Velesto Energy (VEB MK)

2Q26: Blips Reflected; Execution Remains Key For Stronger 2H26

Highlights

- **2Q26 core loss/weak EBITDA are temporary blips within expectation.** 1H26 EBITDA, which met 40% of market forecasts, reflected downtrending DCR and a low 56% utilisation in 2Q26. Note that this is based on a rig fleet of six since the Naga 3 (N3) disposal has been cancelled. The financials and outlook are very similar to global player Borr Drilling (trading at 14x EV/EBITDA)
- **2H26 utilisation expecting to surge to >85%.** While N3 will remain idle until mid 4Q26 at best, we see VEB's unique track record again appeals to regional oil majors seeking domestic rig security demand, as evidenced by the remaining five rigs being almost fully contracted for 2H26. This is superior even to Borr's 2H26 contract coverage of 70%. Hence, we make no changes to forecasts, expecting a stronger 2H26 showing that will also support more generous dividend payments. Maintain BUY, and target price of RM0.29 (7x EV/EBITDA; 10% normalised yield).

2Q26 Results

Year to 31 Dec (RMm)	2Q26	% chg	% chg	YTD 2026	% chg	Comments
Revenue	154.0	(16.0)	(23.0)	337.4	(20.5)	
- Drilling	149.5	(16.9)	(23.7)	329.4	(21.0)	Asset-light JU contract for Hibiscus started in
- Integrated Oilfield Services	4.5	30.4	11.2	8.0	5.3	mid-May 26; revenue/ margins not revealed
EBITDA	50.3	18.7	(46.4)	134.7	(35.8)	1H26 met 40% of ours/ market forecast
Core EBITDA margin (%)	32.7	(13.3)	(14.3)	39.9	(9.5)	
Average DCR*, US$'000	103.0	(5.0)	(20.0)	105.0	(20.0)	Against US$123,000-125,000 yoy
Rig Utilisation (%)	56	(19.0)	(1.0)	66.0	4.0	Based on rig fleet of 6. Equivalent ratios
Finance cost	(1.8)	5.6	(11.1)	(3.5)	(22.3)	excluding N3, are 66%/ 78% for 2Q26/1H26
Associates/ JV	0.1	N.a	N.a	0.1	N.a	
PBT	2.2	(93.8)	(96.4)	38.5	(69.6)	2Q26 Exceptional Items (EI): RM1.5m net
Tax	(1.7)	(79.7)	(84.4)	(10.1)	(57.3)	forex gain, RM1.5m asset write-off, RM6.4m
Profit	0.5	(98.1)	(98.9)	28.4	(72.5)	provision reversal of Naga 7 (2025: RM28.2m)
Core net profit	(2.8)	(110.7)	(114.2)	23.1	(67.7)	1H26 met 20%/19% of ours/market forecast

Source: Velesto Energy (VEB)

Analysis

- **2Q26 core loss and EBITDA – A temporary blip well within expectations.** Velesto Energy's (VEB) share price downtrend since Jun 26, especially after the announcement of the Naga 3 (N3) sale cancellation, has adequately factored in the weak 2Q26 showing. 2Q26's utilisation of 56% (66% if based on a rig fleet of five excluding N3) is within our earlier expectation of 60%. This included a one-month zero-rated period for Naga 2 (N2), two idle months for Naga 4 (N4), and full quarter of idle periods for N3 and Naga 6 (N6). Average realised daily charter rate (DCR) trended 20% lower yoy but is close to US$96,000 in the region. VEB's 0.25 sen interim DPS makes up RM0.01 DPS for 1H26 vs our RM0.046 forecast.

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	-	-	124	138	136
UOBKH/Consensus (x)	-	-	1.02	1.03	1.09

Source: Velesto Energy, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	RM0.25
Target Price	RM0.29
Upside	+16.0%

Stock Data

Sector	Energy
Bloomberg ticker	VEB MK
Shares issued (m)	8,260.0
Market cap (RMm)	2,066.0
Market cap (US$m)	511.4
3-mth avg daily t'over (US$m)	22.8

Price Performance (%

52-week high/low: RM0.37/RM0.20

1mth	3mth	6mth	1yr	YTD
(2.0)	(24.2)	(20.6)	28.2	(9.1)

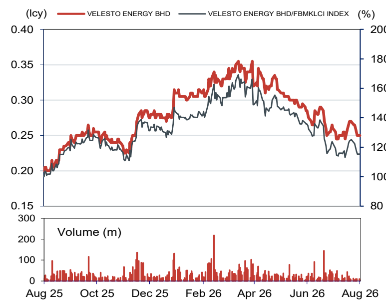
Major Shareholders (%)

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

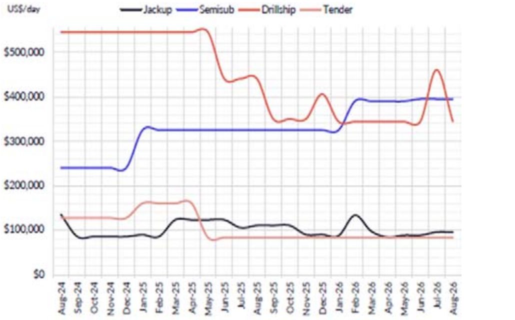
Velesto Energy (VEB), formerly UMW O&G, is the premier local jackup (JU) rig service provider in Malaysia. It operates a fleet of six JU rigs with potential expansion of its new asset-light strategy.

- **Expecting 2H26 utilisation of over 85%.** N3 is expected to remain idle until mid-4Q26 at best. However, positively and confirming our earlier channel checks, VEB secured a job for N6 in Thailand from Northern Gulf Petroleum (NGP) and had been mobilised since Jul 26, keeping the rig busy for approximately 4-5 months until the end of 2026. For Naga 8 (N8), VEB's latest rig schedule suggests N8 is going through a contract preparation period, which is likely to be zero-rated (in terms of DCR). However, channel checks indicate that N8 had been towed to the Bunga Kangsar platform in North Malay Basin and deemed "on hire" for Chevron's 18-month job since the first week of Aug 26. This positive development suggests the contract preparation period was faster than the 2-4 weeks implied in the rig schedule.
- **Financials appear similar to peer Borr Drilling (Borr)...** One of VEB's fiercest foreign competitors in the global JU rig landscape, Borr, also reported a core loss in 2Q26, with adjusted EBITDA for 2Q26/1H26 falling by 51%/ 42% to US$44m/US$132m respectively. Borr explained that it was hit by additional rig preparation work and six of its rigs were transitioning contracts. The contract transition had a double whammy effect: a) a loss in revenue, and b) a spike in insurance and fuel costs (an indirect impact of the Middle East conflict). The affected rigs are now operational.
- **…but with a better outlook.** Borr expects 73%/70% contract coverage for 2026/2H26 respectively, at an average DCR of US$134,000. This compared with Borr's average DCR of US$136,000-US$145,000 realised in 2025. Eight out of Borr's 29 rigs are in APAC, with six being employed. Although VEB's DCR is naturally less superior as its rigs are predominantly in Southeast Asia, while Borr (being a truly global JU rig player) has market presence in America/Africa which demand higher DCR), it is also precisely this unique track record that has enabled VEB to better appeal with those seeking domestic rig security and to secure stronger 2H26 utilisation.
- **ESG updates.** VEB shared that it is on track to meet the mandatory ESG reporting of full compliance of IFRS S2 (climate-related disclosures) and reasonable assurance on Scope 1+2 emissions from Jan 28. Its internal assessment checklist shows compliance readiness at 48%.

Valuation/Recommendation

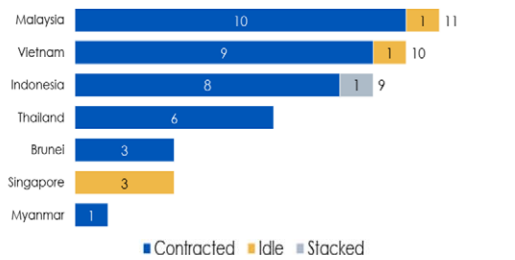
- **Maintain BUY; target price at RM0.29 (7x 2027F EV/EBITDA).** With no change to our forecasts, this implies 18x 2027F PE and an attractive 10% normalised yield. In comparison, Borr is trading at annualised EV/EBITDA of 14x. An alternative asset-value based valuation implies EV per rig of US$94m, which is at a premium vs other global rig peers and rig sale transactions averaging between US$54m to US$100m.

Asia Pacific (APAC) Rigs Leading DCR



Source: Westwood Global, Riglogix

Rig Requirements in SEA*



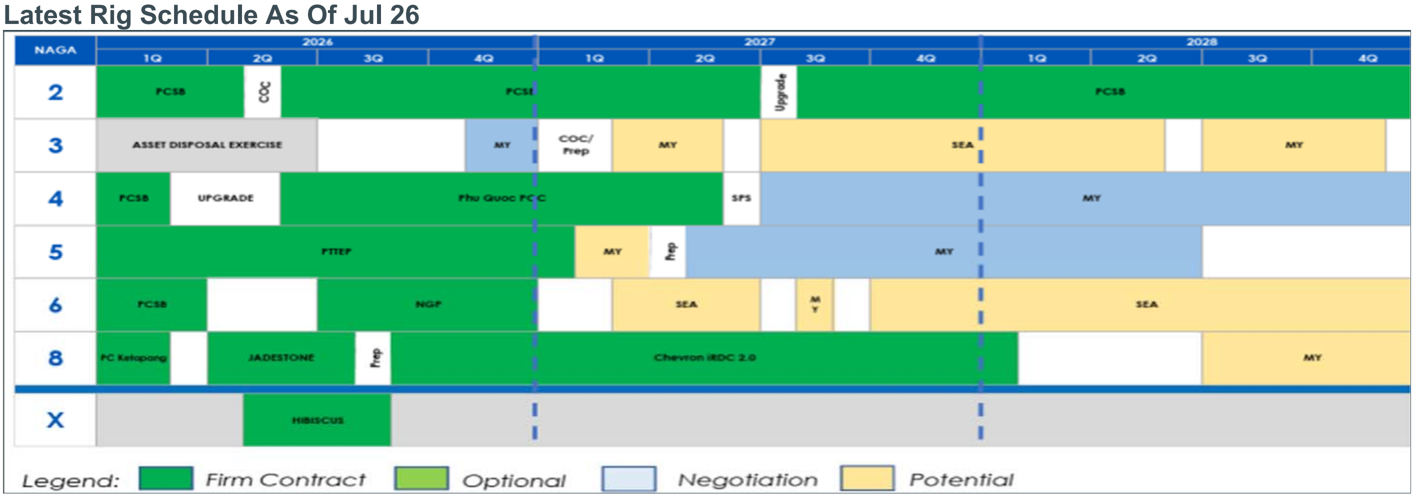
*Source: S&P Petrodata as of July 26 *Note: Southeast Asia (SEA)*

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 Jul 26



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