Velesto Energy (VEB MK)

9M26: Slightly Misses Expectations On 4Q26 Outlook Update

Highlights

- **We deem 9M26 EBITDA to be a slight miss to expectations.** Note that on a profit level, the 9M26 performance was affected by higher-than-expected tax and depreciation charges. Although 4Q26 EBITDA is expected to be stronger, the realities of contract uncertainty regarding Naga 3 (N3) earnings commencement prompted us to adjust 4Q26 utilisation forecasts to 86% vs 95% previously. Also, several rigs are up for contract renewal in 1H27 horizon, with three rig contracts at advanced direct negotiation stages. These contracts will likely be referencing current industry DCR of US$85,000 to US$95,000.
- **This does not eliminate potential for more special DPS.** We cut earnings forecasts by 4-34%. 4Q26 is still expected to be VEB's strongest quarter for 2026. Moreover, we understand management reviews dividends every quarter, and still has the ability to pay surplus dividends. Despite earnings downgrades, VEB remains inexpensive relative to global peers. Maintain BUY and target price of RM0.27 (7x EV/EBITDA).

3Q26 Results

Year to 31 Dec (RMm)	3Q26	% chg	% chg YTD 2026	% chg	Comments
Revenue	217.2	41.0	(9.5)	554.6	(16.6) Negligible income from short term, asset-light
- Drilling	212.3	42.0	8.4	541.7	29.9 rig contract for Hibiscus (completed in Aug)
- Others	5.0	10.1	22.4	13.0	71.0
EBITDA	83.5	(17.9)	(27.1)	218.3	(32.7) Depreciation of RM49-50m per quarter
Core EBITDA margin (%)	38.4	5.8	(9.3)	39.4	(9.5)
Average DCR, US$'000	99.0	(4.0)	(12.0)	103.0	(17.0) 2Q26: US$103,000; 9M25: US$120,000
Rig Utilisation (%)	83	27.0	2.0	80.0	(6.0) 2Q26: 56%; 9M25: 86%
Finance cost	(5.0)	173.7	162.2	(8.5)	31.9
Associates/ JV	0.1	N.A	N.A	0.2	N.A 3Q26 Exceptional Items (EI): RM2m asset
PBT	27.8	1,145.3	(58.2)	66.2	(65.7) write-off, RM0.7m forex loss,
Tax	(7.2)	321.6	(55.9)	(17.3)	(56.7) 3Q26/9M26 foreign taxation:RM2.6m/RM3.3m
Profit	20.6	3,782.1	(58.9)	49.0	(68.0)
Core net profit	21.4	(873.8)	(57.0)	44.5	(63.3)

**Note: Daily Charter Rate (DCR)*
Source: Velesto Energy (VEB)

Analysis

- **9M26 performance snapshot.** As our valuation methodology emphasises EBITDA performance over profits, Velesto Energy's (VEB) RM218m EBITDA ytd met 69% of our full-year forecast. This slightly missed expectations due to the updated 4Q26 outlook. Although 4Q26 EBITDA is expected to be stronger, we now forecast 4Q26 utilisation will likely be 86% vs 95% utilisation previously (to meet our 2026F utilisation assumption of 77%). A declared 2.0 sen special DPS makes up RM0.030 sen DPS ytd, vs our RM0.036 forecast. 9M26 profit is also below expectation (met 39%/44% of our/consensus estimates), with higher depreciation and taxes being the negative deviations.

Key Financials

Year to 30 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	1,360	899	779	824	827
EBITDA	579	413	304	349	362
Operating profit	334	206	108	161	171
Net profit (rep./act.)	207	200	92	121	127
Net profit (adj.)	204	200	92	121	127
EPS (x)	2.5	2.4	1.1	1.5	1.5
PE (x)	7.2	8.8	16.1	12.3	11.7
P/B (x)	0.6	0.6	0.7	0.7	0.8
EV/EBITDA (x)	3.1	4.2	6.0	5.6	5.5
Dividend yield (%)	6.9	16.7	20.0	16.7	16.7
Net margin (%)	15.2	22.2	11.8	14.7	15.4
Net debt/(cash) to equity (%)	-	-	21.0	3.6	6.7
Consensus net profit	-	-	124	138	136
UOBKH/Consensus (x)	-	-	1.02	1.03	1.09

Source: VEB, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	RM0.18
Target Price	RM0.27
Upside	+54.2%

Stock Data

Sector	Energy
Bloomberg ticker	VEB MK
Shares issued (m)	8,260.0
Market cap (RMm)	1,446.0
Market cap (US$m)	379.5
3-mth avg daily t'over (US$m)	19.9

Price Performance (%

52-week high/low				RM0.37/RM0.16
1mth	3mth	6mth	1yr	YTD
(12.5)	(30.0)	(46.9)	(27.1)	(36.6)

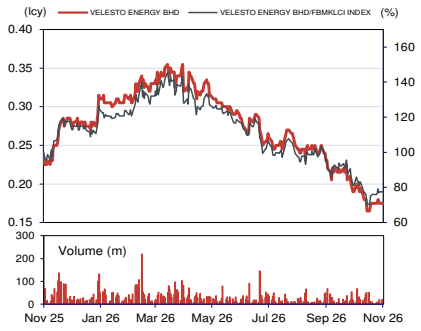
Major Shareholders (%)

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 (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.

- **Even with moderated utilisation, 4Q26 will still be a strong showing….** With Naga 3 (N3) successfully secured a short-term job from Petronas, all six JU rigs will be utilised by end-26. N3's scope of work entails a one firm plus one well option exploration programme, with each well expected to take 45 days. Earlier, channel checks revealed the job had begun in Oct 26. However, we understand that Oct-Nov 26 is the mobilisation period where N3 was towed to Labuan. N3's first earnings will only be after the rig arrives and drills at location. As of today, we understand the rig remains in Labuan. Based on this, we moderated 4Q26 utilisation closer to 86% (vs 95% previously), and now expect 2026 utilisation of 75%.
- **…to support potential for more special DPS.** We understand management reviews its dividend declaration almost every quarter. This implies there are still more special DPS opportunities, as the current JU rig industry outlook still supports peak cycle EBITDA generation.
- **New updates to rig schedule.** Naga 5's (N5) current job for PTTEP was extended to 1Q27 to include the Sabah drilling campaign. Aside from N3, in comparison to the update provided in Jul 26, Naga 6 (N6) now joins Naga 4 (N4) and Naga 5 (N5) in securing a job in the 1H27 horizon (the latter two rigs had secured jobs for 2H27). These contracts are likely via direct negotiations. VEB is of the view that industry-leading DCR is now ranging between US$85,000-US$95,000. We opine that these contracts will be negotiated at these price levels, regardless of the industry DCR trend in 1H27. VEB is also talking to multiple parties regarding more asset-light/third-party JU rig chartering, but they are only for 2H27.

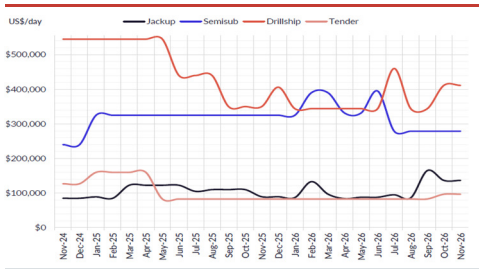
Valuation/Recommendation

- **Maintain BUY, target price of RM0.27 (7x 2027F EV/EBITDA).** This implies 20x 2027F PE and an attractive 11% normalised yield. Despite earnings downgrades, we believe VEB's share value derating since N3 sale termination was overdone. VEB's current 6x 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. An alternative asset-based valuation shows VEB currently reflects per rig value of US$57m, exactly the same as recent JU rig values in M&A transactions.

Earnings Revision/Risk

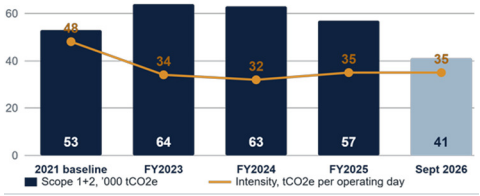
- **Cut 2026F-28F earnings by 34%/14%/14%, and 2026F EBITDA by 4%.** Adjustments to depreciation forecasts prompted the earnings cuts, but the bigger cut to 2026F estimates is mainly due to change in utilisation from 77% to 75%. Our unchanged 2027F utilization estimate of 82% compares against management's estimated contract coverage of 88%. This assumes all potential contracts in bidding have been secured. For 4Q26, we also expect a high taxation amount, not only due to higher Malaysia jobs, but also the foreign tax, especially given two rigs are operating on overseas contracts.

Asia Pacific (APAC) Rigs Leading DCR



Source: Westwood Global, Riglogix

Net Zero Progress



**Note: 2030 targets vs 2021 baseline*
Source: VEB

Assumptions, On DCR Basis

*Based on 6 JU rigs owned	2026F	2027F	2028F
US$/ RM forex rate	4.20	4.20	4.20
Utilisation	**75%**	**82%**	**85%**
DCR, US$'000	**95.0**	**93.0**	**90.0**
Rigs Revenue, RMm	647.6	693.1	695.3
Workover Revenue, RMm	65.0	70.0	75.0
Workover Revenue (%)	9.1	9.2	9.7
Daily OPEX, US$'000	42.9	43.0	41.8
- Utilised, US$,000	53.7	51.5	49.5
- Stacking, US$,000	24.3	25.5	26.7
Daily depreciation,	21.5	20.7	21.1
Daily finance cost,	1.8	3.0	3.2
Daily tax cost, US$,000	2.5	3.4	3.6
Profit Breakeven	**68.7**	**70.0**	**69.7**
Dividend/share, sen	**3.60**	**3.00**	**3.00**

Source: 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

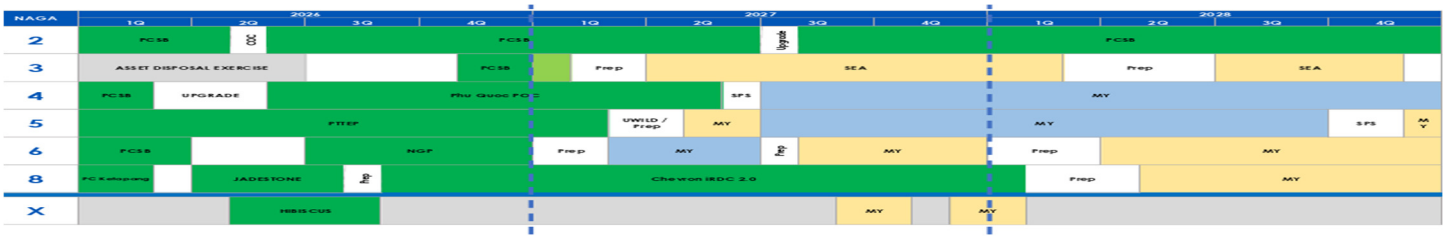
- 82% progress achieved across 11 ESG scorecard targets

Governance

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

Source: UOB Kay Hian

Latest Rig Schedule As Of Nov 26



Legend: Firm Contract Optional Negotiation Potential
Source: VEB

Profit & loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	899	745	724	711
EBITDA	413	328	330	332
Deprec. & amort.	207	183	160	166
EBIT	233	151	180	175
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	151	180	175
Tax	(34)	(32)	(37)	(36)
Minorities	0	0	0	0
Net profit	207	183	160	166
Net profit (adj.)	167	119	143	139

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,125	1,761	1,688	1,611
Other LT assets	2	2	2	2
Cash/ST investment	261	404	250	212
Other current assets	261	404	250	212
Total assets	2,827	2,543	2,334	2,238
ST debt	114	126	152	179
Other current liabilities	282	162	157	155
LT debt	7	7	7	7
Other LT liabilities	0	0	0	0
Shareholders' equity	2,393	2,211	1,980	1,860
Minority interest	0	(21)	(41)	(62)
Total liabilities & equity	2,827	2,543	2,334	2,238

Cash flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	395	194	270	270
Pre-tax profit	233	151	180	175
Tax	(34)	(32)	(37)	(36)
Deprec. & amort.	207	183	160	166
Associates	0	0	0	0
Working capital changes	38	(75)	5	3
Non-cash items	(51)	(33)	(38)	(38)
Other operating cashflows	0	0	0	0
Investing	(144)	230	(88)	(88)
Capex (growth)	(176)	(40)	(88)	(88)
Investment				
Proceeds from sale of assets				
Others	5	270	0	0
Financing	(255)	(281)	(335)	(220)
Dividend payments	(144)	(293)	(362)	(247)
Proceeds from borrowings	0	0	0	0
Loan repayment	(112)	0	0	0
Others/interest paid	0	75	90	90
Net cash inflow (outflow)	(4)	142	(153)	(39)
Beginning cash & cash equiv.	248	261	404	250
Changes due to forex impact	18	0	0	0
Ending cash & cash equiv.	261	404	250	212

Key Metric

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	3.5	7.1	7.2	7.2
Pre-tax margin	4.6	6.9	7.0	7.1
Net margin	2.1	2.6	2.6	2.7
ROA	1.5	2.1	2.1	2.1
ROE	9.0	12.3	12.2	12.2
Growth (% yoy)				
Turnover	4.1	18.4	6.8	6.8
EBITDA	(14.8)	138.1	8.3	7.0
Pre-tax profit	16.6	78.7	8.5	8.3
Net profit	34.1	49.5	8.5	8.3
Net profit (adj.)	34.1	49.5	8.5	8.3
EPS	34.1	49.5	8.5	8.3
Leverage				
Debt to total capital	26.3	24.5	22.8	21.3
Debt to equity	86.2	78.9	72.4	66.4
Net debt/(cash) to equity	(47.1)	(61.0)	(78.1)	(89.4)
Interest cover (x)	4.4	13.7	14.8	19.0

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