

Velesto Energy Berhad

Contract Secured for Naga 7

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VELESTO secured a contract for Naga 7 jack-up drilling rig, worth USD8m, expected to commence in 3Q19. We reckon the contract duration to be around 3-4 months, fetching daily charter rates of ~USD70k/day and EBITDA margins of ~45%. No changes to our FY19-20E numbers, as it is within our utilisation (80-85%) and charter rate (USD72k/day) assumptions. Maintain OUTPERFORM with TP of RM0.35.

Naga 7 contract from Petronas Carigali. VELESTO announced that it received a letter of award from Petronas Carigali for the provision of jack-up drilling rig "Naga 7". The contract is to drill two firm wells with an estimated contract value of USD8m, and is expected to commence in 3Q19.

Impact from the contract. While no contract period was included in the announcement, we reckon the contract duration to be around ~3-4 months (i.e. ~90-120 working days). As such, we believe the contract should be based on daily charter rates of near to ~USD70k/day (excluding other value-added services), and should be able to fetch EBITDA margins of around ~45%. No changes to our FY19-20E numbers post-contract award, as we deem it to be within our utilisation assumption of 80-85%, with the charter rates also broadly within our imputed assumption of USD72k/day.

Positive on the contract. Overall, we are positive on the contract announcement, highlighting VELESTO's position as a prime beneficiary of increased jack-up drilling rigs demand in the country, as well as providing further utilisation and earnings visibility. With the contract for Naga 7 now secured, we believe no further contracts are necessary for the rest of 2019, as all its rigs should already have contracts at hand until at least end of the year.

Maintain OUTPERFORM, with unchanged TP of RM0.35 pegged to 1x FY20E PBV – roughly in-line with its 2-year mean valuations. Post-results, we made no changes to our FY19-20E numbers.

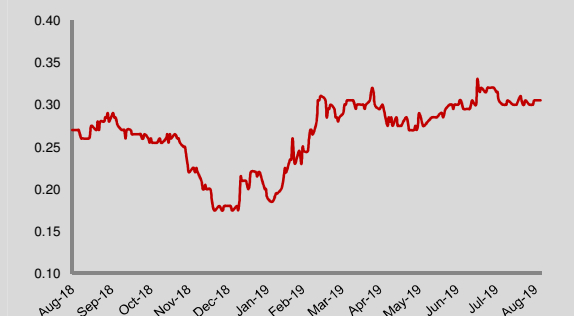
We continue to like VELESTO given the certainty of its turnaround story, clear earnings visibility for the next 1-2 years, while we also see limited downside risks from current share price levels. Additionally, the company reportedly had also demonstrated satisfactory environmental, social and governance practices, being one of the new names within the oil and gas industry to be included into the FTSE4Good Bursa Malaysia Index. That said, we believe a range-bound trading strategy of RM0.30-0.35 would suit the stock.

Risks to our call include: (i) poorer-than-expected rigs utilisation, (ii) weaker-than-expected charter rates, and (iii) lower-than-expected margins.

OUTPERFORM ↔

Price : **RM0.305**
Target Price : **RM0.350** ↔

Share Price Performance



KLCI	1,599.89
YTD KLCI chg	-5.4%
YTD stock price chg	69.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	VEB MK Equity
Market Cap (RM m)	2,505.8
Shares outstanding	8,215.6
52-week range (H)	0.34
52-week range (L)	0.17
3-mth avg daily vol:	18,648,970
Free Float	42%
Beta	1.7

Major Shareholders

Skim Amanah Saham Bumiputera	37.9%
Yayasan Pelaburan Bumiputera	13.3%
Employees Provident Fund	6.8%

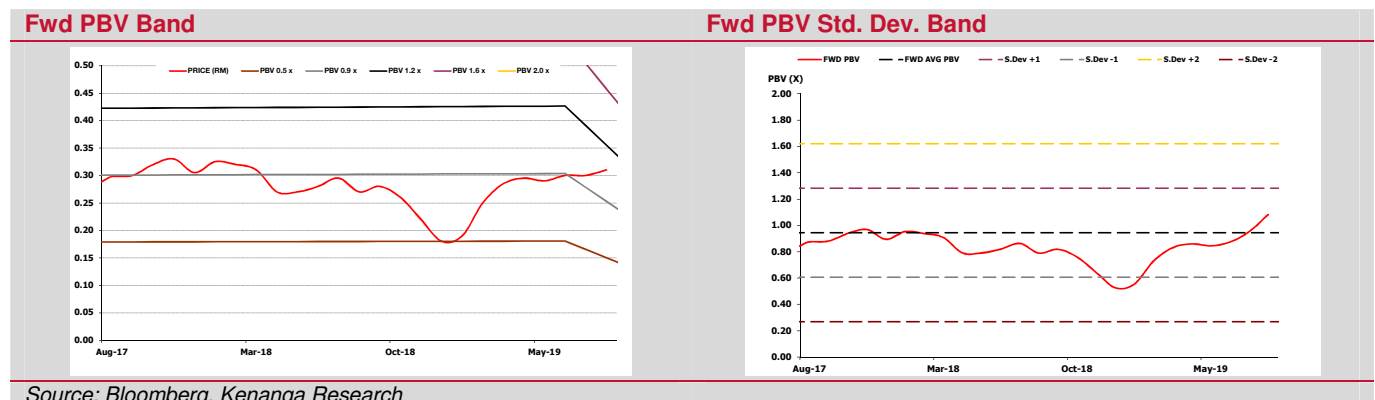
Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Revenue	573.2	603.4	641.1
EBIT	68.4	105.2	131.0
PBT	(16.7)	20.2	51.0
Net Profit (NP)	(17.9)	15.2	38.3
Core NP (CNP)	(18.2)	15.2	38.3
Consensus (CNP)	-	25.4	60.2
Earnings Revision	-	-	-
Core EPS (sen)	(0.2)	0.2	0.5
CNP growth (%)	N.M.	N.M.	152.3
DPS (sen)	0.0	0.0	0.0
BVPS (RM)	0.3	0.3	0.3
Core PER (x)	N.M.	N.M.	65.5
Price/BV (x)	0.9	0.9	0.9
Net Gearing (x)	0.4	0.4	0.3
Div. Yield (%)	0.0	0.0	0.0

05 September 2019

Income Statement						Financial Data & Ratios					
FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E	FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
Revenue	321.1	586.7	573.2	603.4	641.1	Growth (%)					
EBIT	(1,063.0)	(992.3)	68.4	105.2	131.0	Revenue	-61.8	82.7	-2.3	5.3	6.3
Finance costs	(118.2)	(138.2)	(85.2)	(85.0)	(80.0)	EBIT	273.8	-6.7	-106.9	53.8	24.5
PBT	(1,181.3)	(1,130.5)	(16.7)	20.2	51.0	PBT	239.0	-4.3	-98.5	-220.7	152.3
Taxation	(2.2)	1.2	(2.0)	(5.1)	(12.8)	Net profit	218.8	-4.3	-98.4	-184.8	152.3
Min. Int.	6.1	2.3	0.9	0.0	0.0	C. Net Profit	737.2	-67.7	-86.3	-183.5	152.3
Net Profit	(1,177.4)	(1,127.0)	(17.9)	15.2	38.3						
C. Net Profit	(411.9)	(133.1)	(18.2)	15.2	38.3	Profitability (%)					
Balance Sheet						EBIT margin	-331.1	-169.1	11.9	17.4	20.4
FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E	PBT Margin	-367.9	-192.7	-2.9	3.4	8.0
Fixed Assets	5,300.6	3,645.6	3,531.1	3,354.6	3,186.8	C. Net Margin	-128.3	-22.7	-3.2	2.5	6.0
Intang. Assets	0.0	0.0	0.0	0.0	0.0	Eff. Tax Rate	-0.2	0.1	-12.1	25.0	25.0
Other FA	344.2	2.4	5.6	5.6	5.6	ROE	-18.2	-4.8	-0.6	0.5	1.3
Inventories	211.9	194.8	179.4	188.9	200.7	ROA	-6.3	-2.8	-0.4	0.4	0.9
Receivables	79.7	174.0	265.2	279.2	296.7	DuPont Analysis					
Other CA	58.6	94.5	165.6	165.6	165.6	Net Margin (%)	-128.3	-22.7	-3.2	2.5	6.0
Cash	555.0	680.7	229.9	271.7	337.2	Ass. T/over (x)	0.0	0.1	0.1	0.1	0.2
Total Assets	6,550.0	4,792.1	4,376.9	4,265.6	4,192.6	Leve. Factor(x)	2.9	1.7	1.6	1.5	1.5
Payables	78.3	162.8	140.9	148.3	157.6	ROE (%)	-18.2	-4.8	-0.6	0.5	1.3
ST Borrowings	1,499.7	461.1	97.1	97.1	97.1	Leverage					
Other ST Liabili.	130.0	5.4	0.7	0.7	0.7	Debt/Asset (x)	0.6	0.4	0.3	0.3	0.3
LT Borrowings	2,272.8	1,398.5	1,339.1	1,205.2	1,084.7	Debt/Equity (x)	1.7	0.7	0.5	0.5	0.4
Other LT Liability	308.0	0.0	0.0	0.0	0.0	Net D./(Cash)	3,217.5	1,178.9	1,206.3	1,030.6	844.6
Minorities Int.	3.2	0.8	1.4	1.4	1.4	Net D/E(x)	1.4	0.4	0.4	0.4	0.3
Net Assets	2,258.0	2,763.4	2,797.7	2,812.9	2,851.1	Valuations					
Share Capital	2,453.8	3,732.3	4,054.8	4,054.8	4,054.8	Core EPS (sen)	-5.0	-1.6	-0.2	0.2	0.5
Other Reserves	(195.8)	(969.0)	1,257.1	1,241.9	1,203.7	DPS (sen)	0.0	0.0	0.0	0.0	0.0
Equity	2,258.0	2,763.4	2,797.7	2,812.9	2,851.1	BVPS (RM)	0.3	0.3	0.3	0.3	0.3
Cashflow Statement						Core PER (x)	-6.3	-6.1	-18.8	-137.9	165.2
FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E	Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
Operating CF	(47.3)	(33.5)	149.9	105.2	131.0	P/BV (x)	1.1	0.9	0.9	0.9	0.9
Investing CF	32.9	(6.1)	(190.8)	(176.6)	(167.7)						
Financing CF	(626.1)	415.2	125.3	(85.0)	(80.0)						

Source: Kenanga Research



05 September 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)
BUMI ARMADA BERHAD	0.265	1,557.3	N	12/2019	-15.9%	0.0%	34.4%	2.3%	6.9	5.1	5.0	0.5	0.5	9.0%	0.0%	0.200	UP
DAYANG ENTERPRISE HLDGS BHD	1.42	1,370.0	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	8.3	12.6	11.6	1.2	1.2	9.5%	0.0%	1.45	MP
DIALOG GROUP BHD	3.48	19,621.3	Y	06/2020	17.7%	6.1%	4.5%	9.7%	36.6	35.0	32.0	5.2	4.9	14.4%	1.1%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.805	1,288.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	88.8	37.1	0.5	0.5	0.6%	0.0%	1.05	OP
MISC BHD	7.16	31,960.4	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	24.2	18.6	17.6	0.9	0.9	4.9%	4.2%	7.60	MP
PANTECH GROUP HOLDINGS BHD	0.495	371.2	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.5	8.4	7.9	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	6.83	54,640.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.0	15.7	13.7	1.8	1.7	11.1%	3.2%	7.70	MP
PETRONAS DAGANGAN BHD	22.38	22,233.5	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	26.6	23.5	21.8	3.8	3.6	15.6%	3.0%	22.45	MP
SAPURA ENERGY BHD	0.275	4,383.3	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	90.8	25.3	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.36	6,402.7	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.7	14.2	12.6	3.1	2.7	20.2%	2.1%	5.25	OP
UZMA BHD	0.760	243.2	Y	06/2020	-7.6%	-0.1%	117.5%	44.1%	25.1	11.5	8.0	0.5	0.5	4.2%	0.0%	0.610	MP
VELESTO ENERGY BHD	0.305	2,505.8	Y	12/2019	5.3%	6.2%	119.7%	152.0%	N.A.	164.9	65.4	0.9	0.9	0.5%	0.0%	0.350	OP
WAH SEONG CORP BHD	0.615	473.8	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	7.5	9.3	11.3	0.5	0.5	5.4%	0.0%	0.620	MP
YINSON HOLDINGS BHD	6.73	7,271.8	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	27.7	29.8	19.1	4.2	3.8	13.5%	0.9%	7.75	OP
Simple Average					-1.6%	11.9%	212.0%	50.0%	18.1	37.7	20.6	1.7	1.6	8.3%	1.3%		

Source: Bloomberg, Kenanga Research

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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