

22 November 2019

OCK Group Bhd

9MFY19 Within Expectations

By Clement Chua | clement.chua@kenanga.com.my

9MFY19 net profit of RM20.8m (+22% YoY) and absence of dividends are within expectations. Outlook should remain stable, being supported by the NFCP. Funds raised from a recent placement could fuel the group's endeavors to expand its green energy assets. However, owing to the ensuing share dilution, we reduce our TP to RM0.585 (from RM0.630) on unchanged DCF assumptions (WACC: 9.5%, TG: 1.5%). Maintain MARKET PERFORM.

9MFY19 within expectations. 9MFY19 net earnings of RM20.8m accounted for 75% and 77% of our and consensus full-year estimates, which we deem to be within. No dividend was declared, also as expected.

YoY, 9MFY19 revenue improved to RM350.4m (+8%), mainly driven by greater income from M&E engineering service contributions, cushioning the decline from the green energy and power solutions segment and trading business. The telecommunications network services (TNS) segment inched up by 3% on more tower projects. Consequently, PBT narrowed by 10%, mostly the result of lower TNS' PBT margin, likely on higher running costs. 9MFY19 PATAMI closed at RM20.8m (+22%) thanks to lower effective taxes and minority interests.

QoQ, 3QFY19 sales increased by 13% following better activities in the TNS segment, which usually kicks in during the 2HFY period. Subsequent to this, PBT and PATAMI rose to RM11.5m (+19%) and RM8.5m (+22%), respectively.

Planting green alternatives. With RM52.3m raised from the completion of the recent placement (87.1m shares issues at RM0.600 per piece) in early Nov 2019, the group is embarking to acquire more solar farms to boost its existing portfolio. At present, the segment currently contributes less than 10% to revenue and PBT. This would serve the group well to diversify its operations with the group seeking to unlock value from its towerco unit (OCK SEA Towers) through a potential spin-off. Putting this aside, OCK is positioned to benefit from the 5-year National Fiberisation and Connectivity Plan (NFCP), with telco towers and fibre optic networks being the back bone to drive connectivity.

Post-results, we leave our FY19E/FY20E assumptions unchanged.

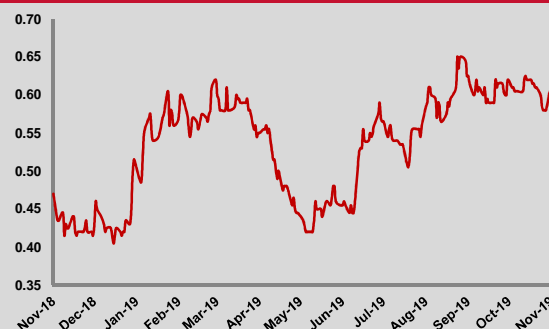
Maintain MARKET PERFORM but with a lower DCF-driven TP of RM0.585 (from RM0.630). Though we largely maintain our DCF assumptions on the back of a WACC of 9.5% and TG of 1.5%, our reduced TP comes in part from the share dilution arising from the shares placement. The group should continue to operate in a stable and sustainable operating environment, but may have seen its merits already being priced in at current share price level. Excitement would probably emerge from more solid developments on the monetisation of OCK SEA Towers. At the meantime, the lack of dividend expectations may also leave investors wanting more.

Risks to our call include: (i) faster/slower-than-expected expansion of tower portfolios; (ii) higher/lower-than-expected operating margins.

MARKET PERFORM ↔

Price: RM0.580
Target Price: RM0.585 ↓

Share Price Performance



KLCI 1,592.19
YTD KLCI chg -5.8%
YTD stock price chg 36.5%

Stock Information

Sariah Compliant Yes
Bloomberg Ticker OCK MK Equity
Market Cap (RM m) 556.0
Shares Outstanding 958.6
52-week range (H) 0.65
52-week range (L) 0.41
3-mth avg daily vol: 6,473,810
Free Float 41%
Beta 1.2

Major Shareholders

Aiiran Armada Sdn Bhd 34.4%
Lembaga Tabung Angkatan Tentera 11.3%
Employee Provident Fund 6.3%

Summary Earnings Table

FYE Dec (RM'm)	2018A	2019E	2020E
Turnover	457.2	495.3	557.0
EBITDA	99.8	113.9	125.3
EBIT	62.7	71.7	79.5
PBT	44.2	51.2	55.1
PATAMI	24.3	30.7	33.1
Core PATAMI	26.7	30.7	33.1
Consensus (NP)	-	29.9	33.0
Earnings Revision	-	0%	0%
Core EPS (sen)	3.1	3.5	3.4
Core EPS growth	8.3%	15.1%	-2.1%
NDPS (sen)	-	-	-
BVPS (RM)	0.5	0.5	0.5
PER (x)	18.9	16.5	16.8
PBV (x)	1.1	1.1	1.1
Net Gearing (x)	0.9	0.8	0.7
Net Div. Yield	0.0%	0.0%	0.0%

22 November 2019

Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	131.1	115.8	13.1%	109.8	19.4%	350.4	322.8	8.5%
EBITDA	38.4	32.7	17.3%	28.4	35.2%	100.6	73.5	36.8%
EBIT	19.8	16.5	20.3%	19.0	4.2%	51.9	46.9	10.8%
PBT	11.5	9.7	18.6%	15.1	-24.0%	29.4	32.6	-10.0%
Taxation	(2.4)	(2.4)	-0.5%	(5.5)	55.6%	(6.3)	(8.9)	28.7%
Minority Interest	(0.6)	(0.3)	-106.6%	(1.9)	69.7%	(2.2)	(6.6)	66.1%
PATAMI	8.5	7.0	21.5%	7.8	9.0%	20.8	17.1	21.5%
Core PATAMI	8.5	7.0	21.5%	7.8	9.0%	20.8	17.1	21.5%
Core EPS (sen)	1.0	0.8	21.5%	0.9	13.1%	2.4	1.9	26.0%
DPS (sen)	-	-		-		-	-	
EBITDA margin	29.3%	28.2%		25.8%		28.7%	22.8%	
PBT margin	8.8%	8.4%		13.8%		8.4%	10.1%	
Core PATAMI margin	6.5%	6.0%		7.1%		5.9%	5.3%	
Effective tax rate	21.1%	24.9%		36.1%		21.5%	27.1%	

Source: Company, Kenanga Research

Segmental Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
Revenue (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Telecommunications network services	107.9	93.1	15.9%	92.0	17.3%	287.8	280.0	2.8%
Green energy and power solution	9.1	6.0	50.6%	9.2	-1.2%	21.7	26.4	-17.8%
Trading	1.8	4.3	-57.6%	3.8	-51.9%	11.8	6.4	84.9%
M&E engineering services	12.2	12.4	-1.4%	4.8	157.1%	29.1	10.1	187.5%
Total	131.1	115.8	13.1%	109.8	19.4%	350.4	322.8	8.5%
Geographical Revenue (RM'm)								
Malaysia	84.3	71.3	18.3%	65.7	28.3%	215.2	191.6	12.3%
Regional	46.7	44.5	4.9%	44.1	6.0%	135.2	131.2	3.0%
Total	131.1	115.8	13.1%	109.8	19.4%	350.4	322.8	8.5%
PBT (RM'm)								
Telecommunications network services	9.0	7.8	16.1%	14.3	-37.1%	24.4	33.2	-26.6%
Green energy and power solution	0.7	0.1	433.8%	0.4	80.2%	1.5	2.2	-31.4%
Trading	1.1	0.5	97.3%	0.8	41.3%	2.8	1.5	81.3%
M&E engineering services	0.6	2.3	-72.2%	0.1	486.2%	2.9	(0.4)	-824.3%
Investment holding	2.1	2.2	-5.0%	3.3	-36.0%	4.4	2.4	84.1%
Elimination	(2.1)	(3.3)	-37.0%	(3.8)	-45.5%	(6.6)	(6.3)	4.1%
Total	11.5	9.7	18.6%	15.1	-24.0%	29.4	32.6	-10.0%
PBT Margin								
Telecommunications network services	8.3%	8.3%		15.6%		8.5%	11.9%	
Green energy and power solution	7.8%	2.2%		4.3%		7.0%	8.4%	
Trading	59.0%	12.7%		20.1%		23.7%	24.1%	
M&E engineering services	5.2%	18.5%		2.3%		9.9%	-3.9%	
Total	8.8%	8.4%		13.8%		8.4%	10.1%	

Source: Company, Kenanga Research

Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net DivYld (%)	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 BHD	4.30	39,403.4	Y	12/2019	5.2%	-0.2%	7.2%	19.9%	38.6	36.0	30.0	1.7	1.6	4.6%	2.3%	4.80	OP
DIGI.COM BHD	4.60	35,765.0	Y	12/2019	-5.9%	1.5%	-8.8%	2.0%	23.2	25.4	24.9	53.1	52.0	206.7%	3.9%	4.70	MP
MAXIS BHD	5.28	41,292.2	Y	12/2019	-1.3%	0.9%	-10.2%	3.5%	23.4	26.0	25.1	5.8	5.7	22.0%	3.6%	4.90	UP
OCK GROUP BHD	0.580	556.0	Y	12/2019	8.3%	12.5%	15.1%	7.6%	18.9	16.5	16.8	1.0	1.0	6.0%	0.0%	0.585	MP
TELEKOM MALAYSIA BHD	3.70	13,932.9	Y	12/2019	-4.9%	0.6%	34.4%	4.5%	22.1	16.5	15.7	2.0	1.9	11.8%	2.7%	3.95	OP
Simple Average					0.3%	3.0%	7.5%	7.5%	25.2	24.1	22.5	12.7	12.4	50.2%	2.5%		
Consensus Estimates																	
TIME DOT COM BHD	9.13	5,345.9	Y	12/2019	11.3%	11.2%	11.2%	9.3%	18.5	16.7	15.2	2.1	2.0	12.1%	2.1%	10.31	BUY

Source: Kenanga Research

This section is intentionally left blank

22 November 2019

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.***

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

