

# Velesto Energy Berhad (VEB MK)

## 4Q23: Strongest quarter in 9 years, with more to come!

### Major beat in 4Q23. Stay BUY, TP MYR0.35 (Top Pick)

4Q23 results was a major beat relative to our results preview on 15 Jan 2024 ([link](#)). We raise FY24-25E earnings by 3% p.a. after updating full-year FY23 figures. Our FY24-26E assumptions are: i) utilisation rates of 82%/85%/83%; and ii) blended average DCRs of USD112k/130k/132k respectively. Post-adjustments, we maintain our BUY call with a marginally higher TP of MYR0.35 (MYR0.34 previously) based on 14x PER on mid-FY25E EPS (unchanged).

### 4Q23: Strongest quarter in 9 years

4Q23 core net profit of MYR66.7m (>54x QoQ, >24x YoY) brought cumulative FY23 core earnings to MYR99.5m (FY22: -MYR71.7m), beating ours/consensus FY23 estimates by 72% and 70% respectively. Key variance against our forecast was: i) a higher-than-expected blended utilisation rate of 94% in 4Q23 (vs. our estimates of 89%); and ii) significant margin expansion due to high operating leverage (+20.2 ppts QoQ at EBIT level). We note that the overall average DCR in 4Q23 was higher at USD99k (vs. USD97k in 3Q23), which was pretty in line with our projections.

### 2 more strong quarters ahead, surprise DPS 0.25 sen

With expectations of: i) blended utilisation rate of 94% and an average DCR of MYR98k in 1Q24E; and ii) blended utilisation rate of 89% with an average DCR of MYR107k in 2Q24E, we believe that Velesto will rake in at least 2 more strong quarters ahead, before having 3-4 SPS (special periodical survey) in 2H24. Velesto announced a DPS of 0.25 sen for FY23 (21% DPR), which came in as a surprise to us. We now forecast a DPR of 30% for FY24-26E.

### Tight supply to continue driving DCRs in 2024-2025E

Based on our analysis, we understand that the JU drilling rig market is tight, where demand outstrips supply due to elevated crude oil prices. As at Dec 2023, the highest DCR recorded for a regional competitor's rig was USD165k (vs. an average of USD131k a year before). We expect Velesto to continue riding on higher DCRs as the group wins new jobs/renews its existing contracts in upcoming quarters.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	581	1,215	1,304	1,493	1,500
EBITDA	114	307	445	536	538
Core net profit	(72)	100	164	241	262
Core EPS (sen)	(0.9)	1.2	2.0	2.9	3.2
Core EPS growth (%)	nm	nm	64.7	47.1	8.6
Net DPS (sen)	0.0	0.3	0.6	0.9	1.0
Core P/E (x)	nm	19.0	13.3	9.0	8.3
P/BV (x)	0.5	0.8	0.8	0.8	0.7
Net dividend yield (%)	0.0	1.1	2.3	3.3	3.6
ROAE (%)	(4.4)	3.3	4.5	6.3	6.4
ROAA (%)	(2.4)	3.2	5.2	7.4	7.8
EV/EBITDA (x)	14.6	6.9	5.2	3.9	3.3
Net gearing (%) (incl perps)	19.3	9.4	5.2	net cash	net cash
Consensus net profit	-	-	142	159	na
MIBG vs. Consensus (%)	-	-	15.4	51.6	na

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# BUY

Share Price	MYR 0.27
12m Price Target	MYR 0.35 (+30%)
Previous Price Target	MYR 0.34

### Company Description

Velesto Energy provides drilling and oilfield services for the oil and gas industry.

### Statistics

52w high/low (MYR)	0.28/0.19
3m avg turnover (USDm)	2.5
Free float (%)	92.9
Issued shares (m)	8,216
Market capitalisation	MYR2.2B
	USD457M

### Major shareholders:

Bumiputra Investment Foundation	7.1%
Hong Leong Asset Management Bhd.	3.3%
The Vanguard Group, Inc.	2.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	0	13	(4)
Relative to index (%)	(3)	6	(9)

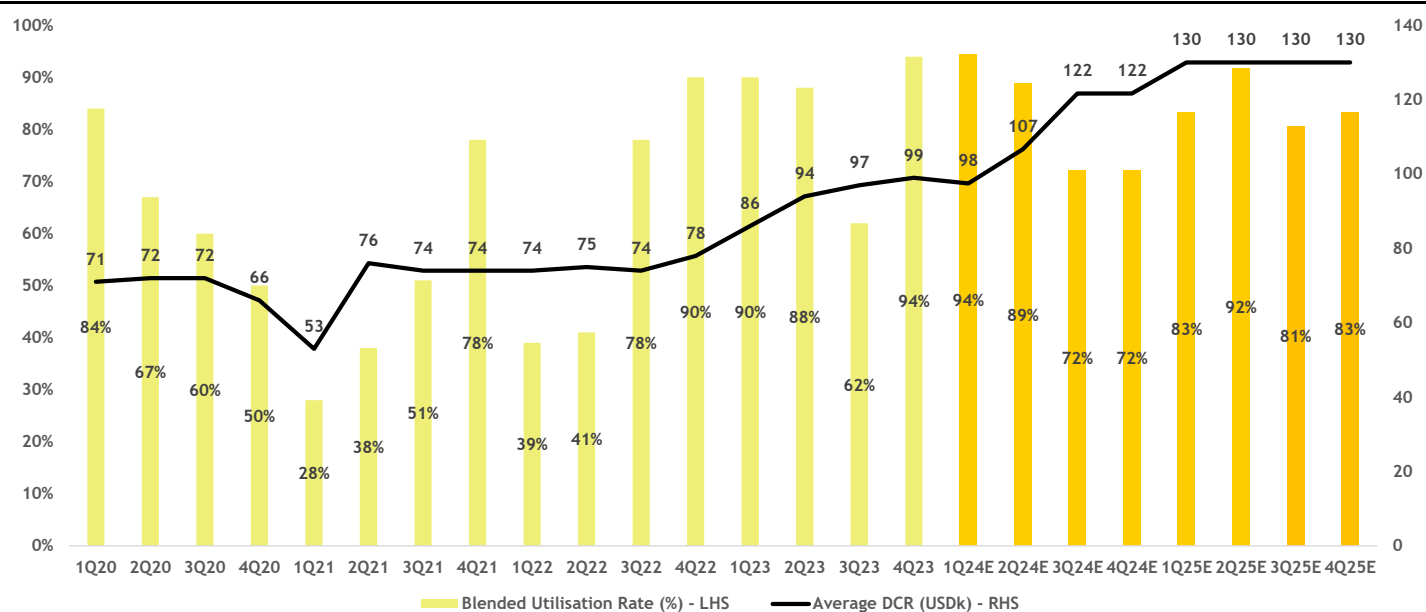
Source: FactSet

Fig 1: Results Review

FYE December	4Q23	4Q22	YoY	3Q23	QoQ	FY23	FY22	YTD-YoY
Revenue	358.9	243.1	48%	289.2	24%	1,214.7	580.9	109%
Operating expenses	(270.3)	(244.4)	11%	(276.3)	-2%	(1,054.0)	(636.8)	66%
Other operating income	0.1	0.2	-40%	0.1	-11%	0.8	1.2	-35%
<b>Operating Profit (EBIT)</b>	<b>88.6</b>	<b>(1.1)</b>	<b>NA</b>	<b>13.1</b>	<b>579%</b>	<b>161.5</b>	<b>(54.8)</b>	<b>NA</b>
Other expenses	0.0	0.0	NA	0.0	NA	0.0	0.0	NA
Finance costs	(10.1)	(10.4)	-3%	(10.8)	-6%	(44.5)	(30.6)	45%
Share of associate results	0.0	0.0	4%	(0.0)	-313%	0.1	0.2	-42%
Investment income	1.3	0.7	92%	0.9	43%	4.1	3.4	20%
<b>Profit Before Tax (PBT)</b>	<b>79.9</b>	<b>(10.8)</b>	<b>NA</b>	<b>3.1</b>	<b>2439%</b>	<b>121.2</b>	<b>(81.8)</b>	<b>NA</b>
Taxation	(13.2)	(15.2)	-13%	(1.9)	583%	(21.7)	(18.6)	16%
<b>Profit After Tax (PAT)</b>	<b>66.7</b>	<b>(26.0)</b>	<b>NA</b>	<b>1.2</b>	<b>5388%</b>	<b>99.5</b>	<b>(100.4)</b>	<b>NA</b>
MI	0.0	0.0	NA	0.0	NA	0.0	0.0	NA
<b>PATAMI</b>	<b>66.7</b>	<b>(26.0)</b>	<b>NA</b>	<b>1.2</b>	<b>5388%</b>	<b>99.5</b>	<b>(100.4)</b>	<b>NA</b>
Exceptional Items	0.0	(28.7)	-100%	0.0	NA	0.0	(28.7)	-100%
<b>Core PATAMI</b>	<b>66.7</b>	<b>2.7</b>	<b>2347%</b>	<b>1.2</b>	<b>5388%</b>	<b>99.5</b>	<b>(71.7)</b>	<b>NA</b>
<b>Margins</b>			<b>+/- ppts</b>		<b>+/- ppts</b>			<b>+/- ppts</b>
EBIT Margin	24.7%	-0.5%	25.2	4.5%	20.2	13.3%	-9.4%	22.7
PBT Margin	22.3%	-4.4%	26.7	1.1%	21.2	10.0%	-14.1%	24.1
PAT Margin	18.6%	-10.7%	29.3	0.4%	18.2	8.2%	-17.3%	25.5
PATAMI Margin	18.6%	-10.7%	29.3	0.4%	18.2	8.2%	-17.3%	25.5
Core Net Profit Margin	18.6%	1.1%	17.5	0.4%	18.2	8.2%	-12.3%	20.5
Effective Tax Rate	16.5%	-141.0%	157.5	61.4%	(44.9)	17.9%	-22.8%	40.7

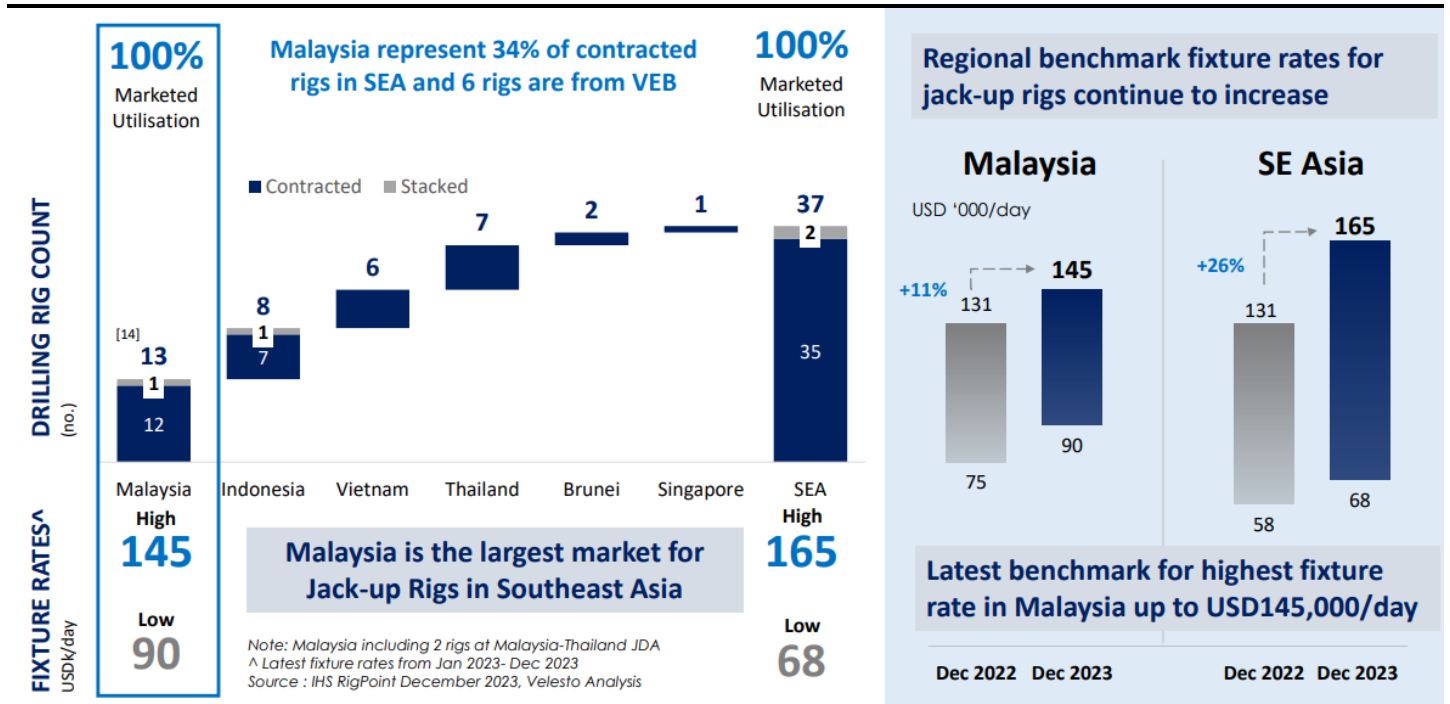
Source: Company, Maybank IBG Research

Fig 2: DCR and Utilisation Rate Projections



Source: Maybank IBG Research

Fig 3: Regional Jack-Up Drilling Rig Outlook



Source: Maybank IBG Research

**Risk Statement**

There are several risk factors that may impact our earnings estimates, target price and BUY rating for Velesto Energy. Key risks include: (i) a severe decline in crude oil prices; (ii) the group not being able to secure contracts, resulting in a decline in utilisation rates; and (iii) not being able to lock-in higher DCRs for future jobs.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	nm	19.0	13.3	9.0	8.3
Core P/E (x)	nm	19.0	13.3	9.0	8.3
P/BV (x)	0.5	0.8	0.8	0.8	0.7
P/NTA (x)	0.5	0.8	0.8	0.8	0.7
Net dividend yield (%)	0.0	1.1	2.3	3.3	3.6
FCF yield (%)	nm	14.0	6.7	13.8	18.1
EV/EBITDA (x)	14.6	6.9	5.2	3.9	3.3
EV/EBIT (x)	nm	13.1	9.6	6.3	5.3

**INCOME STATEMENT (MYR m)**

Revenue	580.9	1,214.7	1,303.6	1,492.9	1,500.1
EBITDA	114.4	306.7	444.8	535.7	538.0
Depreciation	(167.9)	(203.4)	(203.4)	(203.4)	(203.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(53.5)	161.5	241.4	332.3	334.6
Net interest income / (exp)	(31.8)	(44.5)	(25.6)	(14.9)	10.2
Associates & JV	0.2	0.1	0.0	0.0	0.0
Other pretax income	3.4	4.1	0.0	0.0	0.0
Pretax profit	(81.8)	121.2	215.7	317.4	344.8
Income tax	(18.6)	(21.7)	(51.8)	(76.2)	(82.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	1.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(100.4)	99.5	164.0	241.2	262.0
Core net profit	(71.7)	99.5	164.0	241.2	262.0
Preferred Dividends	0.0	20.5	49.2	72.4	78.6

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	120.0	125.6	203.1	261.4	553.6
Accounts receivable	359.1	367.5	394.4	451.6	453.8
Inventory	185.2	178.7	191.8	219.6	220.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,408.1	2,421.6	2,418.1	2,314.7	2,181.3
Intangible assets	8.0	8.4	8.4	8.4	8.4
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	8.9	9.9	9.9	9.9	9.9
<b>Total assets</b>	<b>3,089.4</b>	<b>3,111.6</b>	<b>3,225.7</b>	<b>3,265.7</b>	<b>3,427.7</b>
ST interest bearing debt	255.0	114.3	104.3	84.3	64.3
Accounts payable	237.4	264.1	283.4	324.5	326.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	306.3	244.3	234.3	84.3	81.3
Other liabilities	9.0	13.0	13.0	13.0	13.0
<b>Total Liabilities</b>	<b>807.7</b>	<b>636.1</b>	<b>635.4</b>	<b>506.6</b>	<b>485.1</b>
Shareholders Equity	2,281.7	2,475.5	2,590.3	2,759.1	2,942.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>2,281.7</b>	<b>2,475.5</b>	<b>2,590.3</b>	<b>2,759.1</b>	<b>2,942.6</b>
<b>Total liabilities and equity</b>	<b>3,089.4</b>	<b>3,111.6</b>	<b>3,225.7</b>	<b>3,265.7</b>	<b>3,427.7</b>

**CASH FLOW (MYR m)**

Pretax profit	(81.8)	121.2	215.7	317.4	344.8
Depreciation & amortisation	167.9	203.4	203.4	203.4	203.4
Adj net interest (income)/exp	8.5	44.5	0.0	0.0	0.0
Change in working capital	(98.0)	31.7	(20.6)	(44.0)	(1.7)
Cash taxes paid	(14.6)	(12.1)	(51.8)	(76.2)	(82.8)
Other operating cash flow	(8.6)	(5.6)	0.0	0.0	0.0
Cash flow from operations	(26.4)	383.2	346.8	400.7	463.8
Capex	(147.4)	(119.1)	(200.0)	(100.0)	(70.0)
Free cash flow	(173.8)	264.1	146.8	300.7	393.8
Dividends paid	0.0	(20.5)	(49.2)	(72.4)	(78.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(51.0)	(267.5)	(20.0)	(170.0)	(23.0)
Other invest/financing cash flow	64.2	(5.4)	0.0	0.0	0.0
Effect of exch rate changes	29.5	15.3	0.0	0.0	0.0
Net cash flow	(131.2)	(14.1)	77.6	58.3	292.2

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	53.9	109.1	7.3	14.5	0.5
EBITDA growth	2.1	168.1	45.0	20.4	0.4
EBIT growth	nm	nm	49.4	37.7	0.7
Pretax growth	nm	nm	78.0	47.1	8.6
Reported net profit growth	nm	nm	64.7	47.1	8.6
Core net profit growth	nm	nm	64.7	47.1	8.6
<b>Profitability ratios (%)</b>					
EBITDA margin	19.7	25.3	34.1	35.9	35.9
EBIT margin	nm	13.3	18.5	22.3	22.3
Pretax profit margin	nm	10.0	16.5	21.3	23.0
Payout ratio	0.0	20.6	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	nm	8.2	12.6	16.2	17.5
Revenue/Assets (x)	0.2	0.4	0.4	0.5	0.4
Assets/Equity (x)	1.4	1.3	1.2	1.2	1.2
ROAE (%)	(4.4)	3.3	4.5	6.3	6.4
ROAA (%)	(2.4)	3.2	5.2	7.4	7.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	172.9	107.7	105.2	102.0	108.6
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	nm	4.8	3.3	3.3	3.3
Current ratio (x)	1.4	1.8	2.0	2.2	3.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.8	4.9	5.1	6.4	7.1
Net gearing (%) (incl perps)	19.3	9.4	5.2	net cash	net cash
Net gearing (%) (excl. perps)	19.3	9.4	5.2	net cash	net cash
Net interest cover (x)	na	3.6	9.4	22.3	na
Debt/EBITDA (x)	4.9	1.2	0.8	0.3	0.3
Capex/revenue (%)	25.4	9.8	15.3	6.7	4.7
Net debt/ (net cash)	441.2	233.0	135.5	(92.8)	(408.0)

Source: Company; Maybank IBG Research

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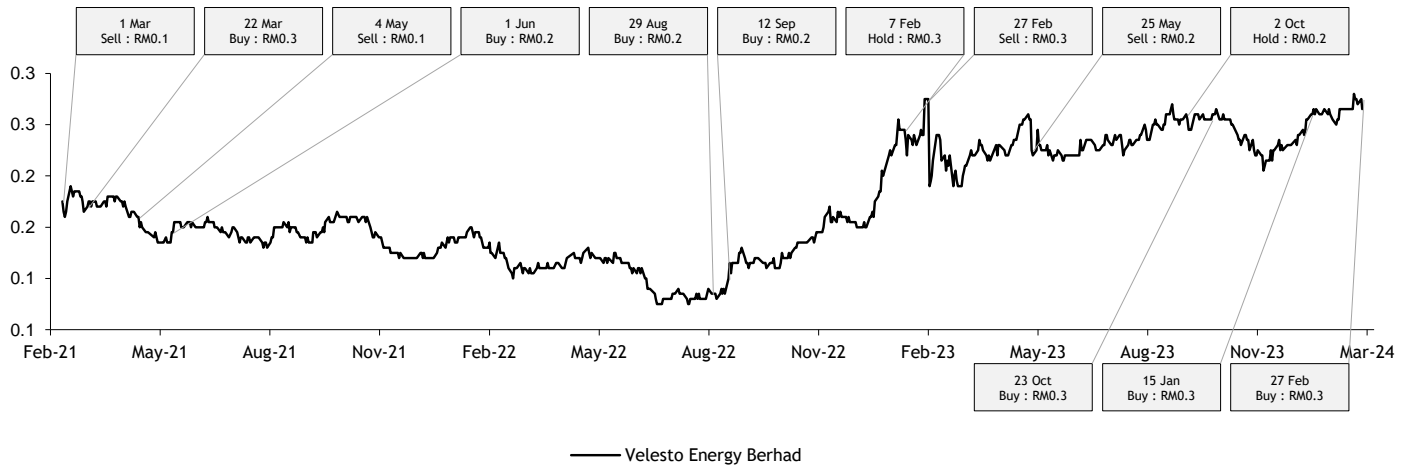
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