

OCK Group Bhd

FY20 Fell Short

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FY20 fell short of our/street estimates at 92%/94%. All its four segments continued improving in 4QFY20. In a pandemic-ravaged year, its regional segment thrived but local segment performed poorly. Looking ahead, the 5G rollout in Malaysia would likely benefit OCK directly. Cut FY21E CNP by 9% to RM31m and introduce FY22E CNP of RM35m. No dividends expected in FY21/FY22. Maintain MP with unchanged DCF-TP of RM0.54 after rolling-forward into a new FY.

FY20 fell short. FY20 CNP of RM25.6m (-9.5%) fell short of our/street estimates at 92%/94%. The negative deviation was likely due to slower-than-expected tower rollouts. No dividend was declared, as expected.

YoY, revenue remained flat at RM473m. While the key telecommunication network services segment grew by 9.3%, benefiting from a recurring income base, trading and M&E engineering services segments fell 58% and 73%, respectively. Movement restrictions due to the Covid-19 pandemic impeded the performance of these segments. Though it appears the effects are mainly domestic (-23%) as regional revenues (+35%) in Myanmar, Vietnam and Indonesia were undeterred. Higher opex translated to lower EBIT (-7%) and PBT fell in tandem by 10%. While a lower tax rate of 16% (-5ppt) cushioned PAT, higher NCI dragged CNP to RM25.6m.

QoQ, 4QFY20 revenue grew by 18% as all four segments caught up in revenue, namely Trading and Green energy and power solution, both of which registered over 100% growth. As the 2H period tends to see more tower contracting works being fulfilled, TNS grew by 10%. However, EBIT only rose by 3%, dragged by higher opex, mainly due to the provision of impairment provided for slow recovery of outstanding balances. Higher NCI and tax rate of 20% (+5ppt) brought CNP to RM6.1m (-6.4%).

Recovery and beyond. As MCOs are eased, to make up for lost time, OCK may see a recovery in installations that have been delayed, boosting profits. Moving forward, we believe OCK may benefit from the expedited 5G roll out in Malaysia, with the MoF-owned SPV a potential new customer. The Group also looks to bid for green energy tenders to supplement its non-recurring income order-book.

Post-results, we cut our FY21E CNP by 9% (to RM30.8m) to account for slower-than-expected recovery. We introduce FY22E CNP of RM35m (+12%) to account for 5G-rollout-related growth.

Maintain MARKET PERFORM with an unchanged DCF-driven TP of RM0.540 as we roll our DCF forward one fiscal year. Our DCF assumptions remain intact (WACC: 7.6%; TG: 1.5%). Despite its near-term top-line challenges, OCK's highly sustainable revenue stream (c.70%) could serve as a safe haven for investors. We expect the stock to be sensitive to news flow from positive future developments such as JENDELA, 5G and green energy tenders given its direct/indirect potential involvements.

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

MARKET PERFORM ↔

Price: **RM0.495**
Target Price: **RM0.540** ↔

Share Price Performance



KLCI 1,584.93
YTD KLCI chg -2.6%
YTD stock price chg 10.0%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker OCK MK Equity
Market Cap (RM m) 521.9
Shares Outstanding 1,054.4
52-week range (H) 0.58
52-week range (L) 0.33
3-mth avg daily vol: 9,085,532
Free Float 42%
Beta 1.1

Major Shareholders

Aliran Armada Sdn Bhd 30.9%
Lembaga Tabung Angkatan Tentera 10.2%
Employee Provident Fund 6.9%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022 E
Turnover	473.1	531.6	581.8
EBITDA	115.9	131.3	143.7
EBIT	66.3	64.6	69.8
PBT	35.9	45.6	50.7
PATAMI	25.6	30.8	34.6
Core PATAMI	25.6	30.8	34.6
Consensus (NP)	27.3	32.8	34.5
Earnings Revision	-	-9%	-
Core EPS (sen)	2.4	2.9	3.3
Core EPS growth	-10.0	20.1	12.4
NDPS (sen)	0.0	0.0	0.0
BVPS (RM)	0.5	0.5	0.6
PER (x)	20.4	17.0	15.1
PBV (x)	1.0	0.9	0.9
Net Gearing (x)	0.6	0.6	0.6
Net Div. Yield (%)	0.0	0.0	0.0

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Results Highlights								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	138.7	117.2	34.0%	123.3	12.4%	473.1	473.7	-0.1%
EBITDA	39.8	38.9	7.1%	35.9	11.0%	151.1	129.4	16.8%
EBIT	17.7	17.2	5.9%	19.1	-7.1%	66.3	71.0	-6.7%
PBT	10.2	9.6	11.6%	10.5	-2.9%	35.8	39.9	-10.2%
Taxation	-2.1	-1.5	-43.1%	-2.6	20.1%	-5.8	-8.9	34.9%
Minority Interest	-2.1	-1.6	-32.6%	-0.7	-216.6%	-4.5	-2.9	-53.5%
PATAMI	6.1	6.5	-6.4%	7.2	-15.5%	25.6	28.1	-8.7%
Core PATAMI	6.1	6.5	-6.4%	7.2	-15.5%	25.6	28.1	-8.7%
Core EPS (sen)	0.6	0.7	-14.9%	0.8	-23.2%	2.6	3.1	-16.8%
EBITDA margin	28.7%	33.1%		29.1%		31.9%	27.3%	
PBT margin	7.4%	8.2%		8.5%		7.6%	8.4%	
Core PATAMI margin	4.4%	5.6%		5.9%		5.4%	5.9%	
Effective tax rate	20.5%	15.3%		24.9%		16.2%	22.4%	

Source: Company, Kenanga Research

Segmental Highlights								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
Revenue (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Telecommunications network services	119.4	108.3	10.3%	104.6	14.2%	428.7	392.4	9.3%
Green energy and power solution	12.7	5.3	140.2%	10.5	20.5%	29.1	32.2	-9.6%
Trading	3.2	1.2	165.7%	0.5	605.7%	5.2	12.2	-57.8%
M&E engineering services	3.4	2.5	35.0%	7.4	-54.9%	10.1	36.6	-72.4%
Total	138.7	117.2	18.3%	123.0	12.8%	473.1	473.4	-0.1%
Geographical Revenue (RM m)								
Malaysia	73.4	50.2	46.1%	70.6	3.9%	219.6	285.8	-23.2%
Regional	65.3	67.0	-2.6%	52.4	24.6%	253.5	187.5	35.2%
Total	138.7	117.2	18.3%	123.0	12.8%	473.1	473.4	-0.1%
PBT (RM m)								
Telecommunications network services	4.3	12.2	-64.5%	9.1	-52.4%	34.6	33.5	3.2%
Green energy and power solution	0.5	0.2	99.6%	0.4	8.9%	0.9	1.9	-55.1%
Trading	0.9	0.6	70.5%	0.6	47.9%	2.8	3.4	-18.5%
M&E engineering services	-1.8	-0.4	308.6%	0.8	-328.4%	-2.7	3.7	-174.9%
Investment holding	-7.8	-5.0	54.7%	-6.0	28.8%	-0.1	-1.6	-91.4%
Elimination	13.9	2.0	599.7%	5.5	151.2%	0.4	-1.1	-137.7%
Total	10.2	9.6	6.2%	10.5	-3.1%	35.9	39.9	-10.3%
PBT Margin								
Telecommunications network services	3.6%	0.1%		8.7%		8.1%	8.5%	
Green energy and power solution	3.7%	4.4%		4.1%		3.0%	6.0%	
Trading	29.0%	45.1%		138.1%		54.0%	28.0%	
M&E engineering services	-52.4%	-17.3%		10.4%		-27.1%	10.0%	
Total	7.3%	8.2%		8.5%		7.6%	8.4%	

Source: Company, Kenanga Research

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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	3.57	32,735.3	Y	12/2021	3.3%	5.3%	8.4%	9.7%	37.8	34.9	31.8	2.1	2.0	4.2%	2.2%	4.40	OP
DIGI.COM BHD	3.79	29,467.3	Y	12/2021	-1.6%	1.0%	-25.8%	3.7%	23.0	31.0	29.8	48.6	47.9	155.9%	3.2%	3.55	MP
MAXIS BHD	4.69	36,690.0	Y	12/2020	-0.7%	4.2%	1.2%	2.8%	24.4	24.1	23.5	5.2	5.1	21.3%	3.8%	4.90	MP
OCK GROUP BHD	0.495	521.9	Y	12/2021	12.4%	9.4%	20.3%	12.3%	20.4	16.9	15.1	0.9	0.8	4.9%	0.0%	0.540	MP
TELEKOM MALAYSIA BHD	6.23	23,510.2	Y	12/2021	2.8%	6.7%	12.8%	2.0%	23.7	21.0	20.6	3.4	2.9	14.7%	2.6%	6.85	OP
Simple Average					3.2%	5.3%	3.4%	6.1%	25.9	25.6	24.2	11.9	11.6	40.2%	2.4%		
Stocks Not Under Coverage																	
TIME DOT COM BHD	14.10	8,387.2	Y	12/2020	10.0%	8.6%	5.0%	8.8%	25.8	24.6	22.6	2.9	2.8	11.6%	2.2%	14.00	Trading Buy

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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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