

30 May 2019

OCK Group Bhd

Towering Opportunities

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OCK posted tepid results for 1Q19. Despite the slow start, we continue to like OCK for its attractive growth prospects and growing recurring revenue stream. Trimmed FY19-20E earnings by 6-7% post the results review. Reiterate OUTPERFORM call but with a slightly lower TP of RM0.630 (vs. RM0.650 previously).

A slow start. 3M19 CNP of RM5.3m (+4% YoY) came in largely within expectations at 16% each (vs. 17%-20% historical range over the past 3 financial years) of our and consensus' full-year estimate, due to thinner PBT margin in the telecommunication network services ("TNS") and Green Energy segments. No dividend was declared, as expected.

YoY, 1Q19 revenue improved by 6% to RM104m as a result of higher contribution from TNS (to RM87m, +4% YoY, due to higher domestic sales) and M&E segment (to RM4.5m, +31% YoY). Despite higher turnover, PBT margin softened by 100bps to 8.0%, mainly attributed to higher D&A and finance cost as a result of the adoption of MFRS 16 accounting treatment. To date, regional revenue contributed 43.9% of the total turnover vs. 41.7% a year ago. On a recurring revenue stream basis, c.50% of the group's revenue was derived on a regular basis vs. the lower 40% a year ago. **QoQ**, 1Q19 turnover dipped by 23%, as a result of the lower contribution from all segments (except the Green Energy) due to seasonality factor. EBITDA, meanwhile, lowered by 5% but with taller margin of 28.5% (vs. 23.1% in the preceding quarter), thanks to higher operational efficiency and the adoption of MFRS16.

Outlook. The group is set to continue benefiting from the rapid network expansion plan undertaken by various telcos in the OpCos countries. OCK is also optimistic about new opportunities arising from: (i) the implementation of the National Fiber Optic and Connectivity plan, and (ii) outsourcing managed services trend, where the group is currently managing more than 28k telco sites in both Malaysia and Indonesia. OCK had completed and currently owns 930 towers in Myanmar with 1.42x tenancy ratio and has more than 500 (telecommunication sites) outstanding order-book in the pipeline to be rolled out. On the Vietnam operation's front, OCK owns more than 2.5k telecommunication towers to date (with a tenancy ratio of c.1.3x). The group has acquisition targets in the pipeline for over 1k telecommunication sites and has initiated early stages of discussion. As the Towerco ecosystem in Vietnam remains fragmented, OCK foresees consolidation opportunities in both the brown and greenfield as the market gears up for the rolling out of 4G LTE network.

Lower FY19-20E earnings by 6-7% after revising D&As and finance costs assumptions to reflect the latest trend post the adoption of the MFRS 16.

Maintain OP with lower DCF-driven TP of RM0.630 (vs. RM0.650 previously; WACC: 10%; TG: 1.5%), implied a conservative 6.6x EV/Fwd. EBITDA (c.-1xS.D. below its 3-year mean). We continue to like OCK for its: (i) healthy cash-flow on the back of escalating recurring income trend, (ii) ability to ride the passive infrastructure sharing trend, (iii) EBITDA margin expanding trend, and (iv) potential growth through M&A activity.

Risks to our call include: (i) weaker-than-expected earnings and margins, (ii) change in regulations, and (iii) cash call. Key share price re-rating catalysts, meanwhile include spin-off of its towerco unit (OCK SEA towers) and earnings-accretive towerco mergers & acquisitions.

OUTPERFORM ↔

Price: RM0.435
Target Price: RM0.630 ↓

Share Price Performance



KLCI	1,623.67
YTD KLCI chg	-4.0%
YTD stock price chg	2.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OCK MK Equity
Market Cap (RM m)	379.1
Shares Outstanding	871.5
52-week range (H)	0.78
52-week range (L)	0.40
3-mth avg daily vol:	4,241,543
Free Float	42%
Beta	1.2

Major Shareholders

Aliran Armada Sdn Bhd	37.8%
Lembaga Tabung Angkatan Tentera	12.4%
EPF	7.4%

Summary Earnings Table

FYE Dec (RM'm)	2018A	2019E	2020E
Turnover	457.2	489.7	551.9
EBIT	66.4	77.5	85.2
Pretax profit	44.2	48.8	56.7
Net Profit	24.3	30.3	33.0
Core Net Profit	26.7	30.3	33.0
Consensus (NP)		32.3	34.2
Earning Revision		-6.6%	-6.7%
EBITDA margin	22.5%	27.4%	26.4%
Core EPS (sen)	3.06	2.67	2.90
EPS growth (%)	15.2	-12.7	8.6
DPS (sen)	-	-	-
NTA/Share (RM)	0.4	0.4	0.4
Core PER	14.2	16.3	15.0
Reported PER	15.6	16.3	15.0
Price/NTA (x)	1.1	1.1	1.0
Net Gearing (x)	0.9	0.7	0.6
Dividend Yield (%)	0.0	0.0	0.0

30 May 2019

Result Highlight

Y/E : Dec (RM'm)	1Q19	4Q18	QoQ Chg	1Q18	YoY Chg	3M19	3M18	YoY Chg
Turnover	103.5	134.5	-23.1%	97.5	6.1%	103.5	97.5	6.1%
EBITDA	29.5	31.1	-5.0%	22.2	33.1%	29.5	22.2	33.1%
PBT	8.2	13.2	-37.7%	8.8	-6.4%	8.2	8.8	-6.4%
Taxation	(1.5)	(3.7)	-60.3%	(1.8)	-17.1%	(1.5)	(1.8)	-17.1%
Reported PATAMI	5.3	6.9	-22.9%	5.1	4.0%	5.3	5.1	4.0%
Core PATAMI	5.3	8.9	-40.2%	5.1	4.0%	5.3	5.1	4.0%
Core EPS (sen)	0.6	1.0	-40.2%	0.6	4.0%	0.6	0.6	4.0%
DPS (sen)	-	-	NM	-	NM	-	-	NM
EBITDA margin	28.5%	23.1%		22.7%		28.5%	22.7%	
PBT margin	8.0%	9.8%		9.0%		8.0%	9.0%	
PATAMI margin	5.2%	5.1%		5.3%		5.2%	5.3%	
Effective tax rate	(18.0%)	(28.3%)		(20.4%)		(18.0%)	(20.4%)	

Source: Company, Kenanga Research

Result Highlight – Revenue & PBT Breakdown

Y/E : Dec (RM'm)	1Q19	4Q18	QoQ Chg	1Q18	YoY Chg	3M19	3M18	YoY Chg
Telecommunications network services	86.8	110.4	-21%	83.5	4%	86.8	83.5	4%
Green energy and power solution	6.5	3.5	85%	9.9	-34%	6.5	9.9	-34%
Trading	5.7	9.5	-40%	0.7	690%	5.7	0.7	690%
M&E Engineering services	4.5	11.1	-59%	3.4	31%	4.5	3.4	31%
TOTAL Revenue	103.5	134.5	-23%	97.5	6%	103.5	97.5	6%
Geographical Breakdown								
Malaysia	59.6	90.9	-34%	55.8	7%	59.6	55.8	7%
Regional	43.9	43.7	1%	41.7	5%	43.9	41.7	5%
TOTAL Revenue	103.5	134.5	-23%	97.5	6%	103.5	97.5	6%
PBT Breakdown								
Telecommunications network services	7.6	11.2	-32%	9.6	-20%	7.6	9.6	-20%
Green energy and power solution	0.7	(1.1)	-163%	1.5	-57%	0.7	1.5	-57%
Trading	1.2	1.3	-11%	0.5	146%	1.2	0.5	146%
M&E Engineering services	(0.0)	0.9	-105%	(0.2)	-80%	(0.0)	(0.2)	-80%
Investment holding	0.1	3.7	-98%	(1.7)	-104%	0.1	(1.7)	-104%
Elimination	(1.3)	(2.8)	-56%	(0.9)	42%	(1.3)	(0.9)	42%
TOTAL PBT	8.2	13.2	-38%	8.8	-6%	8.2	8.8	-6%
PBT Margin Breakdown								
Telecommunications network services	8.8%	10.2%		11.5%		8.8%	11.5%	
Green energy and power solution	10.3%	-30.3%		15.6%		10.3%	15.6%	
Trading	20.6%	13.8%		66.2%		20.6%	66.2%	
M&E Engineering services	-1.0%	7.7%		-6.5%		-1.0%	-6.5%	
TOTAL PBT Margin	8.0%	9.8%		9.0%		8.0%	9.0%	

Source: Company, Kenanga Research

Peer Table Comparison

Name	Last Price @ 29-May 2019 (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					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.			
Stocks Under Coverage																	
AXIATA GROUP BERHAD	4.50	40,724	Y	12/2019	1.2%	2.5%	-1.9%	18.0%	40.5	41.2	34.9	2.2	2.3	8.5%	2.2%	4.30	MP
DIGI.COM BERHAD	4.81	37,398	Y	12/2019	-7.6%	1.3%	-12.6%	3.7%	24.3	27.8	26.8	55.6	54.2	0.0%	3.6%	4.55	MP
MAXIS BERHAD	5.58	43,617	Y	12/2019	-1.2%	1.5%	-10.8%	3.8%	24.7	27.7	26.7	6.1	5.9	21.7%	3.0%	4.90	UP
OCK GROUP BERHAD	0.435	379	Y	12/2019	7.1%	12.7%	13.8%	8.6%	14.2	16.3	15.0	0.9	0.9	6.6%	0.0%	0.630	OP
TELEKOM MALAYSIA BERHAD	2.72	10,221	Y	12/2019	-4.6%	0.0%	-3.5%	0.3%	16.3	16.9	16.8	1.4	1.4	7.9%	2.4%	3.10	MP
Simple Average					-1.0%	3.6%	-3.0%	6.9%	24.0	26.0	24.0	13.2	12.9	8.9%	2.2%		
Stocks Not Under Coverage - Consensus																	
TIME DOTCOM BERHAD	8.78	5,124.9	Y	12/2019	11.1%	11.0%	8.8%	9.5%	17.8	16.3	14.9	2.1	1.9	11.7%	2.2%	9.84	BUY

Source: 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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