

OCK Group Bhd

Earnings Speak for Growth Potential

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OCK's 1QFY23 results met expectations as net profit grew 17% YoY driven by an expanding telco tower portfolio, higher tenancy ratios and contribution from its solar farms. We continue to like OCK as it is a good proxy to the growing demand for telco towers in Malaysia and regionally. While maintaining our forecasts, we raise our TP by 6% to RM0.73 (from RM0.69) and reiterate our **OUTPERFORM** call.

1QFY23 met expectations at 26% and 25% of our full-year forecast and the full-year consensus estimate, respectively. As expected, no dividend was declared for the quarter.

Results' highlights. YoY, 1QFY23 revenue jumped 41% driven largely by: (i) the rising numbers of telco towers under its portfolio and management (>5,300 in Malaysia, Vietnam and Myanmar), (ii) higher rental fees due to higher tenancy ratios especially in Malaysia and Vietnam, and (iii) contributions from its solar farms.

However, EBITDA grew at a slower pace of 30% due to higher input costs and operating expenses largely in regional markets. Core net profit improved by only 17% on higher funding costs and effective tax rate.

Forecast. Maintained.

However, we raise our TP by 6% to RM0.73 (from RM0.69) as we roll over our valuation base year to FY24F (from FY23F) on an unchanged 7x EV/EBITDA (at a discount to 9x EV/EBITDA we ascribed to EDOTCO to reflect OCK's relatively smaller size). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

Outlook. During a recent briefing, OCK guided for new orders from both Malaysia and its regional markets comprising: (i) contracts worth RM200m under the Jendela 2 initiative on fiberisation of 4G sites, mostly in East Malaysia; (ii) preparation works for 70 5G sites in Malaysia, and (iii) an additional 70 towers in Myanmar. We estimate that its current order book stands at RM350m, mostly from Malaysia.

We continue to like OCK for: (i) the tremendous growth opportunities in the telco infrastructure space both at home and abroad especially in the under-served areas, (ii) being well positioned to benefit from the Jendela initiative and 5G rollout domestically and other ASEAN markets, (iii) being able to improved its tenancy ratio as demand for telecommunication and digital technology improves, (vi) its earnings stability and visibility with about 63% of its revenue being recurring from telco tower maintenance (55,000 towers of which about 80% are in Indonesia) and telco tower leasing, and (iv) its potential expansion to other new markets in the region i.e. Indochina, Kalimantan and the Philippines. Maintain **OUTPERFORM**.

Risks to our call include: (i) slower-than-expected expansion of tower portfolios, (ii) lower-than-expected operating margins, and (iii) risks associated with operating in developing economies.

OUTPERFORM ↔

Price: **RM0.38**
Target Price: **RM0.73** ↑

Share Price Performance



KLCI	1,396.91
YTD KLCI chg	-6.6%
YTD stock price chg	-8.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OCK MK Equity
Market Cap (RM m)	400.8
Shares Outstanding	1,054.7
52-week range (H)	0.46
52-week range (L)	0.36
3-mth avg daily vol:	3,497,284
Free Float	42%
Beta	0.5

Major Shareholders

Aliran Armada SdnBhd	34.8%
Lembaga Tabung Angkatan Tentera	9.6%
Employee Provident Fund	5.0%

Summary Earnings Table

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	618	705	699
EBITDA	169	201	207
EBIT	80	82	88
PBT	49	57	85
PATAMI	34	38	57
Core PATAMI	34	38	57
Consensus (NP)	34	40	50
Earnings Revision	-	-	-
Core EPS (sen)	3.2	3.6	5.4
Core EPS growth (%)	45	14	49
NDPS (sen)	-	0.5	0.5
BVPS (RM)	0.4	0.7	0.8
PER (x)	11.9	10.5	7.0
PBV (x)	0.9	0.5	0.5
Net Gearing (x)	1.5	0.9	0.8
Net Div. Yield (%)	-	1.3	1.3

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Results Highlights

FYE Dec (RM m)	1Q23	4Q22	Chg	1Q22	Chg	3M23	3M22	Chg
Revenue	179.7	186.1	-3%	127.4	41%	179.7	127.4	41%
EBITDA	52.3	36.4	44%	40.3	30%	52.3	40.3	30%
EBIT	25.5	23.1	11%	17.4	46%	25.5	17.4	46%
Interest Expense	(10.5)	(9.4)	12%	(6.1)	72%	(10.5)	(6.1)	72%
PBT	15.0	13.7	9%	11.3	32%	15.0	11.3	32%
Taxation	(3.7)	(2.0)	82%	(2.2)	66%	(3.7)	(2.2)	66%
PAT	11.3	11.7	-3%	9.1	24%	11.3	9.1	24%
Minority Interest	2.7	1.7	60%	1.7	55%	2.7	1.7	55%
PATAMI	8.6	10.0	-14%	7.4	17%	8.6	7.4	17%
Core PATAMI	8.6	10.0	-14%	7.4	17%	8.6	7.4	17%
Core EPS (sen)	0.8	0.9	-14%	0.7	17%	0.8	0.7	17%
DPS (sen)	0	0		0		0	0	
EBITDA margin	29.1%	19.5%		31.7%		29.1%	31.7%	
PBT margin	8.3%	7.4%		8.9%		8.3%	8.9%	
Core PATAMI margin	4.8%	5.4%		5.8%		4.8%	5.8%	
Effective tax rate	24.4%	14.7%		19.4%		24.4%	19.4%	

Source: Company, Kenanga Research

Segmental Highlights

Revenue (RM m)	1Q23	4Q22	Chg	1Q22	Chg	3M23	3M22	Chg
Telecommunications network services	152.0	169.9	-11%	112.7	35%	152.0	112.7	35%
Green energy and power solution	21.5	11.3	90%	12.6	71%	21.5	12.6	71%
Trading	3.0	2.2	34%	2.8	5%	3.0	2.8	5%
M&E engineering services	3.3	4.5	-27%	0.3	1191%	3.3	0.3	1191%
Total	179.7	188.0	-4%	128.4	40%	179.7	128.4	40%
Geographical Revenue (RMm)								
Malaysia	118.1	128.4	-8%	67.9	74%	118.1	67.9	74%
Regional	66.0	66.6	-1%	59.5	11%	66.0	59.5	11%
Total	179.7	186.1	-3%	127.4	41%	179.7	127.4	41%
PBT (RMm)								
Telecommunications network services	13.4	18.1	-26%	12.9	4%	13.4	12.9	4%
Green energy and power solution	2.9	1.4	105%	1.3	133%	2.9	1.3	133%
Trading	1.2	1.1	5%	0.9	24%	1.2	0.9	24%
M&E engineering services	0.3	8.0	-96%	(0.5)	-156%	0.3	(0.5)	-156%
Investment holding	(1.3)	(5.5)	-75%	(0.9)	51%	(1.3)	(0.9)	51%
Elimination	(1.5)	(2.0)	-29%	(2.3)	-36%	(1.5)	(2.3)	-36%
Total	15.0	13.7	9%	11.3	32%	15.0	11.3	32%
PBT Margin								
Telecommunications network services	8.8%	10.7%		11.4%		8.8%	11.4%	
Green energy and power solution	13.6%	12.6%		10.0%		13.6%	10.0%	
Trading	38.8%	49.8%		32.7%		38.8%	32.7%	
M&E engineering services	9.0%	177.7%		-206.7%		9.0%	-206.7%	
Total	9.9%	8.1%		10.1%		8.3%	10.1%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr.	2-Yr.	1-Yr.	2-Yr.	1-Yr.	2-Yr.	1-Yr.	1-Yr.	1-Yr.	1-Yr.
								Fwd.	Fwd.	Fwd.	Fwd.	Fwd.	Fwd.	Fwd.	Fwd.	Fwd.	Fwd.
STOCKS UNDER COVERAGE																	
AXIATA GROUP BHD	OP	2.75	4.18	52.00%	25,242.1	Y	12/2023	9.5	10.5	-45.0%	10.3%	28.9	26.2	1.4	4.1%	12.0	4.4%
CELCOMDIGI BHD	OP	4.57	5.15	12.69%	53,613.0	Y	12/2023	10.6	8.7	3.8%	-18.2%	42.9	52.5	3.2	7.6%	9.0	2.0%
MAXIS BHD	OP	4.27	5.30	24.12%	33,434.7	Y	12/2023	17.2	16.7	14.1%	-3.2%	24.8	25.6	5.2	20.3%	16.0	3.7%
OCK GROUP BHD	OP	0.380	0.730	92.11%	400.8	Y	12/2023	3.6	5.4	13.6%	49.3%	10.5	7.0	0.5	6.3%	0.5	1.3%
TELEKOM MALAYSIA BHD	OP	5.15	6.23	20.97%	19,683.2	Y	12/2023	30.5	32.1	0.6%	5.3%	16.9	16.0	2.3	13.7%	17.0	3.3%
SECTOR AGGREGATE					132,373.8					-9.5%	-2.1%	28.4	29.0	2.5	10.4%		2.9%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Cyber Security	★	★	☆		
	Employee Training	★	★	★		
	Energy Efficiency	★	★	★		
	Digital Transformation	★	★	☆		
	Protection of Customer Data	★	★	☆		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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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