

## MALAYSIA GEMS CONFERENCE HIGHLIGHTS

### Velesto Energy (VEB MK)

Solid Trajectory For QOQ Earnings Increase

The latest rig schedule updates confirm that VEB will enjoy high utilisation of 90% throughout 2023 (save for a slight utilisation weakness in 3Q23). With this, we expect qoq earnings to improve in tandem with higher average rig rates, as long as VEB maintains solid execution and cost control. The multi-year rig upcycle will give VEB another chance to renegotiate for better rates. However, risk-reward has been priced in relative to global peers' valuations. Maintain HOLD. Target price: RM0.21.

#### WHAT'S NEW

- **Updates on N2, N3, N4 and N6.** After drilling for Roc Oil, Naga 2 (N2) will undergo some maintenance, and will be deployed in Aug 23 to drill four infield wells (about 120 days) for Jadestone in PM323, offshore Malaysia. From end-23, N2 will execute a US\$10.9m contract for Vestigo, for five wells in offshore Sarawak. Naga 3 (N3) is still drilling for PTTEP for a three-well contract that began in March. We understand that the optional works from mid-July to end-3Q23 for PTTEP is still subject to finalisation of the current contract, but at the same time N3 has a follow-on contract with Petronas Carigali for eight wells starting in end-3Q23. The Carigali contract was won together with Naga 4 (N4) and Naga 6 (N6), which were also for Carigali for works commencing in 3Q23.
- **Earnings will improve qoq, as average JU daily rates trend higher to our US\$94,000 assumption.** With 1Q23 utilisation already at optimal levels of 90%, growth will primarily be driven by a higher mix of the new contract rates at US\$100-110,000 levels. Also, note that 1Q23's average US\$86,000 rates would have been higher if not for a key equipment (blowout preventor) failure in N4. This caused VEB's efficiency (for all rigs) to fall to 94% in 1Q23, vs the required 98%. Our back-of-envelope calculations estimate a downtime of almost three weeks for N4, and this was more than enough to trigger a clause for equipment breakdown (ie zero-rated pay if breakdown lasts >24 hours). Hence, maintaining rig efficiency and execution continues to matter.
- **JU rig market will remain tight, partly due to asset acquisitions by the Middle East.** According to Clarksons, Saudi Aramco continues to dominate the region's JU fixtures, or about 67% of the 58 fixtures. Aramco's plans to boost its production capacity from 12m bpd to 13m bpd by 2027, which requires its JU rig fleet to almost double from 40 in 2022. Middle East JU demand increased by 23% yoy to 179 units in May 23, and due to this phenomenon that we highlighted one year ago, it soaked up excess capacity (32 JU were contracted since 2022). Both Clarksons and IHS Markit estimated that global available JU supply had declined by >10% since 2022. Hence, even if rig demand normalises due to lower oil prices, the continued supply tightening will likely support a case of >90% utilisation and a multi-year upcycle for the rig industry.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	378	581	858	810	691
EBITDA	83	107	338	333	252
Operating profit	(74)	(54)	159	149	66
Net profit (rep./act.)	(91)	(100)	116	106	32
Net profit (adj.)	(145)	(63)	116	106	32
EPS (sen)	(1.4)	(0.6)	1.1	1.0	0.3
PE (x)	n.m.	n.m.	19.4	21.3	70.8
P/B (x)	1.0	1.0	0.9	0.9	0.9
EV/EBITDA (x)	25.2	19.5	6.2	6.3	8.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(24.1)	(17.2)	13.5	13.0	4.6
Net debt/(cash) to equity (%)	12.8	19.3	13.5	2.5	(6.4)
Interest cover (x)	2.2	3.9	14.5	14.1	18.0
ROE (%)	n.a.	n.a.	5.0	4.3	1.3
Consensus net profit	-	-	88	121	139
UOBKH/Consensus (x)	-	-	1.31	0.87	0.23

Source: Velesto Energy Berhad, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

## HOLD

(Maintained)

Share Price	RM0.22
Target Price	RM0.21
Upside	-2.0%

#### COMPANY DESCRIPTION

Velesto Energy, formerly UMW O&G, is the premier local jackup (JU) rig service provider in Malaysia.

#### STOCK DATA

GICS sector	Energy
Bloomberg ticker:	VEB MK
Shares issued (m):	8,215.6
Market cap (RMm):	1,766.4
Market cap (US\$m):	380.3
3-mth avg daily t'over (US\$m):	1.6

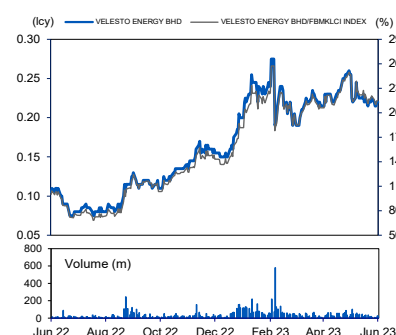
#### Price Performance (%)

52-week high/low			RM0.275/RM0.075	
1mth	3mth	6mth	1yr	YTD
(15.7)	7.5	38.7	95.5	43.3

#### Major Shareholders

	%
Skim Amanah Saham Bumiputera	37.9
Yayasan Pelaburan Bumiputera	11.1
FY23 NAV/Share (RM)	0.23
FY23 Net Debt/Share (RM)	0.03

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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**PROFIT & LOSS**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	581	858	810	691
EBITDA	107	338	333	252
Deprec. & amort.	162	179	184	187
EBIT	(54)	159	149	66
Associate contributions	0	0	0	0
Net interest income/(expense)	(27)	(23)	(24)	(14)
<b>Pre-tax profit</b>	<b>(81)</b>	<b>136</b>	<b>126</b>	<b>52</b>
Tax	(19)	(20)	(20)	(20)
Minorities	0	0	0	0
<b>Net profit</b>	<b>(100)</b>	<b>116</b>	<b>106</b>	<b>32</b>
Net profit (adj.)	(63)	116	106	32

**CASH FLOW**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>(25)</b>	<b>49</b>	<b>313</b>	<b>273</b>
Pre-tax profit	(81)	136	126	52
Tax	(19)	(20)	(20)	(20)
Deprec. & amort.	162	179	184	187
Associates	0	0	0	0
Working capital changes	(81)	(242)	29	72
Other operating cashflows	(6)	(4)	(6)	(18)
<b>Investing</b>	<b>(103)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>
Capex (growth)	(153)	(50)	(50)	(50)
Investments	58	58	58	58
Proceeds from sale of assets	3	0	0	0
Others	(12)	(58)	(58)	(58)
<b>Financing</b>	<b>(56)</b>	<b>35</b>	<b>35</b>	<b>35</b>
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	0	35	35	35
Loan repayment	(52)	0	0	0
Others/interest paid	(4)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>(184)</b>	<b>34</b>	<b>298</b>	<b>258</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>293</b>	<b>109</b>	<b>143</b>	<b>441</b>
Changes due to forex impact	11	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>120</b>	<b>143</b>	<b>441</b>	<b>699</b>

**BALANCE SHEET**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	2,423	2,146	2,012	1,875
Other LT assets	9	9	10	10
Cash/ST investment	120	143	441	699
Other current assets	546	927	883	780
<b>Total assets</b>	<b>3,098</b>	<b>3,225</b>	<b>3,346</b>	<b>3,364</b>
ST debt	255	183	183	183
Other current liabilities	251	356	336	288
LT debt	306	285	320	355
Other LT liabilities	4	4	4	4
Shareholders' equity	2,282	2,398	2,503	2,535
Minority interest	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>3,098</b>	<b>3,225</b>	<b>3,346</b>	<b>3,364</b>

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	18.5	39.4	41.1	36.5
Pre-tax margin	(14.0)	15.8	15.5	7.5
Net margin	(17.2)	13.5	13.0	4.6
ROA	n.a.	3.7	3.2	0.9
ROE	n.a.	5.0	4.3	1.3
<b>Growth</b>				
Turnover	53.9	47.8	(5.6)	(14.7)
EBITDA	29.1	215.4	(1.6)	(24.2)
Pre-tax profit	n.a.	n.a.	(7.7)	(58.7)
Net profit	n.a.	n.a.	(9.0)	(69.9)
Net profit (adj.)	n.a.	n.a.	(9.0)	(69.9)
EPS	n.a.	n.a.	(9.0)	(69.9)
<b>Leverage</b>				
Debt to total capital	19.7	16.3	16.7	17.5
Debt to equity	24.6	19.5	20.1	21.2
Net debt/(cash) to equity	19.3	13.5	2.5	(6.4)
Interest cover (x)	3.9	14.5	14.1	18.0

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