UOBKayHian

Company – Update | Malaysia

Monday, 10 August 2026

Velesto Energy (VEB MK)

Value Reemerges As Normalised DPS Is Intact; Upgrade To BUY

Highlights

- **The JU rig market continues to enjoy bullish 2H26 outlook** despite geopolitical complications. Hence, we think major downside in terms of industry JU DCR is limited (averaging US$94,000 YTD 2026). On VEB, we opine the negatives from the termination of Naga 3 (N3) sale are fully priced in, although they may reintroduce a temporary spike in opex until N3 is redeployed.
- **Upgrade to BUY, target price adjusted to RM0.29.** We rollover our valuations to 2027 horizon and pegging to unchanged 7x EV/EBITDA. Our target implies 18x 2027F PE, and attractive 10% normalised dividend yield. An alternative asset-value based valuation at our target price would imply EV per rig of US$94m, which is at a premium vs other global rig peers and rig sale transactions averaging US$54m to US$100m.
- **We believe VEB deserves a premium in terms of valuation per rig comparison,** due to the stock's appeal as a dividend payer, and the share price decline of over 20% in our view has priced in all the negatives. VEB excels vs peers in terms of operational uptime (99%), lean balance sheet, and captive market positioning in Southeast Asia provides cash flow certainty.

Analysis

- **Jackup (JU) rig market outlook remains bullish.** We summarised the positive outlook on offshore capex, which is underpinning the structural foundations of a global JU rig recovery, in the RHS appendices. While near-term recovery is complicated by the ongoing Middle East conflict, there are signs that Saudi offshore drilling activity is being reactivated, a move that will redeploy idle rigs and normalise global JU activity by 2027. Hence, we believe securing JU rigs will be increasingly prioritised for the sake of energy security. Southeast Asia market demand remains strong, currently driven by Vietnam, Malaysia and Indonesia. Westwood detailed that JU leading daily charter rates (DCR) YTD averaged at US$94,000 (-6% yoy).
- **Termination of Naga 3 (N3) rig sale might be behind the over 10% share price decline...** While Velesto Energy (VEB) successfully disposed of its workover business for RM16.5m, the planned US$63m sale of N3 to an Indonesian entity (announced in Dec 25) was terminated on 7 Jul 26, and the only official reason was that the "transaction failed to meet its deadline". We believe the share price reacted negatively as this event effectively eliminated a special dividend/share (DPS) scenario of RM0.03 or 12% yield.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	1,360	899	796	824	827
EBITDA	579	413	337	370	384
Operating profit	267	233	154	189	198
Net profit (rep./act.)	207	200	129	143	148
Net profit (adj.)	204	167	129	143	148
EPS (x)	2.5	2.0	1.6	1.7	1.8
PE (x)	10.0	12.3	15.9	14.4	13.9
P/B (x)	0.8	0.9	0.9	1.0	1.1
EV/EBITDA (x)	4.4	6.0	7.6	7.4	7.3
Dividend yield (%)	5.0	12.0	18.4	12.0	12.0
Net margin (%)	15.2	22.2	16.2	17.3	17.9
Net debt/(cash) to equity (%)	6.9	4.8	21.0	25.0	28.0
Consensus net profit	-	-	126	137	145
UOBKH/Consensus (x)	-	-	1.02	1.04	1.02

Source: Velesto Energy Berhad, Bloomberg, UOB Kay Hian

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BUY (Upgraded)

Share Price	RM0.25
Target Price	RM0.29
Upside	+16.5%
Previous TP	RM0.31

Stock Data

Sector	Energy
Bloomberg ticker	VEB MK
Shares issued (m)	8,260.0
Market cap (RMm)	2,025.0
Market cap (US$m)	493.9
3-mth avg daily t'over (US$m)	25.0

Price Performance (%)

52-week high/low				RM0.37/RM0.19
1mth	3mth	6mth	1yr	YTD
(12.5)	(21.8)	(18.3)	32.4	(10.9)

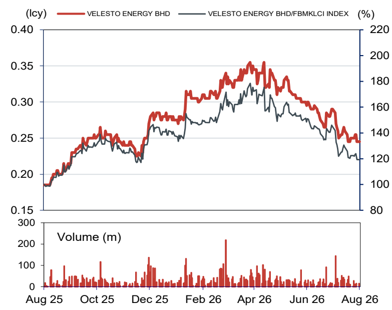
Major Shareholders (%)

Skim Amanah Saham Bumiputera	37.9
Yayasan Pelaburan Bumiputera	11.1

Balance Sheet Metrics

FY26 NAV/Share (RM)	RM0.29
FY26 Net Debt/Share (RM)	n.m.

Price Chart



Source: Bloomberg

Company Description

Velesto Energy, formerly UMW O&G, is the premier local JU rig service provider in Malaysia. It operates a fleet of six JU rigs, with potential expansion of its new asset-light strategy.

- **…but N3 will not be a major earnings drag.** As N3 is now back in VEB's hands, the idle rig will be incurring daily warm-stacking costs (we estimate at US$25,000). Moving on from the DPS, investors will be greatly anticipating VEB's next move for N3, which can be earmarked for another buyer (and we think VEB must enhance its buyer assessment and terms the next time), or redeploy N3 into contracts. Although this necessitates dramatic shifts in our forecasts (ie reprojecting utilisation to 72% based on a fleet of six, instead of 82% based on a fleet of five rigs), we assessed that earnings risk from N3 will be contained due to the following:
- **N3's upgrade costs are likely fully covered.** With the knowledge that N3 was ready for delivery by Mar 26, we deduced that VEB was able to retain and utilise the deposit of US$6.3m (or 10% of rig value) for the upgrade works of N3 in the yard, given that the deposit was a key condition to be met first before sending the rig to a Singapore yard for upgrades to fulfil the "ready for drilling condition". We understand now that N3 has been relocated to a Johor yard for warm-stacking.
- **N3 should be able to secure a job by 4Q26 (unlike its pre-sale status).** Prior to the sale announcement, N3 was idle throughout 2025 and more than a year. Both Naga 2 (N2) and N3 rigs are among the oldest in VEB's fleet, but despite having gone through special periodic surveys (SPS), N3 still became uncompetitive when it was idled for a long time. The newly upgraded N3 is now as good as its competition. Therefore, N3 should benefit from the high JU rig demand, including VEB's plans for an asset-light strategy (as VEB will always prioritise allocation on its rigs first). However, we believe JU demand in 2026 are mostly contracted out. If any, the next available window could be 4Q26 at the earliest.
- **VEB's superior parameters enabled Naga 8's (N8) immediate resecuring of a major contract…** N8 officiated a mutual termination of its previous long-term charter with Petronas (Indonesia) in July 26, which might be related to the newly set up Searah JV between Petronas and Eni. However, it was quick to secure its second integrated rig, drilling and completion services (i-RDC) contract, an 18-month job worth US$51m from Chevron for the 2026-2028 North Malay Basin campaign. We believe the rig started mobilisation from Kemamam as early as 2 Aug 26, which is almost a seamless transition after completing its previous short-term job for Jadestone by late-July 26.
- **…and a returning i-RDC customer.** Chevron acquired Hess last year, and Hess was the same client that utilised N8 for the first i-RDC long-term contract in Malaysia (3+3 years) since 2020. At that time, all extension options were exercised, which would have kept the rig busy until Oct 25. Hess later issued an early suspension notice on Feb 25. In hindsight, the new Chevron contract DCR, which was implied at US$94,000, is more lucrative vs the terminated Petronas' (US$90,000) and comparable to the first i-RDC (US$90-100,000). In addition, after learning the lessons from the first contract, we understand the new i-RDC terms are more favourable for VEB on a project risk-reward basis.

Valuation/Recommendation

- **Upgrade from HOLD to BUY, with adjusted target price of RM0.29 from RM0.31.** We rollover our valuations to 2027 horizon and pegging to 7x EV/EBITDA – a suitable valuation metrics to reflect the group's financial resilience and commitment to reward shareholders in the current industry cycle. Our target is adjusted as we now include the RM350m sukuk in our loan assumption, and implies 18x 2027F PE, and an attractive 10% normalised dividend yield. An alternative asset-value based valuation at our target price would imply EV per rig of US$94m, which is at a premium vs other global rig peers and rig sale transactions averaging US$54m to US$122m. Some of the most recent industry M&As include Borr Drilling's

Trends In JU Rig Market, 2H26

Offshore Capex
• Despite geopolitical disruptions and oil price volatility which caused contracting activity to start slowly in early-2026, contract awards strengthened materially in 2Q26 • This signals that operators have remained committed to long-cycle offshore developments, particularly deepwater and floating platform projects • Westwood recorded 38 offshore Final Investment Decisions (FID) in 1H26 (+90% yoy), bringing total committed capex YTD at US$66.4b (>3x yoy). • Westwood forecasts a stronger 2H26 with US$70.5b in offshore O&G field development capex awards. The key drivers remain energy security, competitive deepwater project economics and growing operator confidence in offshore resources as a reliable long-term supply source • Westwood forecast 2026F offshore field development capex at US$137b (+30% yoy). By segment, the largest increase is floating platforms increasing from US$15.6b in 2025 to US$37.7b in 2026. • 2026F capex for drilling and fixed platforms were largely unchanged yoy at US$23.5b and US$13.8b respectively, due to project delays in Middle East.
Middle East Impact
• In Jan 26, Westwood forecast the global JU market would begin its recovery from mid-26, mainly underpinned by the Middle East (36% global JU supply), whereby utliisation was forecasted to recover to 96% in 2026 (2025: 94%). • However, that trajectory was disrupted by the US-Iran conflict, prompting down-manning of rigs, delays to new drilling campaigns, and a fresh wave of rig suspensions or more recently early contract terminations (Qatar). • The ongoing instability risks pushing back both award timings and contract commencement. JU utilisation in the region fell from 83% in Feb 26, to 69% by late-Apr 26. • This caused Westwood to cut 2026F Middle East utilization to 89%, but noted that the structural foundations of the jackup recovery remain intact. • Arabian Drilling recently announced that it received formal notice from Saudi Aramco to restart two suspended JU rigs. It also renewed 22 out of 24 rig contracts that expired in 2025.

Source: Westwood Global, Riglogix, ESGian, UOB Kay Hian

Forecast Assumptions, DCR Basis

*Based on 6 JU rigs owned	2026F	2027F	2028F
US$/ RM forex rate	4.20	4.20	4.20
Utilisation	77%	82%	85%
DCR, US$'000	95.0	93.0	90.0
Rigs Revenue, RMm	664.8	693.1	695.3
Daily OPEX, US$'000	41.2	40.6	39.5
- Utilised, US$,000	50.7	48.7	46.7
- Stacking, US$,000	24.3	25.5	26.7
Daily depreciation,	0.0	19.9	20.4
Daily finance cost,	1.8	3.0	3.2
Daily tax cost, US$,000	3.5	4.0	4.2
Profit Breakeven	46.5	67.6	67.4
Dividend/share, sen	4.60	3.00	3.00

Source: UOB Kay Hian

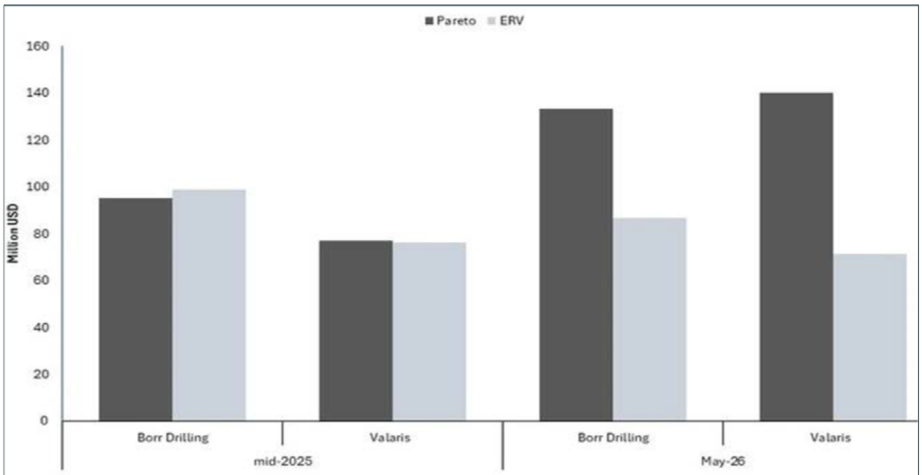
acquisition of five JU rigs from Noble for US$360m (US$72m per rig) and an additional five rigs in a Mexico via a JV for US$287m (US$57m per rig).

- We believe VEB deserves a premium valuation due to the stock's appeal as a dividend payer, and the share price decline in our view has priced in all the negatives, while VEB will continue to benefit from its strong captive market positioning in the Southeast Asia JU market as long as it maintains its superior execution and asset maintenance.

Earnings Revision/Risk

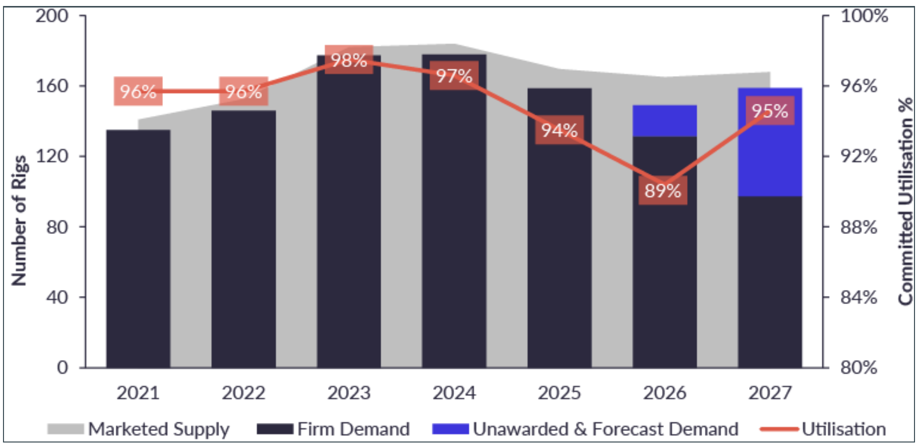
- **2026F-28F earnings unchanged.** Although we have inputted four-month of N3's stacking costs (of US$25,000 per day) in our opex assumptions, this was offset by upgrading our 2026F utilisation from 72% to 77%, after updating our rig schedule with N8's recent i-RDC award and Naga 6's short term job in Thailand until 4Q26.
- **2026F DPS upgraded slightly from RM0.044 to RM0.046.** Our DPS forecasts for 2027-28 remain at normal and sustainable RM0.03. Our 2026F DPS did not assume the special dividend in the first place, but the upgrade factored in some proceeds from a RM350m sukuk that was successfully raised in May 26, as part of the RM1b programme.
- **Risks.** Early rig terminations. Sharper-than-expected decline in DCR and wider-than-expected idle times.

Implied Value (Stock Market Value) Vs ESGian Rig Value



Source::ESGian, Bloomberg, UOB Kay Hian

Middle East JU Supply, Demand And Committed Utilisation



Source: Westwood Global, UOB Kay Hian

Environmental, Social, Governance Updates (ESG)

Environmental
• Greenhouse gas (GHG) emission compliance. Achieved 27% reduction of carbon intensity of operational emission • Safety. Loss time injury frequency (LTIF) was 0. Awarded "Best HSE Program" by Petronas Carigali (PCSB) in Nov 2025}
Social
• Achieved 82% progress across 11 ESG scorecard targets
Governance
• Achieved 4.1 rating (FTSE4Good) and 18.5 Ratings/ Low ESG Risk rating by Sustainalytics

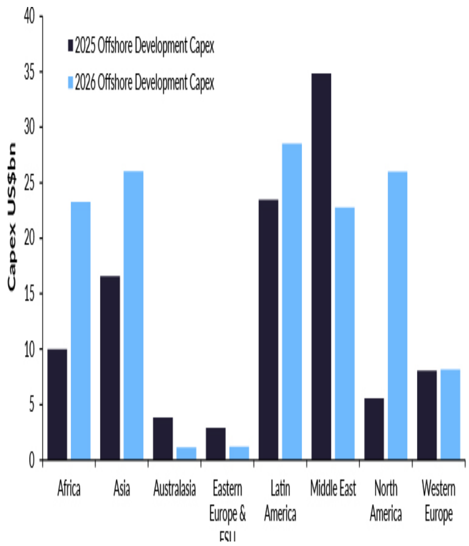
Source: UOB Kay Hian

EV Per Rig, Listed JU Players

EV per rig, US$m	No of rigs	Current	Peak, 2026	Early 2025
Velesto Energy	6	77.6	109.8	52.8
Petrovietnam Drilling	7	104.6	114.8	63.5
Borr Drilling	29	112.1	82.0	90.0
Valaris	52	117.3	141.7	695.3
ADES Holdings	125	80.4	80.4	63.5

Source: ESGian, Bloomberg, UOB Kay Hian

Offshore Field Development Capex By Region



Source: Westwood Global, UOB Kay Hian

Profit & loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	899	796	824	827
EBITDA	413	337	370	384
Deprec. & amort.	207	183	181	186
EBIT	233	154	189	198
Total other non-op. income	(5)	6	10	8
Associate contributions	0	0	0	0
Net interest income/(expense)	0	0	0	0
Pre-tax profit	233	160	180	186
Tax	(34)	(31)	(37)	(38)
Minorities	0	0	0	0
Net profit	200	129	143	148
Net profit (adj.)	167	129	143	148

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,125	1,988	1,895	1,797
Other LT assets	2	2	2	2
Cash/ST investment	261	510	350	337
Other current assets	278	238	247	248
Total assets	2,827	2,888	2,673	2,589
ST debt	114	464	490	517
Other current liabilities	282	173	179	180
LT debt	7	7	7	7
Other LT liabilities	0	0	0	0
Shareholders' equity	2,393	2,206	1,959	1,848
Minority interest	0	0	0	0
Total liabilities & equity	2,827	2,888	2,673	2,589

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	395	182	279	295
Pre-tax profit	233	160	180	186
Tax	(34)	(31)	(37)	(38)
Deprec. & amort.	207	183	181	186
Associates	0	0	0	0
Working capital changes	38	(87)	(6)	(1)
Non-cash items	0	0	0	0
Other operating cashflows	(51)	(43)	(38)	(38)
Investing	(144)	3	(88)	(88)
Capex (growth)	(176)	(40)	(88)	(88)
Investment				
Proceeds from sale of assets				
Others	5	43	0	0
Financing	(255)	64	(351)	(255)
Dividend payments	(54)	(298)	(378)	(247)
Proceeds from borrowings	0	350	0	0
Loan repayment	(144)	0	0	0
Others/interest paid	0	12	26	26
Net cash inflow (outflow)	(4)	248	(160)	(13)
Beginning cash & cash equiv.	248	261	510	350
Changes due to forex impact	18	0	0	0
Ending cash & cash equiv.	261	510	350	337

Key Metric

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	46.0	42.3	44.9	46.4
Pre-tax margin	26.0	20.1	21.8	22.5
Net margin	22.2	16.2	17.3	17.9
ROA	4.3	2.7	3.1	3.2
ROE	7.2	5.8	6.8	7.2
Growth (% yoy)				
Turnover	(33.9)	(11.4)	3.6	0.3
EBITDA	(28.6)	(18.5)	9.9	3.6
Pre-tax profit	(12.5)	(31.3)	12.1	3.7
Net profit	(18.1)	(23.0)	11.0	3.6
Net profit (adj.)	(18.1)	(23.0)	11.0	3.6
EPS	(18.1)	(23.0)	11.0	3.6
Leverage				
Debt to total capital	4.8	21.0	25.0	28.0
Debt to equity	4.8	21.0	25.0	28.0
Net debt/(cash) to equity	n.m	n.m	7.2	9.7
Interest cover (x)	77.8	n.m	38.4	33.5