

25 November 2021

OCK Group Bhd

9MFY21 Below Expectations

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OCK's 3QFY21 CNP of RM3.2m brought 9MFY21 CNP to RM14.4m, below our expectation at 44% of our full-year forecast. Yesterday, OCK also secured a RM115m contract to be a key contractor for Numix Engineering, which we estimate will lift FY22E CNP by 5%. Looking ahead, weakening profitability and potential 5G rollout delays could pose risks to earnings growth. We reduce FY21E/FY22E CNP by 26%/13% and downgrade our call from OP to MP with lower DCF-TP of RM0.50, mainly on concerns of weakening profitability.

9MFY21 below expectations. 3QFY21 core net profit (CNP) of RM3.2m brought 9MFY21 CNP to RM14.4m, below our/street's expectation at 44%/46% of full-year estimate. The deviation was mainly due to the higher-than-expected costs across the board. No dividends declared, as expected.

YoY, 9MFY21 revenue grew 4%, lifted by its telecom network services (TNS) (+1% YoY) and green energy & power solution (RE) (+71% YoY) segments. The growth in TNS is attributable to OCK securing a new customer in Indonesia over the period. The growth in the green energy segment is thanks to their owning and operating of more solar farms. EBITDA grew by 2% accordingly. Despite the 6% increase in D&A charge in 9MFY21, the 17% drop in interest expense helped lift PBT by 9%. However, given higher tax expense, minority interest, and non-core items, CNP fell 26%.

QoQ, revenue rose 2% on higher TNS and trading revenues. Higher expenses and lower other incomes dragged EBITDA by 2%. Higher D&A and interest expense brought PBT down by 12% while higher tax expense and minority interest brought CNP down by 39%.

RM115m contract. Yesterday, OCK announced that Numix Engineering, a provider of satellite connectivity services, appointed OCK as the main contractor for Numix's project called Universal Service Provider Turnkey Agreement. While the announcement did not state the duration of the RM115m contract, we conservatively estimate a 5-year period. Assuming a 6% net margin (in line with its TNS' net margin), this contract could lift FY22E CNP by 5%, with room for upside adjustment if the contract duration is shorter-than-expected and/or if margins are higher-than-expected.

Outlook. OCK's TNS segment should see continued long-term growth from the need for more 5G sites. The RE segment should continue gaining traction from growth of its solar farms portfolio and from resumption in construction activity, which could boost demand for OCK's power solutions. However, our view on OCK has been dampened by: (i) the continued decline in its profitability (with lower margins across the board, save for EBITDA), with margins weakening for three consecutive quarters, and (ii) potential delay in 5G rollout by Digital Nasional Berhad (DNB), given the prolonged negotiations between DNB and the MNOs.

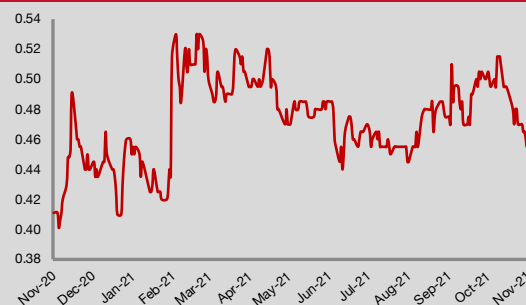
Post results and accounting for the new contract, we lower our FY21E CNP by 26% and FY22E CNP by 13%. We are still expecting a seasonally stronger 4QFY21.

Downgrade to MARKET PERFORM (from OP) with lower DCF-TP of RM0.50 (from RM0.59) on the earnings cut and lower valuation, where we've lowered our DCF-TP from an implied 7x to 6.8x EV/FY22 EBITDA, at its 3-year mean. We think that despite potential growth in TNS from the 5G rollout and JENDELA, potential concerns on its weakening profitability could weigh on the stock.

MARKET PERFORM

Price: **RM0.465** ↓
Target Price: **RM0.500** ↓

Share Price Performance



KLCI	1,522.27
YTD KLCI chg	-6.4%
YTD stock price chg	3.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OCK MK EQUITY
Market Cap (RM m)	490.3
Shares Outstanding	1,054.5
52-week range (H)	0.58
52-week range (L)	0.40
3-mth avg daily vol:	2,492,021
Free Float	42%
Beta	1.1

Major Shareholders

Aliran Armada Sdn Bhd	30.9%
Lembaga Tabung Angkatan Tentera	10.2%
Employee Provident Fund	7.7%

Summary Earnings Table

FYE Dec (RMm)	2020A	2021E	2022E
Revenue	473.1	496.7	517.3
EBITDA	154.2	162.9	167.5
EBIT	66.3	68.6	69.2
PBT	35.9	43.6	47.2
PATAMI	25.6	30.0	31.7
Core PATAMI	26.1	24.0	31.7
Consensus (NP)	N.M.	31.2	32.4
Earnings Revision	N.M.	-26%	-13%
Core EPS (sen)	2.5	2.3	3.0
Core EPS growth	-10%	-8%	32%
NDPS (sen)	0.0	0.0	0.0
BVPS (RM)	0.6	0.7	0.7
PER (x)	18.8	20.4	15.4
PBV (x)	0.8	0.7	0.7
Net Gearing (x)	0.8	0.7	0.7
Net Div. Yield (%)	0.0	0.0	0.0

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

Results Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	118.7	116.5	2%	117.2	1%	348.5	334.4	4%
EBITDA	38.0	38.6	-2%	38.9	-2%	113.8	111.3	2%
EBIT	15.1	16.1	-6%	17.2	-12%	47.2	48.5	-3%
PBT	8.5	9.7	-12%	9.6	-11%	28.0	25.6	9%
Taxation	-2.0	-1.9	4%	-1.5	37%	-5.3	-3.7	43%
Minority Interest	1.5	0.9	73%	1.6	-4%	3.6	2.4	51%
PATAMI	5.0	6.9	-28%	6.5	-23%	19.1	19.5	-2%
Core PATAMI	3.2	5.3	-39%	7.3	-56%	14.4	19.5	-26%
Core EPS (sen)	0.3	0.5	-39%	0.7	-56%	1.4	1.8	-26%
EBITDA margin	32.0%	33.2%		33.1%		32.7%	33.3%	
PBT margin	7.2%	8.3%		8.2%		8.0%	7.7%	
Core PATAMI margin	2.7%	4.5%		6.3%		4.1%	5.8%	
Effective tax rate	23.5%	19.7%		15.3%		19.0%	14.5%	

Source: Company, Kenanga Research

Segmental Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
Revenue (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Telecommunications network services	105.6	104.2	1%	108.3	-2%	313.3	309.3	1%
Green energy and power solution	10.3	10.7	-4%	5.3	94%	28.1	16.4	71%
Trading	2.4	1.3	88%	1.2	96%	5.3	1.9	177%
M&E engineering services	0.4	0.1	209%	2.5	-83%	1.6	6.7	-77%
Total	118.7	116.3	2%	117.2	1%	348.3	334.4	4%
Geographical Revenue (RM'm)								
Malaysia	58.2	55.8	4%	50.2	16%	162.7	146.2	11%
Regional	60.5	60.5	0%	67.0	-10%	185.6	188.2	-1%
Total	118.7	116.3	2%	117.2	1%	348.3	334.4	4%
PBT (RM'm)								
Telecommunications network services	8.2	9.4	-13%	12.2	-33%	28.8	30.2	-5%
Green energy and power solution	1.7	0.8	97%	0.2	607%	3.1	0.4	657%
Trading	2.2	0.8	199%	0.6	309%	3.7	1.9	102%
M&E engineering services	-0.8	-1.2	-33%	-0.4	85%	-3.1	-1.0	213%
Investment holding	7.8	0.2	4673%	-5.0	-256%	18.5	7.6	143%
Elimination	-10.6	-0.3	3717%	2.0	-635%	-23.1	-13.5	70%
Total	8.5	9.7	-12%	9.6	-11%	28.0	25.6	9%
PBT Margin								
Telecommunications network services	7.8%	9.0%		11.3%		9.2%	9.8%	
Green energy and power solution	16.1%	7.9%		4.4%		10.9%	2.5%	
Trading	93.9%	59.1%		45.1%		70.2%	96.0%	
M&E engineering services	-186.3%	-854.5%		-17.3%		-194.9%	-14.5%	
Total	7.2%	8.4%		8.2%		8.0%	7.7%	

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	3.97	36,424.7	Y	12/2021	3.9%	4.3%	15.0%	12.6%	42.1	36.6	32.5	1.5	1.5	5.7%	2.0%	4.20	MP
DIGI.COM BHD	4.18	32,499.5	Y	12/2021	2.5%	1.6%	-4.9%	-8.1%	26.4	27.8	30.2	53.6	52.6	191.4%	3.6%	3.80	UP
MAXIS BHD	4.59	35,922.6	Y	12/2021	2.7%	3.5%	0.6%	-6.6%	25.3	25.2	26.9	5.1	5.0	20.0%	3.5%	4.00	UP
OCK GROUP BHD	0.470	490.3	Y	12/2021	5.0%	4.1%	-8.0%	32.1%	19.0	20.6	15.6	0.8	0.7	4.6%	0.0%	0.500	MP
TELEKOM MALAYSIA BHD	5.59	21,095.0	Y	12/2021	4.4%	5.4%	15.2%	-4.6%	21.3	18.5	19.4	3.0	2.9	16.1%	3.0%	7.00	OP
Simple Average					3.7%	3.8%	3.6%	5.1%	26.8	25.7	24.9	12.8	12.5	47.5%	2.4%		

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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