

OCK Group Bhd

Muted Prospects

By Lim Khai Xiang | limkx@kenanga.com.my

Post OCK's results briefing, we felt reassured of our view. The contract with Numix Engineering would lift FY22/FY23 earnings more than we had initially anticipated on shorter contract duration and higher margins. We also learnt that OCK's lower margin is temporary, caused by weaker Burmese currency and one-off provisions. That said, we are cautious about the recovery profitability of future projects. While failing to win any Jendela Phase 1 tenders, OCK is in discussions with the winners to be their sub-contractors. We lowered FY21 CNP by 5% and maintain FY22E earnings, and our MARKET PERFORM call with DCF-TP of RM0.50.

RM115m contract. In Sept, Numix Engineering secured a contract from MCMC to provide broadband services in rural areas of Peninsular Malaysia. Numix has hired OCK as a contractor for the project and the RM115m contract would begin in 1QCY22, with installation taking four to six months, with two years of maintenance after. The revenue would be recognized over two and a half years (vs. our 5-year estimate), with net margins of ~8%, vs. our assumed 6%. This would contribute c.RM3.7m each in FY22 and FY23, lifting FY22E CNP by 12%.

Weakening margins. We gathered that 3QFY21 margins were especially weak because of: (i) a provision for doubtful debts in the M&E segment, (ii) provision for service-level penalty in Myanmar (due to power outage), and (iii) a volatile and depreciating Burmese Kyat which adversely affected margins. Moving forward, we do not anticipate any more such provisions. However, we are cautious on its profitability recovering given the continued volatility of the Kyat and potentially weaker margin projects.

Jendela Phase 1 tenders. OCK did not win any of the tenders. Of the 1,661 sites in Phase 1, c.600 sites for Peninsular had been awarded to 3 GLCs, and c.1,000 sites for Sabah and Sarawak had been awarded to state-linked companies. OCK is in discussions with two of the three GLC winners to be their sub-contractor. We gathered that the margins OCK would achieve from being a sub-contractor would be lower compared to directly securing the contracts.

DNB 5G rollout. Regarding concerns of a postponed 5G rollout, OCK has pointed out that Digital Nasional Berhad (DNB)'s rollout is still on track with no signs of slowing down.

Post-concall, we cut FY21E CNP by 5% on softer margins, but maintain FY22E CNP as our softer margin assumptions negate the higher earnings contribution from the Numix contract.

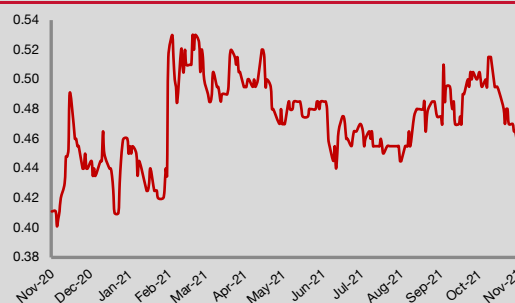
Maintain MP with unchanged DCF-TP of RM0.50, as we see muted prospects of earnings growth. While potential sub-contracting works from the Jendela projects could grow its TNS revenue, we remain cautious on the margins.

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

MARKET PERFORM ↔

Price: **RM0.46**
Target Price: **RM0.50** ↔

Share Price Performance



KLCI 1,517.60
YTD KLCI chg -6.7%
YTD stock price chg 2.2%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker OCK MK EQUITY
Market Cap (RM m) 485.1
Shares Outstanding 1,054.5
52-week range (H) 0.58
52-week range (L) 0.40
3-mth avg daily vol 2,510,081
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%

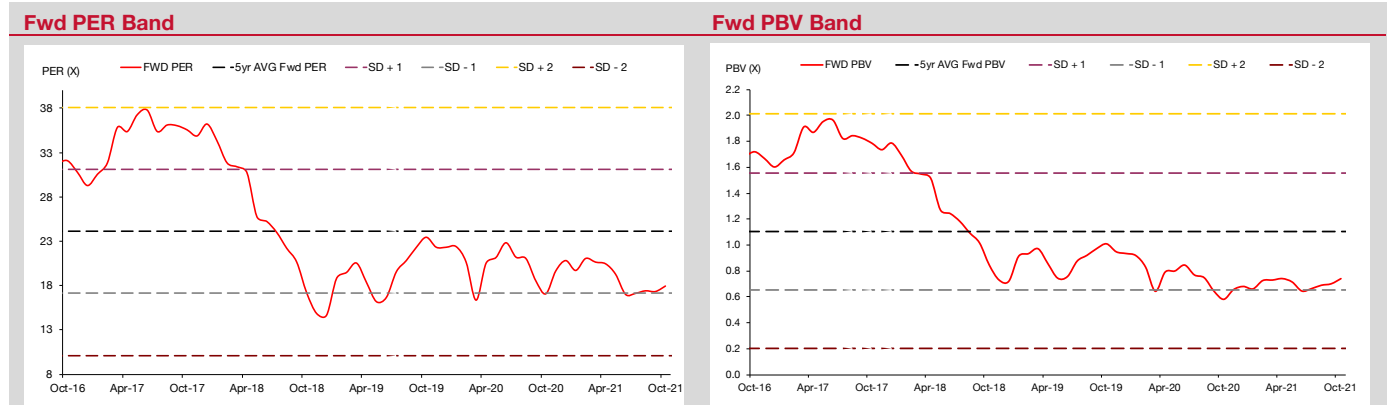
Summary Earnings Table

FY Dec (RMm)	2020A	2021E	2022E
Turnover	473.1	496.7	517.3
EBITDA	154.2	162.0	167.5
EBIT	66.3	67.6	69.2
PBT	35.9	42.6	47.2
PATAMI	25.6	28.8	31.7
Core PATAMI	26.1	22.8	31.7
Consensus (NP)	N.M.	27.0	32.2
Earnings Revision	N.M.	-5%	N.A.
Core EPS (sen)	2.5	2.2	3.0
Core EPS growth (%)	-10	-13	39
NDPS (sen)	0.0	0.0	0.0
BVPS (RM)	0.6	0.7	0.7
PER (x)	18.8	21.5	15.4
PBV (x)	0.8	0.7	0.7
Net Gearing (x)	0.8	0.8	0.7
Net Div. Yield (%)	0.0	0.0	0.0

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E	FY Dec	2018A	2019A	2020A	2021E	2022E
Revenue	457.2	473.4	473.1	496.7	517.3	Growth					
EBITDA	103.6	143.2	154.2	162.0	167.5	Turnover	-7%	4%	0%	5%	4%
Depreciation	-37.1	-72.1	-88.0	-94.4	-98.3	EBITDA	5%	38%	8%	5%	3%
EBIT	66.4	71.0	66.3	67.6	69.2	Operating Profit	3%	7%	-7%	2%	2%
Interest Inc/(Exp)	-22.0	-31.8	-30.4	-25.0	-22.0	PBT	-2%	-10%	-10%	19%	11%
Share of JV results	-0.2	0.6	0.0	0.0	0.0	Core PATAMI	-4%	18%	-10%	-13%	39%
PBT	44.2	39.9	35.9	42.6	47.2	Profitability					
Taxation	-14.4	-8.5	-5.8	-8.1	-9.4	Operating Margin	15%	15%	14%	14%	13%
Net Profit	24.3	28.3	25.6	28.8	31.7	PBT Margin	10%	8%	8%	9%	9%
Core PATAMI	24.4	28.8	26.1	22.8	31.7	Core PATAMI Margin	5%	6%	6%	5%	6%
						Effective Tax	-32%	-21%	-16%	-19%	-20%
						ROA	5%	5%	4%	4%	4%
						ROE	2%	2%	2%	2%	2%
						DuPont Analysis					
						Net Margin	5%	6%	6%	5%	6%
						Assets Turnover (x)	0.4	0.3	0.3	0.3	0.3
						Leverage Factor (x)	2.3	2.4	2.3	2.2	2.2
						ROE	5%	5%	4%	4%	4%
						Leverage					
						Debt/Asset (x)	0.4	0.5	0.4	0.4	0.4
						Debt/Equity (x)	1.0	1.1	1.0	0.9	0.9
						Net (Cash)/Debt	420	561	520	522	491
						Net Debt/Equity (x)	0.8	1.0	0.8	0.8	0.7
						Valuations					
						Core EPS (sen)	2.3	2.7	2.5	2.2	3.0
						NDPS (sen)	0.0	0.0	0.0	0.0	0.0
						BV/sh (RM)	0.5	0.6	0.6	0.7	0.7
						PER (x)	19.8	16.8	18.6	21.3	15.3
						Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
						PBV (x)	1.0	0.8	0.8	0.7	0.7
						EV/EBITDA (x)	10.4	7.5	7.0	6.6	6.4

Source: Kenanga Research



Source: Bloomberg, 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 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 BHD	4.00	36,699.9	Y	12/2021	3.9%	4.3%	15.0%	12.6%	42.4	36.8	32.7	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	0.460	485.1	Y	12/2021	5.0%	4.1%	-12.6%	39.0%	18.6	21.3	15.3	0.8	0.7	4.4%	0.0%	0.500	MP
TELEKOM MALAYSIA BHD	5.43	20,491.2	Y	12/2021	4.4%	5.4%	10.0%	4.6%	20.7	18.8	18.0	2.9	2.8	15.4%	2.9%	7.00	OP
Simple Average					3.7%	3.8%	1.6%	8.3%	26.7	26.0	24.6	12.8	12.5	47.4%	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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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

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