Velesto Energy (VEB MK)

Rig Market Getting Tighter

Highlights

- **Following our Aug 26 update, global rig outlook continues to see underlying bullishness on further rig tightening.** This time, we observed that all rig segments from drillships and semisubs, to tender rigs and JU have enjoyed rising utilisation in recent months. 2027 outlook remains bullish, especially for the floaters and tender rigs. JU rigs share the same outlook but are blurred by timing complication of the Saudi Aramco situation. For Velesto Energy, channel checks indicate that Naga 3 (N3) secured a short-term contract in 4Q26 as expected. Hence, utilisation will increase from 56% in 2Q26 to about 95% by year-end. DCR is not likely to trend further down, despite potential new entry of an Indian JU rig.
- **VEB is now trading in tandem with global JU rig asset-based valuation, but far cheaper vs other listed peers.** Despite cutting EBITDA/ DPS forecasts, VEB's share price (trading at 5x EV/EBITDA) ignores its execution track record and dividend. On the contrary, global listed peers are trading at multi-cycle highs of 7-14x EV/EBITDA. Our alternative asset-based valuation shows VEB is now trading exactly the same as a JU rig value in recent M&A transactions. Maintain BUY with a lower target price of RM0.27.

Analysis

- **Update: Naga 3 (N3) secured work from Oct 26.** Our channel checks revealed that N3 secured a short-term drilling contract to be deployed offshore Sabah. Note that a short-term contract such as this may not require Velesto Energy (VEB) to issue a public announcement. However, based on VEB's Aug 26 rig schedule, N3 had likely begun mobilisation from Labuan in mid-Oct 26 and may work all the way until Jan 27. We understand the rig continues to be marketed, and the priority is to bid for several potential jobs in the 2027/2028 horizon. In the meantime, with N3 getting a successful charter, VEB's group utilisation may rebound from 56% in 2Q26 to almost 95% by 4Q26.
- **N3 is still open as a potential sales candidate,** although we believe VEB will not settle for any offer to sell for less than US$63m. Firstly, N3 had a complete refresh with the upgrade and maintenance exercise in 1H26, allowing its specifications to be as good as its competition. Secondly, recent M&A transaction multiples imply a jackup (JU) rig value of US$58m, which is a 5% increase since the Iranian conflict in Mar 26. This also aligns with the "rig security" theme that we predicted in our earlier reports.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	1,360	899	796	824	827
EBITDA	579	413	316	349	362
Operating profit	267	233	139	158	165
Net profit (rep./act.)	207	200	113	126	132
Net profit (adj.)	204	167	113	126	132
EPS (x)	2.5	2.0	1.4	1.5	1.6
PE (x)	7.2	8.8	13.1	11.7	11.2
P/B (x)	0.6	0.6	0.7	0.8	0.8
EV/EBITDA (x)	3.1	4.2	5.8	5.6	5.5
Dividend yield (%)	6.9	16.7	20.0	16.7	16.7
Net margin (%)	15.2	22.2	14.1	15.3	15.9
Net debt/(cash) to equity (%)	-	-	-	3.3	6.4
Consensus net profit	-	-	107	123	126
UOBKH/Consensus (x)	-	-	1.11	1.02	1.05

Source: Velesto Energy, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	RM0.18
Target Price	RM0.27
Upside	+48.9%
Previous TP	RM0.29

Stock Data

Sector	Energy
Bloomberg ticker	VEB MK
Shares issued (m)	8,260.0
Market cap (RMm)	1,488.0
Market cap (US$m)	375.2
3-mth avg daily t'over (US$m)	1.1

Price Performance (%)

52-week high/low				RM0.37/RM0.18
1mth	3mth	6mth	1yr	YTD
(15.9)	(26.0)	(45.6)	(26.0)	(32.7)

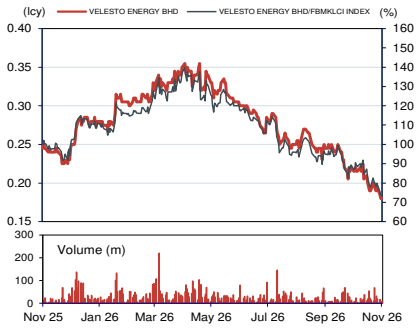
Major Shareholders (%)

Skim Amanah Saham Bumiputera	37.9
Yayasan Pelaburan Bumiputera	11.1

Balance Sheet Metrics

FY26 NAV/Share (RM)	0.27
FY26 Net Debt/Share (RM)	n.m

Price Chart



Source: Bloomberg

Company Description

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

- **Naga 8 (N8) is on schedule for its i-RDC works.** To recap, N8 was chartered to Chevron's 18-month job in the form of an Integrated Rig, Drilling, and Completion (i-RDC) format. Our channel checks indicate that since N8's mobilisation in mid-Aug 26, N8 was on track to complete its first well by end-Oct 26. Margins for i-RDC contract directly correlate to its project management, and N8 is unlikely to pose a near-term earnings risk for 3Q26.
- **Naga 6 (N6) continues to be deployed in Thailand** for Northern Gulf Petroleum for a multi-well drilling campaign involving a firm package of four production wells and three exploration wells. While VEB's rig schedule indicated that N6 will be utilised all the way till end-26, Westwood Global seems to suggest that N6 may be released after end-Nov 26, and if this is true, this may negatively impact our 2026F utilisation forecasts of 77%.
- **New JU rig player entry into the region, at a very low US$70,000 Daily Charter Rate (DCR)...** A recent major development entails PTT Exploration and Production (PTTEP) having chosen two JU rigs named Aryabhatt-1 and Vivekanand-1, to displace incumbent tender rigs EDrill-1 and T-15 which had been working for the oil major in the Gulf of Thailand for several years. The JU rigs belonged to India-based Foresight Offshore Drilling, which operates a fleet of roughly 5-6 JU rigs predominantly for Oil & Natural Gas Corp (ONGC) in India (which usually asks for very low rig DCR) and Middle East. Therefore, we believe PTTEP is a new client and Thailand a new market for them.
- **…but we believe this will neither disrupt nor add further downward pressure on industry DCR.** Before jumping to conclusions, we examine a few observations. The Gulf of Thailand used to be the incumbent region for tender rigs mainly for PTTEP. However, PTTEP in recent times are opening new rig tenders that qualify for both tender rigs and JU rigs. Historically, tender rigs have commanded DCRs slightly lower than those of JUs', reflecting their specialist role and more limited geographic market. However, that gap has narrowed in the past year as utilisation has tightened across Southeast Asia.
- Hence, we opine that PTTEP was willing to appoint an untested, new JU player with no prior Southeast Asia track record, mainly because of the pricing. If this is the case, we assume established regional JU players like VEB and Petrovietnam Drilling (PVD VN, NR)) will likely not be keen on PTTEP tenders. Hence, we retain our assumption that future JU rig DCRs in the region will likely stabilise at current levels, ie US$90,000-100,000.

Valuation/Recommendation

- **Maintain BUY with a lower target price of RM0.27 (from RM0.29),** pegging to unchanged 2027F 7x EV/EBITDA – a suitable valuation metrics to reflect the group's financial resilience and commitment to reward shareholders in the current industry cycle. This implies 19x 2027F PE, and a 10% dividend yield.
- Despite the earnings downgrades, we believe VEB's share price downtrend since the N3 sale termination remains unwarranted without accounting for its execution and ability to pay dividends. In fact, VEB's current 5x EV/EBITDA ran counter to that of other global JU rig players, which are all trading at multi-cycle highs of 7-14x EV/EBITDA. Our alternative asset-based valuation shows VEB currently reflects per rig of US$57m, exactly the same as recent JU rig values in M&A transactions, but far cheaper vs other listed peers.

Earnings Revision/Risk

- **2026-28 earnings cut by 26%/20%/20%.** We retain 2026F-28F utilisation and DCR assumptions which are 77%/82%/85% and US$95,000/ US$93,000/US$90,000 respectively. However, we raise opex assumptions to be conservative. 2026F-28F EBITDA forecasts, which were previously the highest among street forecasts, are cut by 6%/6%/9%. DPS forecasts for 2027-28 remain at a normal and sustainable RM0.030. Our 2026F DPS

Trends In Rig Market, 2H26-2027

Global

- The rig tightness is happening across all rig segments. Westwood reported that Asia Pacific offshore rig utilization all increased in Oct 26. Specifically:
- Drillships (77%; +1%), JU (92%; +5%), semisubs (71%; +8%) and Tender rigs (100%; +6%)
- Esgian said that global average rig values surged since March 2026 on supply-security concerns. Specifically:
- Drillships (US$261m; +10.1%), Semisubs (US$160m; +6.2%), and JU (US$58m; +5.3%)
- 2027 outlook points to further tightening of the rig market. Westwood forecast utilisation as follows: Drillships (97%; matching the peak in 2023), JU (89%; still below 2023's high of 94%), semisubs (86%)
- There is uncertainty in JU utilisation for the 2027 horizon. JU contract awards YTD 2026 is merely a fraction of 2025, while awards for drillships and semis have already surpassed 2025 levels.
- A major factor is the Middle East and what will happen next. Although Middle East demand is very strong, with 18 outstanding JU opportunities.
- Likely an indirect effect of Saudi Aramco's actions (on resuming or reimposing JU rig suspensions), Southeast Asia have been slower than expected too.

"Fresh Meat" To The (Asia-Pacific) Party

- The big news is the impending entrant of Foresight Offshore Drilling as a new JU player into the Asia Pacific region, PTTEP has decided to opt for the Aryabhatt-1 and Vivekanand-1, with commencement of Feb/Apr 27.
- These JUs will displace tender-assist incumbents EDrill-1 and T-15 which have been supporting PTTEP's Gulf of Thailand operations for several years.
- A global recap: PTTEP is the world's biggest user of tender rigs, with eight tender rigs and two semi-tenders under contract. Further demand comes from Carigali-PTTEP Operating Company, with semi-tender working in the Malaysia-Thailand Joint Development Area.
- Petronas Carigali itself has three tender rigs under contract working in Malaysia. ExxonMobil in the past was a major user of tender rigs.
- The Gulf of Thailand shallow water depths and extensive platform infrastructure is ideally suited for tender rigs, which are designed for speedy, efficient platform drilling.
- Compared with JUs, tender rigs require less time to mobilise, rig up and move between locations. Sometimes, drilling equipment can be installed in as few as three lifts, reducing non-productive time
- In recent PTTEP tenders, PTTEP is increasingly willing to consider either tender rigs or JUs for certain bids
- The new contracts are multi-year (5+3 years). In context, EDrill-1 DCR was US$90,000. T-15 DCR was US$125,000. While the new Indian JUs DCR were undisclosed, channel checks indicate DCR as low as US$70,000.

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

Environmental, Social, Governance (ESG) Updates

Environmental

- Greenhouse gas (GHG) emission compliance. Achieved 27% reduction of carbon intensity of operational emissions.
- Safety. Loss time injury frequency (LTIF) was 0. Awarded "Best HSE Program" by Petronas Carigali (PCSB) in Nov 2025.

Social

- 82% progress achieved across 11 ESG scorecard targets.

Governance

- Achieved 4.1 rating (FTSE4Good) and 18.5 Ratings/ Low ESG Risk rated by Sustainalytics.

EV Per Rig, Listed JU Players

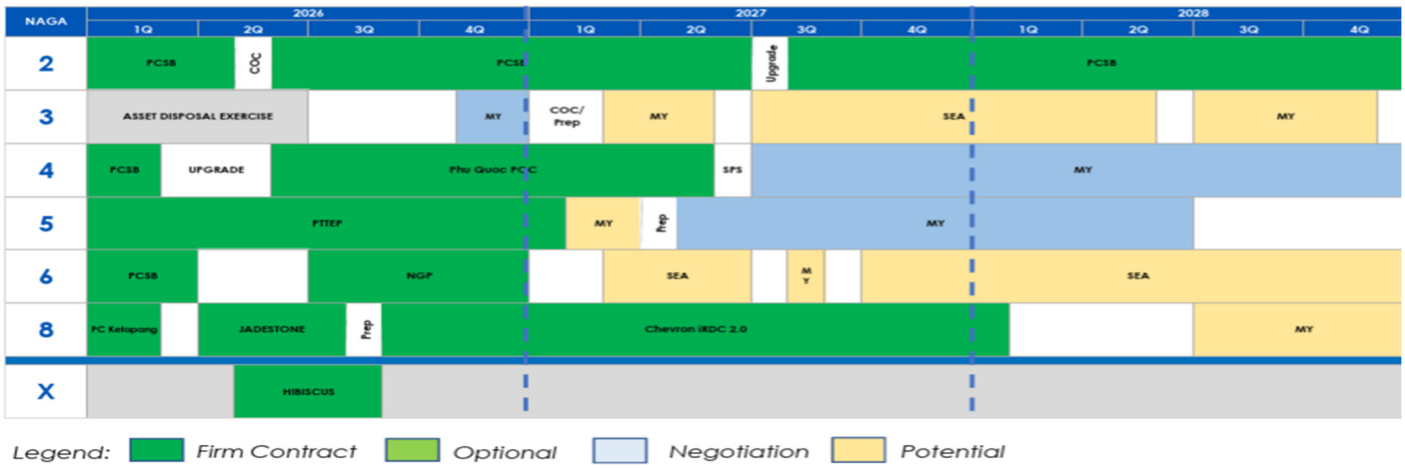
EV/rig, US$m	No of rigs	Today	Aug 26	Peak, 2026	Early 2025
Velesto Energy	6	57.4	77.6	109.8	52.8
Petrovietnam Drilling	7	111.6	104.6	114.8	63.5
Borr Drilling	29	116.6	112.1	82.0	90.0
Valaris	52	135.9	117.3	141.7	695.3
ADES Holdings	125	82.3	80.4	80.4	63.5

Source: ESGian, Bloomberg, UOB Kay Hian

forecast is moderated from RM0.044 to RM0.036 after we adjusted our EBITDA forecasts.

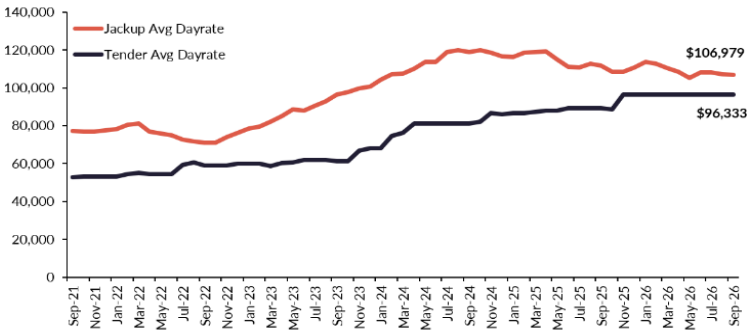
- **Risks:** a) early rig terminations, b) sharper-than-expected decline in DCR, and c) wider-than-expected idle times. As an example, Naga 6 (N6) continues to work for Northern Gulf Petroleum for a multi-well drilling campaign involving a firm package of four production wells and three exploration wells. While VEB's rig schedule indicated that N6 will be utilised all the way till end-26, Westwood Global update seems to suggest that N6 may be released after end-Nov 26, and if this is true, it may negatively impact our 2026F utilisation forecast of 77%.

Rig Schedule As Of Jul 26



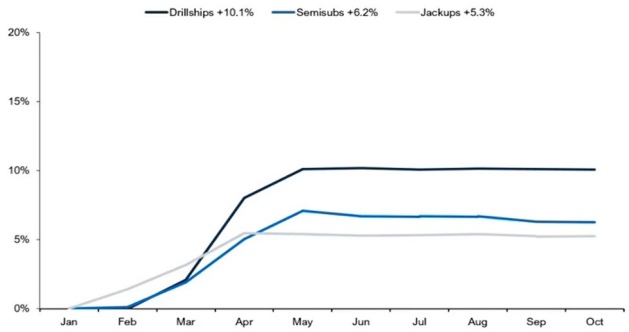
Source: VEB

Asia Pacific Rig Leading-Edge DCR



**Note: 2021-2026*
Source: Westwood Riglogix

Global Average Rig Value Since Jan 26



Source: Esgian

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	899	796	824	827
EBITDA	413	316	349	362
Deprec. & amort.	207	183	181	186
EBIT	233	139	158	165
Total other non-op. income	(5)	6	10	8
Associate contributions	0	0	0	0
Net interest income/(expense)	(5)	6	(10)	(11)
Pre-tax profit	233	139	158	165
Tax	(34)	(27)	(32)	(34)
Minorities	0	0	0	0
Net profit	200	113	126	132
Net profit (adj.)	167	113	126	132

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	518	423	394
Other current assets	278	238	247	248
Total assets	2,827	2,896	2,747	2,646
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	2,214	2,032	1,905
Minority interest	0	0	0	0
Total liabilities & equity	2,827	2,896	2,747	2,646

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	395	165	263	279
Pre-tax profit	233	139	158	165
Tax	(34)	(27)	(32)	(34)
Deprec. & amort.	207	183	181	186
Associates	0	0	0	0
Working capital changes	38	(87)	(6)	(1)
Non-cash items				
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	11	(17)	(17)	(17)
Financing	(255)	88	(269)	(220)
Dividend payments	(144)	(274)	(296)	(247)
Proceeds from borrowings	0	350	0	0
Loan repayment	(112)	0	0	0
Others/interest paid	0	75	90	90
Net cash inflow (outflow)	(4)	257	(95)	(30)
Beginning cash & cash equiv.	248	261	518	423
Changes due to forex impact	18	0	0	0
Ending cash & cash equiv.	261	518	423	394

Key Metric

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	46.0	39.7	42.3	43.8
Pre-tax margin	26.0	17.5	19.2	20.0
Net margin	22.2	14.1	15.3	15.9
ROA	3.6	2.4	2.7	2.9
ROE	7.2	5.0	5.9	6.3
Growth (% yoy)				
Turnover	(33.9)	(11.4)	3.6	0.3
EBITDA	(28.6)	(23.6)	10.4	3.8
Pre-tax profit	(12.5)	(40.2)	13.6	4.3
Net profit	(18.1)	(32.7)	12.2	4.2
Net profit (adj.)	(18.1)	(32.7)	12.2	4.2
EPS	(18.1)	(32.7)	12.2	4.2
Leverage				
Debt to total capital	4.8	20.9	24.1	27.1
Debt to equity	4.8	20.9	24.1	27.1
Net debt/(cash) to equity			3.3	6.4
Interest cover (x)	77.8		36.1	31.7

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