2.9
BVPS (RM)	0.3	0.3	0.3
Core PER (x)	15.3	18.8	15.8
Price/BV (x)	1.1	1.2	1.2
Net Gearing (x)	-0.1	-0.1	-0.1
Div. Yield (%)	9.1	8.5	8.9

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 FY26, 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.**

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

FYE Dec (RM m)	1Q FY26	4Q FY25	Q-o-Q	1Q FY25	Y-o-Y
Revenue	183.4	233.9	-21.6%	224.6	-18.4%
EBITDA	**84.9**	**96.0**	**-11.5%**	**115.3**	**-26.3%**
Depreciation & amortisation	-48.3	-52.6	-8.2%	-49.1	-1.6%
Investment Income	1.3	1.0	24.9%	1.7	-22.0%
Finance Costs	-1.7	-1.9	-7.7%	-2.5	-31.5%
Associates	0.0	0.1	-27.4%	0.0	400.0%
Profit Before Tax	**36.2**	**42.6**	**-15.0%**	**65.3**	**-44.5%**
Taxation	-8.4	6.3	-232.3%	-12.7	-34.1%
Non-controlling Interests	0.0	0.0	-	0.0	-
Net Profit	**27.9**	**49.0**	**-43.1%**	**52.6**	**-47.1%**
EI	**0.0**	**0.0**	**-**	**0.0**	**-**
Core Net Profit	**27.9**	**49.0**	**-43.1%**	**52.6**	**-47.1%**
Core EPS (sen)	0.3	0.6	-43.1%	0.6	-47.1%
EBITDA margin	46.3%	41.0%		51.3%	
PBT margin	19.8%	18.2%		29.1%	
Net margin	15.2%	20.9%		23.4%	
Core net margin	15.2%	20.9%		23.4%	
Effective tax rate	23.1%	-14.9%		19.5%	

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	0.370	0.410	10.8%	2,193.4	Y	12/2026	4.7	4.5	-14.8%	-3.7%	7.9	8.2	0.5	6.1%	95.0	256.8%
DAYANG ENTERPRISE HLDGS BHD	OP	1.91	2.45	28.3%	2,211.3	Y	12/2026	16.1	18.8	7.8%	17.0%	11.9	10.2	1.1	9.8%	11.0	5.8%
DIALOG GROUP BHD	OP	2.16	2.63	21.8%	12,188.2	Y	06/2026	10.4	11.8	31.4%	12.8%	20.7	18.4	2.0	9.9%	5.0	2.3%
LIANSON FLEET GROUP BHG	OP	1.76	2.40	36.4%	2,052.5	Y	12/2026	20.6	27.3	142.4%	32.3%	8.5	6.4	1.1	13.2%	400.0	227.3%
KEYFIELD INTERNATIONAL	OP	1.61	2.00	24.2%	1,300.3	Y	12/2026	10.2	18.0	-25.6%	76.1%	15.8	9.0	1.6	10.5%	6.0	3.7%
MISC BHD	OP	8.20	8.60	4.9%	36,602.7	Y	12/2026	47.3	49.5	-0.4%	4.6%	17.3	16.6	1.1	6.2%	36.0	4.4%
PETRONAS CHEMICALS GROUP	OP	5.64	4.90	-13.1%	45,120.0	Y	12/2026	4.0	4.1	-48.7%	0.6%	139.5	138.7	1.2	0.9%	2.0	0.4%
PETRONAS DAGANGAN BHD	MP	19.20	21.20	10.4%	19,074.3	Y	12/2026	116.9	116.5	5.7%	-0.4%	16.4	16.5	3.1	19.1%	94.0	4.9%
UZMA BHD	OP	0.445	0.700	57.3%	268.6	Y	06/2026	14.8	15.9	6.9%	7.5%	3.0	2.8	0.2	8.5%	0.0	0.0%
VELESTO ENERGY BHD	MP	0.330	0.320	-3.0%	2,726.4	Y	12/2026	1.7	2.1	3.7%	18.1%	18.8	15.8	1.1	7.5%	2.0	6.1%
WASCO BHD	OP	1.10	1.32	20.0%	851.7	Y	12/2026	10.3	12.7	-15.7%	6.4%	10.6	8.6	6.4	11.3%	6.0	5.5%
YINSON HOLDINGS BHD	OP	1.97	2.84	44.2%	5,757.1	N	01/2027	16.6	20.4	20.3%	22.3%	11.8	9.7	1.2	10.1%	6.0	3.0%
SECTOR AGGREGATE					**130,346.5**					**26.4%**	**7.8%**	**22.4**	**20.8**	**1.7**	**9.4%**		**43.3%**

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.***

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my