

Velesto Energy Berhad

Another Turnaround Story

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We are initiating coverage on VELESTO with an OUTPERFORM call with TP of RM0.35, on its expected turnaround underpinned by improving utilisation and charter rates outlook. In addition, further impairment is also unlikely. VELESTO being the single largest jack-up drilling rig provider in the country with almost non-existent local competition is well-positioned as the prime proxy for increased drilling activities from Petronas.

Largest jack-up drilling rig player in the country. VELESTO, best known as a jack-up drilling rig provider, is the largest jack-up drilling rig player in Malaysia, operating 7 rigs (named numerically from 'Naga 2' to 'Naga 8'), and services roughly less than half of Petronas' jack-up drilling rigs requirement. Local competition is almost non-existent, with the only other local competitor being PERISAI, which has only 1 jack-up rig, while international players fill up the rest of Petronas' jack-up rigs demand. Although this means that realistically, VELESTO may not be venturing overseas for the time being, but instead focusing its efforts in the local market, this also inevitably positions the company as the best proxy in Bursa for local oil and gas drilling activities.

Beneficiary of Petronas' increased activity. In the latest Petronas activity outlook, the oil major states that it is expected to roughly double its demand for jack-up rigs, from 9-10 units in 2018 to approximately 16-18 in 2019, and 17-19 units in 2020-2021. This is as Petronas looks to increase its brownfield activities. Nonetheless, this would make VELESTO the prime beneficiary of Petronas' increased drilling activity, given its position as the main jack-up drilling rig player in Malaysia, although it is still imperative for it to remain competitive to withstand pricing pressures from international players.

Turnaround story driven by improving utilisation. Overall, we are expecting VELESTO's bottom-line to post a turnaround in FY19-20, underpinned by an increase in rig utilisation rates (projected FY19E/FY20E utilisation rate to be at 80%/85%, up from 73% in FY18A and 70% in FY17A). This comes after the company managed to secure 1+1-year contracts for four of its rigs back in April 2019 (namely Naga 2, 3, 5 and 6). Meanwhile, charter rates are also expected to stabilise on the back of the increased demand, currently hovering slightly above USD70k/day, after bottoming out at USD68k/day in 2017, from a peak of USD151k/day in 2014.

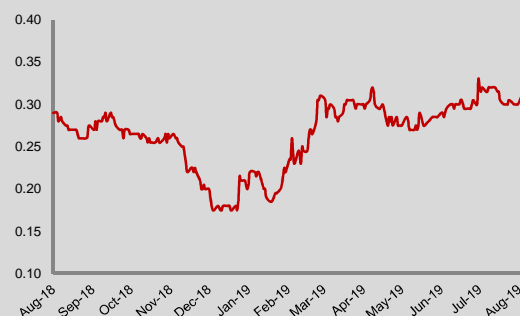
Initiate coverage with OUTPERFORM call, on the back of a turnaround story, clear earnings visibility for the next 1-2 years, while we also see limited downside risks from current share price levels. Our TP of RM0.35 is pegged to 1x PBV on FY20E – roughly in-line with its 2-year mean valuations. Our ascribed valuation is also somewhat in-line with the local oil and gas sector average. We believe our ascribed valuations to be fair, as we deem further impairments to be unlikely, after massive impairments of RM2.1b over the past 4 years, on the back of improving utilisation and charter rates outlook. Additionally, VELESTO reportedly had also demonstrated strong environmental, social and governance practices, being one of the few 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 suite the stock** (i.e. prices of RM0.30 and below would pose as an opportune entry, while prices of RM0.35 and above as an attractive take-profit level), as opposed to a "buy-and-hold" approach.

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

OUTPERFORM

Price : RM0.310
Target Price : RM0.350

Share Price Performance



KLCI 1,596.45
YTD KLCI chg -5.6%
YTD stock price chg 72.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	VEB MK Equity
Market Cap (RM m)	2,546.8
Shares outstanding	8,215.6
52-week range (H)	0.34
52-week range (L)	0.17
3-mth avg daily vol:	18,876,040
Free Float	42%
Beta	1.7

Major Shareholders

Skim Amanah Saham Bumiputera	36.1%
Yayasan Pelaburan Bumiputera	15.3%
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)	-	22.1	50.7
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	N.M.	167.9	66.6
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

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EXECUTIVE SUMMARY

Initiate coverage with OUTPERFORM call, on the back of an expected turnaround, clear earnings visibility for the next 1-2 years, while we also see limited downside risks from current share price levels. **Our TP of RM0.35** is pegged to 1x PBV on FY20E. VELESTO is best known as a jack-up rig provider in Malaysia, operating 7 rigs – the largest in the country, servicing roughly less than half of Petronas' jack-up rig requirements, as local competition is almost non-existent, with the only peer being PERSAI with 1 jack-up rig. This makes VELESTO as the best proxy on Bursa for the local oil and gas drilling space, as well as making it the prime beneficiary of increased Petronas drilling activities. In fact, based on Petronas' latest activity outlook, the oil major is expected to roughly double its jack-up rig demand from 9-10 units in 2018 to approximately 16-18 in 2019, and 17-19 units in 2020-2021. This is expected to drive a rise in utilisation (projected FY19E/FY20E at 80%/85%, up from 73% in FY18A and 70% in FY17A) as well as stabilising charter rates (hovering at slightly above USD70k/day currently, after bottoming out at USD68k/day in 2017, from a peak of USD151k/day in 2014). All-in, we believe this would lead to a turnaround in VELESTO's bottom-line in FY19-20E (against core losses of RM133.1m in FY17A and RM18.2m in FY18A). Overall, we believe our ascribed valuations to be fair, as we deem further impairments to be unlikely, after massive impairments of RM2.1b over the past 4 years, on the back of improving utilisation and charter rates outlook. Additionally, VELESTO reportedly had also demonstrated strong environmental, social and governance practices, being one of the few 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 suite the stock (i.e. prices of RM0.30 and below would pose as an opportune entry, while prices of RM0.35 and above as an attractive take-profit level), as opposed to a "buy-and-hold" approach.

INVESTMENT MERITS / COMPANY OUTLOOK

Largest jack-up drilling rig player in the country. VELESTO, best known as a jack-up drilling rig provider, is the largest jack-up drilling rig player in Malaysia, operating 7 rigs (named numerically from 'Naga 2' to 'Naga 8'), and servicing roughly less than half of Petronas' jack-up drilling rigs requirement. Local competition is almost non-existent, with the only other local competitor being PERISAI with 1 jack-up rig, while international players fill-up the rest of Petronas' jack-up rigs demand. Although this means that realistically, VELESTO may not be venturing overseas for the time being, instead focusing its efforts in the local market, this also inevitably positions the company as the best proxy in Bursa for local oil and gas drilling activities.

Prime beneficiary of Petronas' increased activity. In the latest Petronas activity outlook, the oil major states that it is expected to roughly double its demand for jack-up rigs, from 9-10 units in 2018 to approximately 16-18 in 2019, and 17-19 units in 2020-2021. This is as Petronas looks to increase its brownfield activities. Nonetheless, this would make VELESTO the prime beneficiary of Petronas' increased drilling activity, given its position as the main jack-up drilling rig player in Malaysia, although it is still imperative for it to remain competitive to withstand pricing pressures from international players.

Turnaround story driven by improving utilisation. Overall, we are expecting VELESTO's bottom-line to post a turnaround in FY19-20E, underpinned by an increase in rig utilisation rates (projected FY19E/FY20E utilisation rate to be at 80%/85%, up from 73% in FY18A and 70% in FY17A). This comes after the company managed to secure 1+1-year contracts for four of its rigs back in April 2019 (namely Naga 2, 3, 5 and 6). Meanwhile, charter rates are also expected to stabilise on the back of the increased demand, currently hovering slightly above USD70k/day, after bottoming out at USD68k/day in 2017, from a peak of USD151k/day in 2014.

COMPANY BACKGROUND

Rights issue and detaching from UMW Group. VELESTO was formerly known as "UMW Oil & Gas Corporation Berhad" (UMWOG), being formerly part of the UMW Holdings Berhad (UMW) group of companies via a 55.73% holding stake. In Sep 2017, the company completed its corporate recapitalisation exercise, entailing (i) rights issue, on the basis of 14 rights for every 5 shares, at an issue price of RM0.30, together with (ii) free detachable warrants, on the basis of 1 warrant for every 4 rights shares. The rights issue managed to successfully raise RM1.8b, most of which was used for repayments of bank borrowings, thus effectively bringing down its net gearing to 0.4x as at end-FY17, from a high of 1.4x in FY16. Simultaneously, the company strategically exited from the UMW group, via a share distribution exercise, on the basis of 1.03 UMWOG shares for every UMW share held. Subsequent to the completion of the restructuring, with the company no longer part of the UMW group, the company renamed itself to its current existing name of "Velesto Energy Berhad" in May 2018.

INDUSTRY OUTLOOK

Brent crude oil prices hovering steadily above USD60/barrel. While oil prices do not directly impact VELESTO's immediate near-term earnings, we still find the outlook and price trends of crude oil to be somewhat relevant, given that it affects: (i) trading sentiment of the stock, with it being one of the more established names in the local oil and gas market, and (ii) Petronas' longer-term decision making towards the demand of jack-up rigs, which could lead to changes in future charter rates or utilisations. Overall, Brent crude oil prices have been hovering steadily around the USD60 per barrel mark throughout most the year (1H19 average of USD67/barrel), largely thanks to committed production cuts from OPEC+, pledging to cut 1.2m barrels per day from its Oct 2018 benchmark. In fact, our data shows that OPEC 11's (the 11 OPEC members bounded to the cuts) compliance towards the production cuts have thus far been relatively satisfactory - well over 100% for most of 1H19, with Russia also hitting >100% compliance in May-2019. Nonetheless, slowing growth from the global macroeconomics environment still remains a factor of concern with regards to global oil demand. Overall, we project Brent oil prices to average around USD65 for 2019-2020.

Brent Crude Oil Price Chart

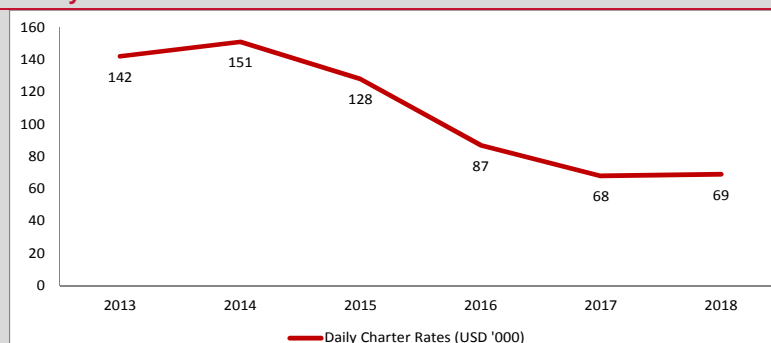


Source: Bloomberg, Kenanga Research

Commentary: Brent oil prices have been trading between the USD60-70/barrel range for most of YTD-2019 (2019-YTD average of USD66/barrel versus USD71/barrel in 2018)

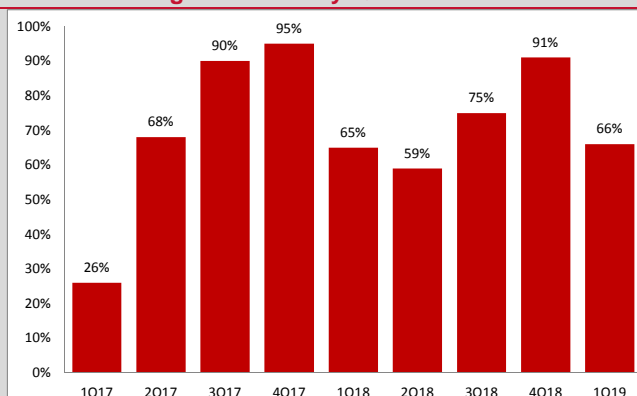
Stabilising drilling charter rates and utilisation level. On the back of increased demand, jack-up rigs utilisation has been on a steady pick-up over the last couple years. In particular, VELESTO's rig utilisation has managed to recover to an average of 73% in 2018, from a low of 21% recorded in 2016. Meanwhile, while having massively declined from its peak of USD151k/day in 2014, charter rates have started to show signs of stabilisation recently, having been hovering at around the USD70k/day for the past two years. Moving forward, we have pencilled in an assumption of (i) average charter rates of USD72k/day for 2019-2020, and (ii) utilisation rate of 80%/85% in 2019/2020 for VELESTO.

Average Daily Charter Rates by Year



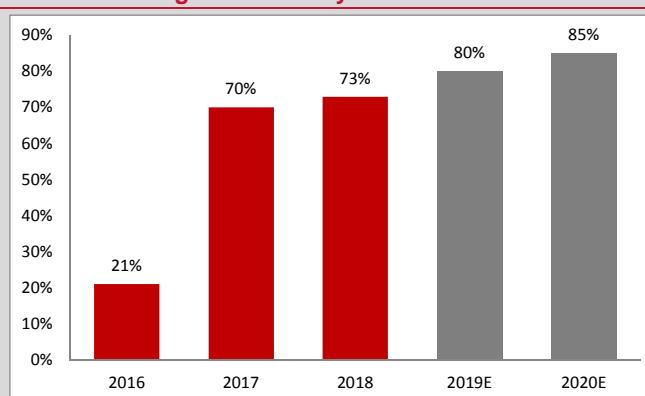
Source: Company

VELESTO's Rig Utilisation By Quarter



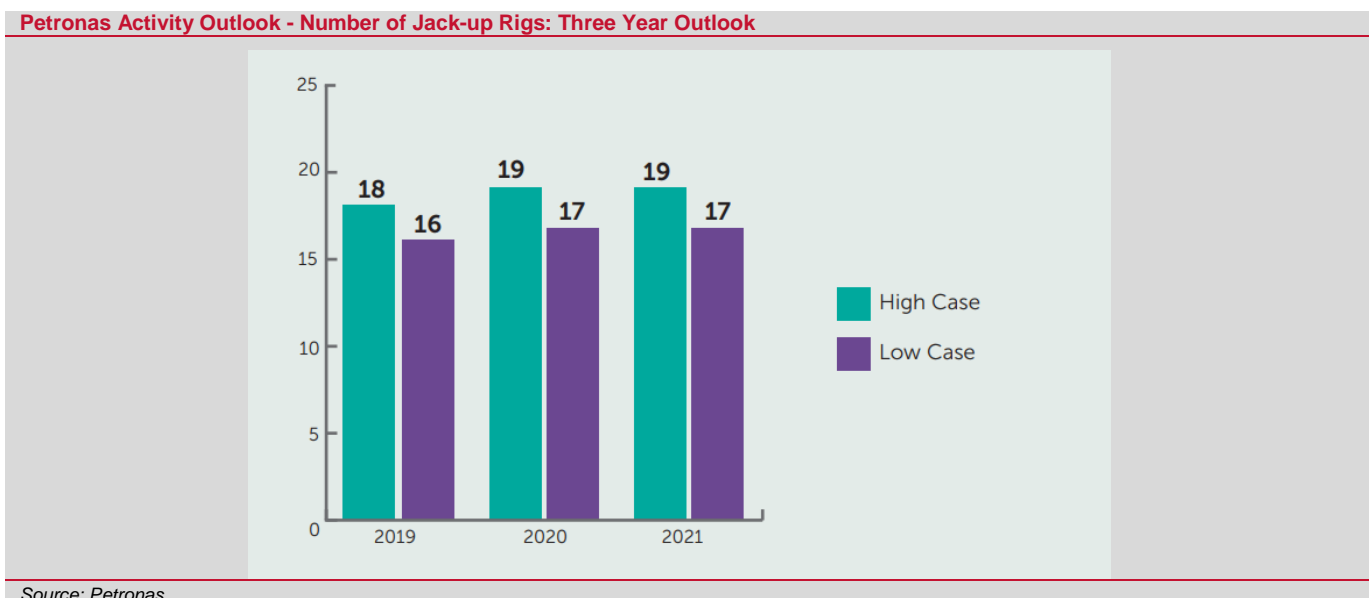
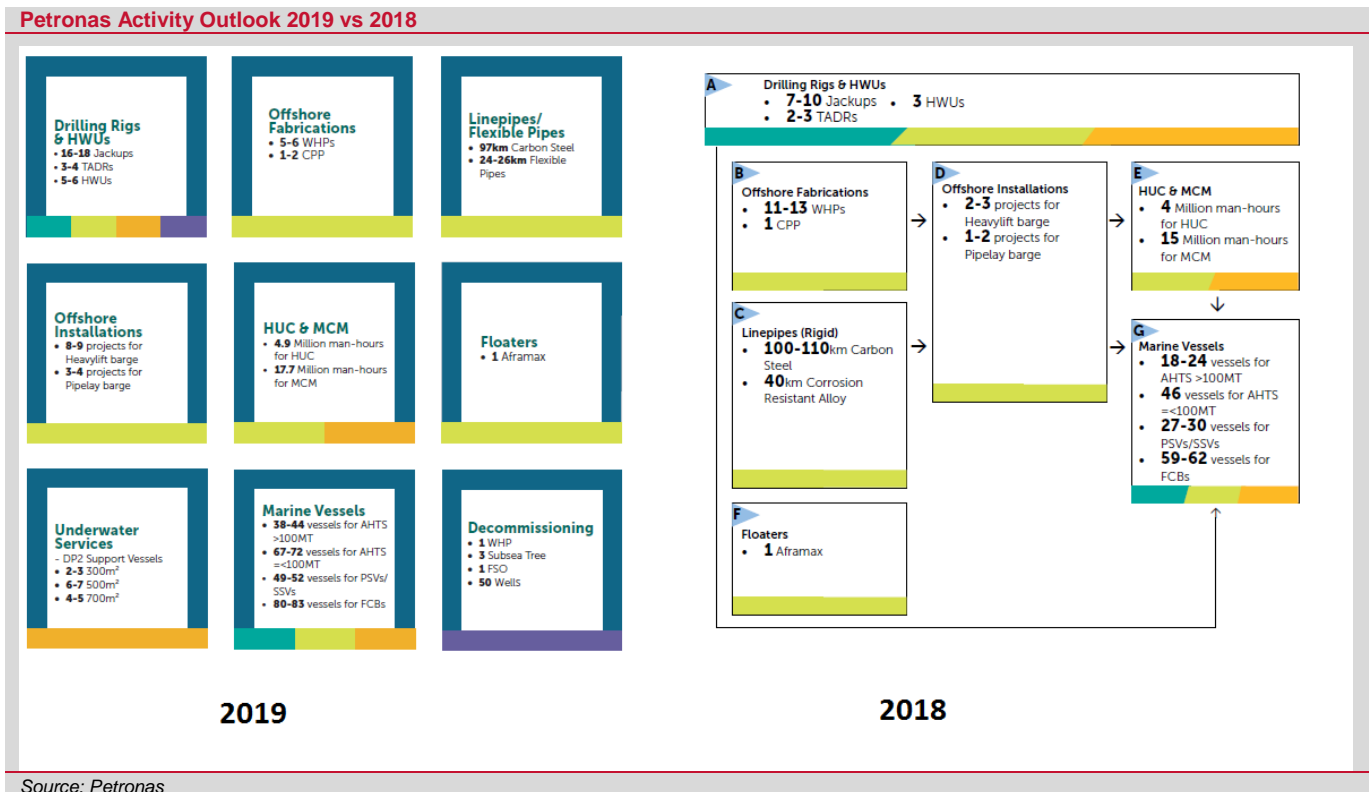
Source: Company

VELESTO's Rig Utilisation By Year



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Uptick in utilisation rates backed by increased demand from Petronas. The expected uptick in rig utilisation is underpinned by Petronas' increase in demand for drilling rigs. To recap, VELESTO is the largest jack-up rig provider for Petronas, thus making it the prime beneficiary of an increase in demand from the national oil major. Overall, in its latest activity outlook, Petronas is looking to increase its jack-up rigs requirements to 16-18 rigs for 2019-2021, from 7-10 jack-up rigs previously (*refer to visuals below*).



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RISKS

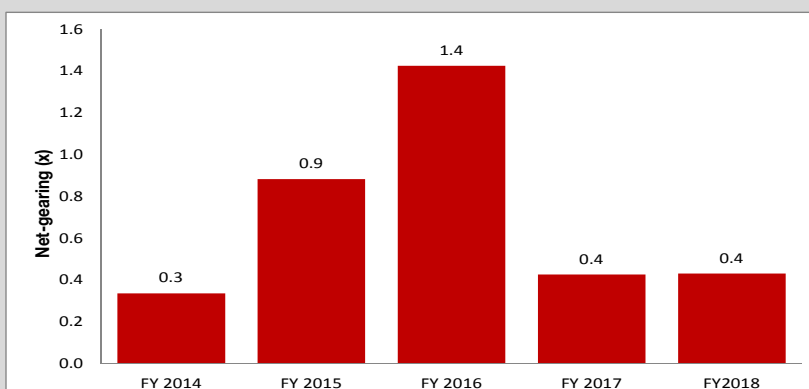
Over-reliance on Petronas. While VELESTO is seen as the prime beneficiary of Petronas increasing drilling rigs demand, this can also be a double-edged sword working against the company. Realistically, we do not expect VELESTO to venture overseas in the coming 1-2 years, and hence, its medium-term outlook is still heavily reliant on Petronas' rigs demand. Any shift in Petronas' activity strategy, possibly triggered by a sudden and unfavourable swing in oil prices, could therefore theoretically adversely impact VELESTO's outlook and earnings.

Lower-than-expected rigs utilisation. Any operational issues (e.g. failure of timely deployment, rigs facing technical issues) could result in a lower-than-expected rigs utilisation, hence leading to an adverse impact on earnings, placing its turnaround story in jeopardy.

Susceptible to macro factors. VELESTO is also susceptible to macro factors, such as (i) changes in the competitive landscape of the local jack-up rig drilling scene, and (ii) changes on demand-supply dynamics of drilling rigs, both internationally and globally. These factors, while having no immediate impact towards VELESTO's existing contracts at hand, could impact charter periods or rates of future contracts, which in turn would affect the company's projected utilisation and earnings.

FINANCIAL ANALYSIS

Gearing levels more manageable after rights issue in 2017. After the completion of its rights issue back in 2017, successfully raising RM1.8b, most of which was used for repayments of bank borrowings, the company's net-gearing have been hovering steadily at a more palatable level of around ~0.4x, from a high of 1.4x as at end-FY16. Moving forward, the company is focusing its cash flows into early repayments of its existing borrowings. Hence, we expect gearing level to gradually taper down from current levels (FY19E/FY20E net-gearing of 0.4x/0.3x).

Historical Net-Gearing Trend

Source: Company, Bloomberg, Kenanga Research

Dividend pay-outs. Seeing that the company is still in the midst of turning around, we do not expect any dividends in the foreseeable future. The last time the company announced dividend payment was back in November 2014, which incidentally, was the only time the company had ever declared dividends.

Minimal capex. Moving forward, we expect the company to incur minimal capex. Instead, we believe the company would be more focused on using its cash flow for borrowings repayment, hence possibly resulting in lower finance costs and gradual reduction of net gearing level moving forward.

Forecast assumptions. We are expecting VELESTO to post a breakeven profit, with our FY19E/FY20E earnings at RM15.2m/RM38.3m, from core losses of RM133.1m/RM18.2m in FY17A/FY18A. Our FY19E/FY20E numbers are derived based on the assumptions of: (i) 80%/85% rig utilisation, (ii) average daily charter rate of USD72k, (iii) MYR/USD exchange rate of RM4.10, and (iv) effective tax rate of 25%.

Sensitivity Analysis. Based on our sensitivity analysis, every 5% change in our utilisation assumption would lead to an approximate 6% change in EBITDA. Taking into account other fixed operating costs, this would translate to roughly ~33% change in FY20E PAT.

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PEERS COMPARISON

Against local oil and gas companies. Comparing against locally-listed oil and gas companies, VELESTO's valuation (currently at 0.9x PBV) trades slightly below the sector's average (currently at 1.1x PBV), despite having a slightly better-than-average ROE (-0.7% vs -10.9%). Among local names, closest comparable peer is SAPNRG, which operates tender drilling rigs (versus VELESTO operating jack-up drilling rigs). As at April 2019, SAPNRG operates 15 tender rigs, with 7 of them being stacked. Valuation-wise, SAPNRG trades at some discount compared to VELESTO (1-year forward PBV of 0.3x vs 0.9x), although this is somewhat explainable as SAPNRG is also exposed to other sub-segments in oil and gas (i.e. engineering and construction, as well as exploration and production), coupled with VELESTO's superior forward ROEs (0.9% vs 0.5%).

Local Oil and Gas Peers Valuation Comparison (based on Bloomberg Consensus)									
Name	Last Price	Market Cap (RM' mil)	PER (x) - Core Earnings			PBV (x)		ROE	
			Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	Hist.	1-Yr. Fwd.
DIALOG GROUP BHD	3.48	4,696.9	36.6	33.8	31.9	5.2	4.8	14.7%	14.4%
YINSON HOLDINGS BHD	6.70	1,732.9	32.2	27.6	19.0	2.0	2.7	7.9%	8.4%
SERBA DINAMIK HOLDINGS BHD	4.25	1,494.0	16.0	13.2	11.1	3.0	2.5	22.3%	20.3%
SAPURA ENERGY BHD	0.27	1,030.2	N.M.	90.0	18.0	0.2	0.3	1.8%	0.5%
VELESTO ENERGY BHD	0.31	609.7	N.M.	155.0	51.7	0.9	0.9	-0.7%	0.9%
HIBISCUS PETROLEUM BHD	0.99	376.4	5.2	5.8	5.0	1.3	2.9	23.4%	25.2%
PETRON MALAYSIA REFINING & M	5.57	360.0	7.2	N.M.	N.M.	0.9	N.M.	14.1%	N.M.
HENGYUAN REFINING CO BHD	4.97	356.9	N.M.	N.M.	N.M.	0.8	N.M.	1.6%	N.M.
MALAYSIA MARINE AND HEAVY EN	0.85	323.6	N.M.	N.M.	26.4	0.6	0.6	-4.9%	-0.4%
BUMI ARMADA BERHAD	0.23	316.5	N.M.	5.4	4.5	0.4	0.4	-52.0%	6.9%
DAYANG ENTERPRISE HLDGS BHD	1.48	341.8	8.1	13.0	11.6	1.3	1.1	15.4%	8.2%
KNM GROUP BHD	0.38	231.8	N.M.	N.M.	N.M.	0.6	N.M.	-39.7%	N.M.
WAH SEONG CORP BHD	0.67	123.6	9.3	8.1	7.6	0.5	0.5	7.0%	6.0%
COASTAL CONTRACTS BHD	0.96	121.3	N.M.	N.M.	N.M.	1.2	N.M.	-39.2%	N.M.
DELEUM BERHAD	0.83	79.8	11.6	8.8	8.0	1.0	N.M.	8.3%	11.8%
REACH ENERGY BHD	0.19	58.1	N.M.	63.3	17.3	0.3	0.3	-6.2%	0.5%
PERDANA PETROLEUM BHD	0.36	66.2	N.M.	N.M.	N.M.	0.7	N.M.	-8.6%	N.M.
T7 GLOBAL BHD	0.49	57.8	25.4	N.M.	N.M.	1.6	N.M.	5.0%	N.M.
PETRA ENERGY BHD	0.75	57.2	N.M.	N.M.	N.M.	0.7	N.M.	-6.1%	N.M.
SCOMI ENERGY SERVICES BHD	0.09	50.4	N.M.	N.M.	N.M.	0.5	N.M.	-7.0%	N.M.
UZMA BHD	0.68	52.1	9.6	N.M.	17.4	0.4	N.M.	3.8%	N.M.
CARIMIN PETROLEUM BHD	0.89	49.8	72.7	N.M.	N.M.	1.4	N.M.	-17.4%	N.M.
SINO HUA-AN INTERNATIONAL	0.15	40.3	8.4	N.M.	N.M.	0.4	N.M.	7.9%	N.M.
ICON OFFSHORE BHD	0.09	24.0	N.M.	N.M.	9.4	2.1	N.M.	-161.5%	-0.3%
ALAM MARITIM RESOURCES BHD	0.09	20.6	N.M.	N.M.	N.M.	N.M.	N.M.	-34.2%	N.M.
SCOMI GROUP BHD	0.09	19.5	N.M.	N.M.	N.M.	0.4	N.M.	-42.3%	N.M.
HANDAL RESOURCES BHD	0.39	20.1	N.M.	N.M.	N.M.	0.7	N.M.	-8.9%	N.M.
SECTOR AVERAGE			20.2	38.5	17.1	1.1	1.5	-10.9%	7.9%

Source: Bloomberg, Kenanga Research

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Against global drilling peers. Comparing against global drilling peers, VELESTO trades at the highest premium (0.9x PBV versus industry average of 0.4x), although this can be somewhat justified by: (i) VELESTO having superior ROEs and one of the narrowest loss margins, (ii) VELESTO receiving more favourable daily charter rates from Petronas (by roughly USD5-10k/day) as compared to foreign peers operating within Malaysia, being the only main local jack-up drilling player in the country. Among global peers, Borr Drilling is the closest comparable peer, being another pure-play jack-up rigs player, operating ~23 rigs globally. Thus, naturally, Borr Drilling trades the closest to VELESTO as compared to other global drilling peers, albeit still at a slight discount (0.8x trailing PBV vs VELESTO's 0.9x) – still somewhat justifiable given VELESTO's superior ROE and narrower loss margins.

Global Drilling Peers Valuation Comparison (based on Bloomberg Consensus)

Name	Market Cap (USD'mil)	Currency	PER (x) - Core Earnings			PBV (x)		ROE	
			Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	Hist.	1-Yr. Fwd.
VELESTO ENERGY BHD	609.7	MYR	N.M.	155.0	51.7	0.9	0.9	-0.7%	0.9%
SAPURA ENERGY BHD	1030.2	MYR	N.M.	90.0	18.0	0.2	0.3	1.8%	0.5%
BORR DRILLING LTD	610.6	NOK	N.M.	N.M.	N.M.	0.8	0.4	-12.6%	-10.2%
DIAMOND OFFSHORE DRILLING	802.8	USD	N.M.	N.M.	N.M.	0.2	0.2	-4.9%	-9.5%
PACIFIC DRILLING SA	342.7	USD	N.M.	N.M.	N.M.	0.2	0.3	-115.8%	-18.5%
PETROVIETNAM DRILLING AND WE	290.3	VND	13.3	34.5	12.8	0.5	0.5	1.1%	1.8%
SEADRILL LTD	268.0	USD	N.M.	N.M.	N.M.	0.1	0.1	-136.4%	-32.3%
TRANSOCEAN LTD	2569.6	USD	N.M.	N.M.	N.M.	0.2	0.2	-15.5%	-4.6%
PEER AVERAGE			13.3	93.2	27.5	0.3	0.4	-35.4%	-9.0%

Source: Bloomberg, Kenanga Research

Global Drilling Peers Profit/(Loss) Margins Comparison (based on Bloomberg Consensus)

Name	Profit / (Loss) Margin		
	Hist.	1-Yr. Fwd.	2-Yr. Fwd.
VELESTO ENERGY BHD	-3%	4%	7%
SAPURA ENERGY BHD	5%	0%	3%
BORR DRILLING LTD	-107%	-39%	-5%
DIAMOND OFFSHORE DRILLING	-13%	-38%	-23%
PACIFIC DRILLING SA	-276%	-119%	-54%
PETROVIETNAM DRILLING AND WE	78535%	4%	7%
SEADRILL LTD	-378%	-63%	-41%
TRANSOCEAN LTD	-16%	-22%	-13%

Source: Bloomberg, Kenanga Research

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VALUATION

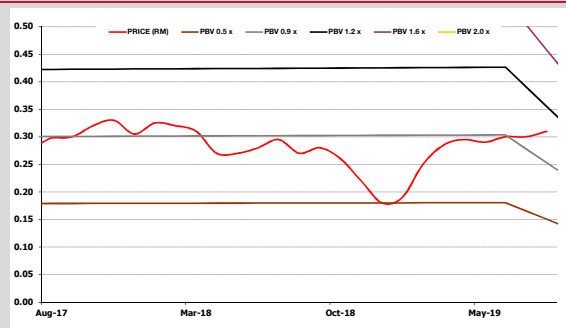
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Peer Comparison (Kenanga Research Oil and Gas Sector Coverage)

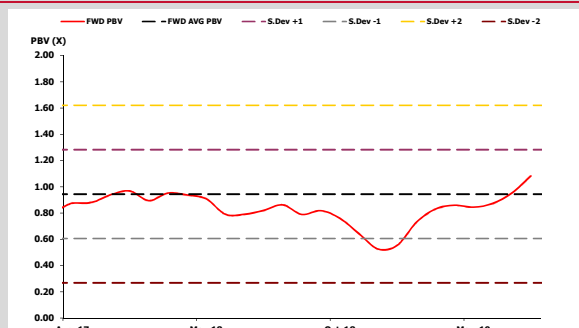
Name	Last Price (RM)	Mkt. Cap	Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Div. Yld. (%)	Target Price (RM)	Rating
			1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.				
ARMADA	0.225	1,322.2	38.4%	2.2%	5.9	4.2	4.1	0.4	0.4	9.3%	0.0%	0.180	UP
DAYANG	1.48	1,427.9	-33.9%	9.1%	8.7	13.2	12.1	1.3	1.2	9.5%	0.0%	1.35	MP
DIALOG	3.48	19,621.3	4.5%	9.7%	36.6	35.0	32.0	5.2	4.9	14.4%	1.1%	4.15	OP
MHB	0.845	1,352.0	845.5%	139.3%	N.A.	93.2	39.0	0.6	0.6	0.6%	0.0%	1.05	OP
MISC	7.31	32,630.0	30.2%	5.3%	24.7	19.0	18.0	0.9	0.9	4.9%	4.1%	7.60	MP
PANTECH	0.510	382.4	1.3%	6.4%	8.7	8.6	8.1	0.7	0.6	7.6%	3.1%	0.690	OP
PCHEM	7.28	58,240.0	-30.3%	14.5%	11.7	16.8	14.6	1.9	1.8	11.1%	3.0%	7.70	MP
PETDAG	22.86	22,710.4	33.0%	2.2%	27.1	20.4	20.0	3.9	3.6	18.4%	3.4%	24.95	MP
SAPNRG	0.270	4,303.6	1875.6%	258.5%	N.A.	89.1	24.9	0.3	0.3	0.4%	0.0%	0.430	OP
SERBADK	4.25	6,241.1	17.2%	13.3%	16.3	13.9	12.3	3.0	2.6	20.2%	2.2%	5.25	OP
UZMA	0.680	217.6	-86.0%	193.1%	4.2	30.2	10.3	0.5	0.4	1.5%	0.0%	0.760	MP
VELESTO	0.310	2,546.8	119.7%	152.0%	N.A.	167.6	66.5	0.9	0.9	0.5%	0.0%	0.350	OP
WASEONG	0.670	516.2	-18.8%	-18.1%	8.2	10.1	12.3	0.5	0.5	5.4%	0.0%	0.620	UP
YINSON	6.70	7,239.3	-7.1%	55.9%	27.5	29.6	19.0	4.2	3.8	13.5%	0.9%	7.75	OP
AVERAGE			199.2%	60.2%	16.3	39.4	20.9	1.7	1.6	8.4%	1.3%		

Source: Bloomberg, Kenanga Research

Fwd PBV Band



Fwd PBV Std. Dev. Band



Source: Bloomberg, Kenanga Research

APPENDIX

Jack-up Drilling Rigs Fleet Breakdown and Specifications (Part 1 of 2)



NAGA 2

Design	GustoMSC-C-CJ46-X100D
Delivery	October 2009
Construction Yard	PT. Drydocks World Graha, Batam, Indonesia
Jack Up Type	Independent Leg Jack Up Drilling Rig
Classification	DNV
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	350 ft



NAGA 3

Design	GustoMSC-C-CJ46-X100D
Delivery	September 2010
Construction Yard	PT. Drydocks World Graha, Batam, Indonesia
Jack Up Type	Independent Leg Jack Up Drilling Rig
Classification	DNV
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	350 ft



NAGA 4

Design	Keppel FELS B Class
Delivery	March 2013
Construction Yard	Keppel FELS Yard, Singapore
Jack Up Type	Independent Leg Jack Up Drilling Rig
Classification	ABS
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	400 ft



NAGA 5

Design	Keppel FELS B Class
Delivery	March 2014
Construction Yard	Keppel FELS Yard, Singapore
Jack Up Type	Independent Leg Jack Up Drilling Rig
Classification	ABS
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	400 ft

Source: Annual Report

20 August 2019

Jack-up Drilling Rigs Fleet Breakdown and Specifications (Part 2 of 2)



NAGA 6

Design	GustoMSC-C-CJ46-X100D
Delivery	September 2014
Construction Yard	China Merchants Heavy Ind. (Shenzhen) Co. Ltd. China
Jack Up Type	Independent Leg Jack Up Drilling Rig
Classification	ABS
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	375 ft



NAGA 7

Design	GustoMSC-C-CJ46-X100D
Delivery	January 2015
Construction Yard	China Merchants Heavy Ind. (Shenzhen) Co. Ltd. China
Jack Up Type	Independent Leg Jack Up Drilling Rig
Classification	ABS
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	375 ft

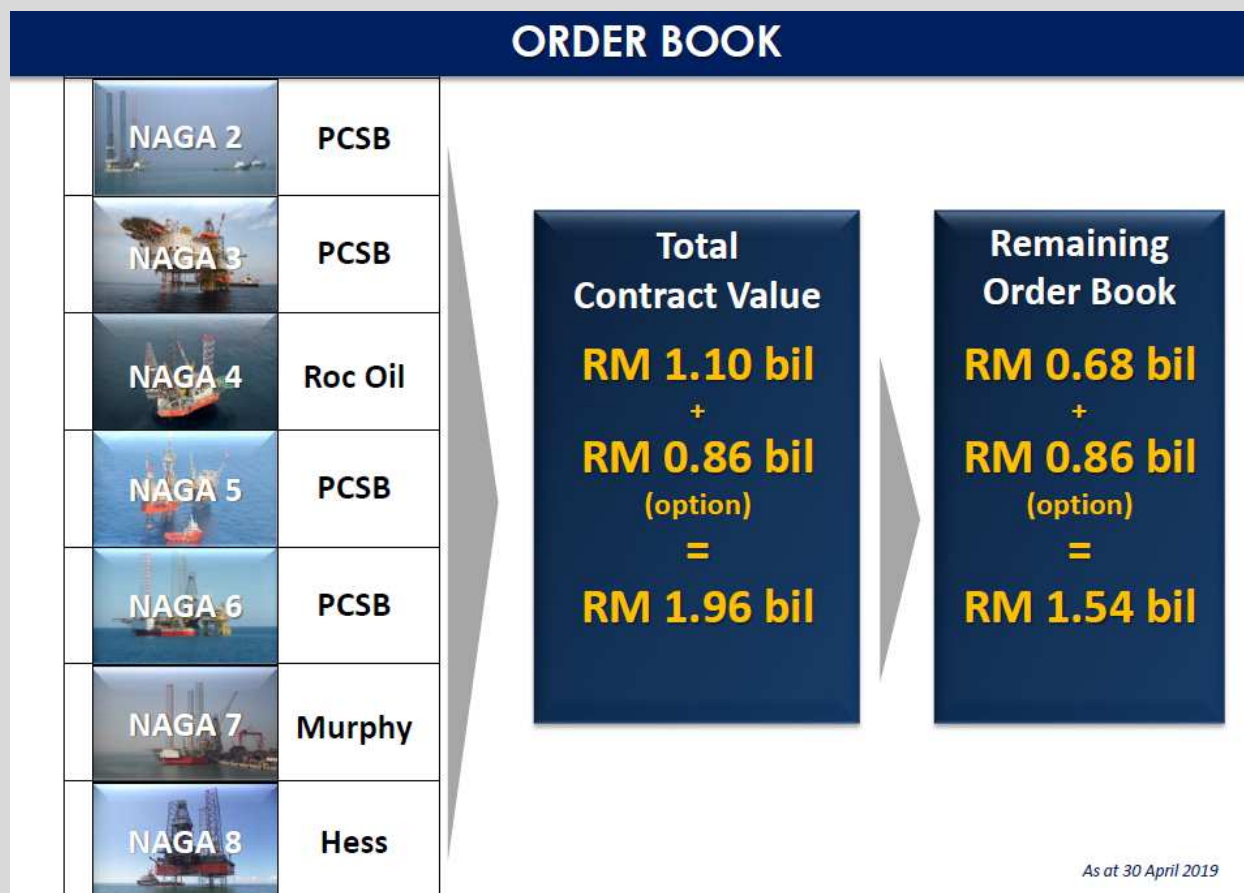


NAGA 8

Design	Keppel FELS B Class
Delivery	September 2015
Construction Yard	Keppel FELS Yard, Singapore
Jack Up Type	Independent Leg Jack Up Drilling Rig
Classification	ABS
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	400 ft

Source: Annual Report

Order Book and Current Contracts at Hand



Source: Company

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20 August 2019

Income Statement

FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
Revenue	321.1	586.7	573.2	603.4	641.1
EBIT	(1,063.0)	(992.3)	68.4	105.2	131.0
Finance costs	(118.2)	(138.2)	(85.2)	(85.0)	(80.0)
PBT	(1,181.3)	(1,130.5)	(16.7)	20.2	51.0
Taxation	(2.2)	1.2	(2.0)	(5.1)	(12.8)
Min. Int.	6.1	2.3	0.9	0.0	0.0
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

Balance Sheet

FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
Fixed Assets	5,300.6	3,645.6	3,531.1	3,354.6	3,186.8
Intang. Assets	0.0	0.0	0.0	0.0	0.0
Other FA	344.2	2.4	5.6	5.6	5.6
Inventories	211.9	194.8	179.4	188.9	200.7
Receivables	79.7	174.0	265.2	279.2	296.7
Other CA	58.6	94.5	165.6	165.6	165.6
Cash	555.0	680.7	229.9	271.7	337.2
Total Assets	6,550.0	4,792.1	4,376.9	4,265.6	4,192.6

Payables	78.3	162.8	140.9	148.3	157.6
ST Borrowings	1,499.7	461.1	97.1	97.1	97.1
Other ST Liabili.	130.0	5.4	0.7	0.7	0.7
LT Borrowings	2,272.8	1,398.5	1,339.1	1,205.2	1,084.7
Other LT Liability	308.0	0.0	0.0	0.0	0.0
Minorities Int.	3.2	0.8	1.4	1.4	1.4
Net Assets	2,258.0	2,763.4	2,797.7	2,812.9	2,851.1

Share Capital	2,453.8	3,732.3	4,054.8	4,054.8	4,054.8
Other Reserves	(195.8)	(969.0)	1,257.1	1,241.9	1,203.7
Equity	2,258.0	2,763.4	2,797.7	2,812.9	2,851.1

Cashflow Statement

FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
Operating CF	(47.3)	(33.5)	149.9	105.2	131.0
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

Financial Data & Ratios

FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
Growth (%)					
Revenue	-61.8	82.7	-2.3	5.3	6.3
EBIT	273.8	-6.7	-106.9	53.8	24.5
PBT	239.0	-4.3	-98.5	-220.7	152.3
Net profit	218.8	-4.3	-98.4	-184.8	152.3
C. Net Profit	737.2	-67.7	-86.3	-183.5	152.3

Profitability (%)

EBIT margin	-331.1	-169.1	11.9	17.4	20.4
PBT Margin	-367.9	-192.7	-2.9	3.4	8.0
C. Net Margin	-128.3	-22.7	-3.2	2.5	6.0
Eff. Tax Rate	-0.2	0.1	-12.1	25.0	25.0
ROE	-18.2	-4.8	-0.6	0.5	1.3
ROA	-6.3	-2.8	-0.4	0.4	0.9

DuPont Analysis

Net Margin (%)	-128.3	-22.7	-3.2	2.5	6.0
Ass. T/over (x)	0.0	0.1	0.1	0.1	0.2
Leve. Factor(x)	2.9	1.7	1.6	1.5	1.5
ROE (%)	-18.2	-4.8	-0.6	0.5	1.3

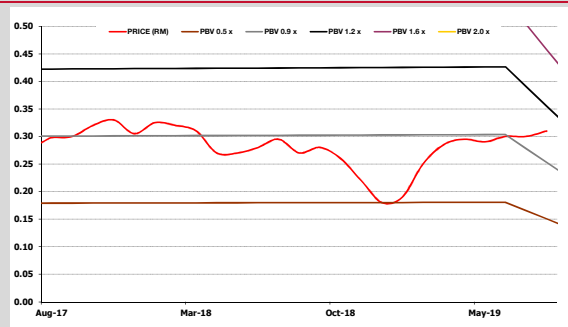
Leverage

Debt/Asset (x)	0.6	0.4	0.3	0.3	0.3
Debt/Equity (x)	1.7	0.7	0.5	0.5	0.4
Net D./(Cash)	3,217.5	1,178.9	1,206.3	1,030.6	844.6
Net D/E(x)	1.4	0.4	0.4	0.4	0.3

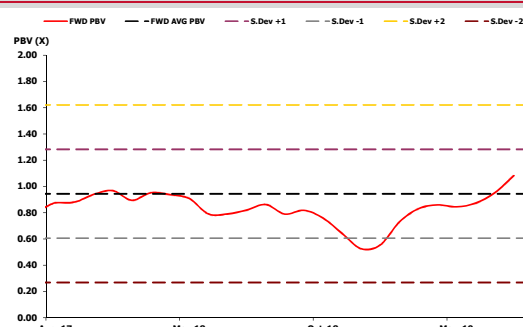
Valuations

Core EPS (sen)	-5.0	-1.6	-0.2	0.2	0.5
DPS (sen)	0.0	0.0	0.0	0.0	0.0
BVPS (RM)	0.3	0.3	0.3	0.3	0.3
Core PER (x)	-6.3	-6.2	-19.1	-140.2	167.9
Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
P/BV (x)	1.1	0.9	0.9	0.9	0.9

Fwd PBV Band



Fwd PBV Std. Dev. Band



Source: Bloomberg, Kenanga Research

20 August 2019

Peer Comparison (Oil and Gas Sector Coverage)

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.	Price (RM)	
BUMI ARMADA BERHAD	0.225	1,322.2	N	12/2019	14.3%	-19.8%	38.4%	2.2%	5.9	4.2	4.1	0.4	0.4	9.3%	0.0%	0.180	UP
DAYANG ENTERPRISE HLDGS BHD	1.48	1,427.9	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	8.7	13.2	12.1	1.3	1.2	9.5%	0.0%	1.35	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	0.845	1,352.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	93.2	39.0	0.6	0.6	0.6%	0.0%	1.05	OP
MISC BHD	7.31	32,630.0	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	24.7	19.0	18.0	0.9	0.9	4.9%	4.1%	7.60	MP
PANTECH GROUP HOLDINGS BHD	0.510	382.4	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.7	8.6	8.1	0.7	0.6	7.6%	3.1%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.28	58,240.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.7	16.8	14.6	1.9	1.8	11.1%	3.0%	7.70	MP
PETRONAS DAGANGAN BHD	22.86	22,710.4	Y	12/2019	-5.6%	2.0%	33.0%	2.2%	27.1	20.4	20.0	3.9	3.6	18.4%	3.4%	24.95	MP
SAPURA ENERGY BHD	0.270	4,303.6	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	89.1	24.9	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.25	6,241.1	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.3	13.9	12.3	3.0	2.6	20.2%	2.2%	5.25	OP
UZMA BHD	0.680	217.6	Y	06/2019	-24.3%	-0.1%	-86.0%	193.1%	4.2	30.2	10.3	0.5	0.4	1.5%	0.0%	0.760	MP
VELESTO ENERGY BHD	0.310	2,546.8	Y	12/2019	5.3%	6.2%	119.7%	152.0%	N.A.	167.6	66.5	0.9	0.9	0.5%	0.0%	0.350	OP
WAH SEONG CORP BHD	0.670	516.2	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	8.2	10.1	12.3	0.5	0.5	5.4%	0.0%	0.620	UP
SIMPLE AVERAGE					-0.6%	10.5%	199.2%	60.2%	16.3	39.4	20.9	1.7	1.6	8.4%	1.3%		

Source: Bloomberg, Kenanga Research

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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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