

01 June 2023

OCK Group

A Clear Winner of Second 5G Network

By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com.my

OCK is poised to benefit from the second 5G network which will translates to more investment in telco infrastructure including new sites. Its order book stands at RM320m at present while prospects for job wins are strong underpinned by the roll-out of Jendela 2, and 5G in Malaysia and regionally. We maintain our forecasts, TP of RM0.73 and OUTPERFORM call.

We came away from OCK's post-results briefing feeling upbeat of its prospects. The key takeaways are as follows:

- OCK is poised to benefit from a second 5G network which will translates to more investment in telco infrastructure including new sites. Meanwhile, existing sites will benefit from higher tenancy due to co-location.
- OCK's current order book now stands at RM320m mostly in Malaysia. Its, expected to deliver 30 new sites for DNB (5G and 4G) and looking to add another 50 towers by end of 2023. There was no further news on the prospect of RM200m contracts from East Malaysia (Under Jendela 2). OCK hopes to recognise at least 50% of the RM320m order book by end of 2023. Given the incoming Jendela 2, second 5G network, and rapid 5G roll-out in the Indochina region, we expect its order book to remain robust into 2024.
- Its Laotian JV appointed a CEO recently who is experienced in the tower business in both Myanmar and Vietnam. OCK is expected to deliver 50 5G sites in Vientiane on a build-and-lease model by the end of 2023, pending commercial and business agreement to be finalised. Meanwhile OCK is also talking with other operators namely ETL and Lao Telecom for deployment of 5G at other areas.
- Status of its tower portfolio remains at 5,300 (Malaysia – 600, Vietnam – 3,500 and Myanmar – 1,200++). OCK hopes to add in another 800 to 1,000 towers in Vietnam by end of 2023. For Myanmar, it is targeting another 70 towers to be completed by end of 2023. Tenancy ratio remains high at 1.42x (Malaysia), Vietnam (1.4x) and Myanmar (1.38x).
- To mitigate the impact of higher interest expense due to the strong USD and higher borrowings as order book increases, OCK is expected to restructure its loans to a more manageable Malaysian exposure.
- OCK does not see adverse impact of its tower management services in Indonesia on merger plans between Telkomsel and IndiHome. Although managed sites will be gradually reduced in the medium term, OCK believes its market share (c.45%) will improve as the Indonesian telco industry grows in the long run. 1QFY23 saw revenue from its managed services shot up by more than 20% YoY.

Forecasts. Maintained.

We also keep our TP of RM0.73 based on a on 7x FY24F 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).

OUTPERFORM ↔

Price: **RM0.380**
Target Price: **RM0.73** ↔

Share Price Performance



KLCI	1,387.12
YTD KLCI chg	-7.2%
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:	3,483,849
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 (RM m)	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)	-	40	50
Earnings Revision	-	-	-
Core EPS (sen)	3.2	3.6	5.4
Core EPS growth	45%	14%	49%
NDPS (sen)	0.0	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 (%)	0.0	1.3	1.3

01 June 2023

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 roll-out domestically and other ASEAN markets, (iii) its earnings stability and visibility with about 53% of its revenue being recurring from telco tower maintenance (55,000 towers of which about 80% are in Indonesia) and telco tower leasing, and (v) 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) regulatory risk, (ii) delays in the 5G roll-out and Jendela, and (iii) risks associated with operating in developing economies.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2020A	2021A	2022A	2023E	2024E	FY Dec	2020A	2021A	2022A	2023E	2024E
Revenue	474	484	618	705	699	Growth					
EBITDA	154	158	169	201	207	Turnover	0%	2%	28%	14%	-1%
Depreciation	(88)	(92)	(63)	(120)	(119)	EBITDA	7%	3%	7%	19%	3%
EBIT	66	67	80	82	88	EBIT	-8%	1%	20%	2%	8%
Net int Inc / (Exp)	(31)	(28)	(30)	(39)	(22)	PBT	-12%	10%	27%	16%	49%
PBT	(0)	0	0	0	0	Core PATAMI	-20%	1%	45%	14%	49%
Taxation	35	39	49	57	85	Profitability					
PAT	(5)	(6)	(10)	(13)	(19)	EBITDA Margin	32%	33%	27%	29%	30%
Core PATAMI	26	26	34	38	57	EBIT Margin	14%	14%	13%	12%	13%
						PBT Margin	7%	8%	8%	8%	12%
						Core Net Margin	5%	5%	5%	5%	8%
						Effective Tax Rate	-13%	-15%	-20%	-22%	-22%
						ROE	4%	4%	6%	6%	7%
						ROA	2%	2%	2%	2%	3%
						DuPont Analysis					
						Net Margin	5%	5%	5%	5%	8%
						Assets Turnover (x)	0.3	0.3	0.4	0.4	0.4
						Leverage Factor (x)	2.3	2.2	3.7	2.4	2.4
						ROE (%)	4%	4%	6%	6%	7%
						Leverage					
						Debt/Asset (x)	0.43	0.41	0.46	0.44	0.44
						Debt/Equity (x)	0.96	0.89	1.68	1.07	1.05
						Net Debt	520	505	700	682	640
						Net Debt/Equity (x)	0.8	0.7	1.5	0.9	0.8
						Valuations					
						Core EPS (sen)	2.2	2.2	3.2	3.6	5.4
						NDPS (sen)	0.0	0.5	0.0	0.5	0.5
						BV/share (RM)	0.6	0.6	0.4	0.7	0.8
						PER (x)	17.4	17.3	11.9	10.5	7.01
						Div. Yield	0.0	1.3	0.0	1.3	1.3
						PBV (x)	0.6	0.6	0.9	0.5	0.5
						EV/EBITDA (x)	4.9	5.2	5.5	4.1	3.8
Balance Sheet											
FY Dec (RM m)	2020A	2021A	2022A	2023E	2024E						
Fixed Assets	597	674	739	769	800						
Intangible Assets	180	184	187	189	191						
Other Fixed Assets	40	37	33	40	40						
Inventories	63	63	89	65	65						
Receivables	189	167	296	317	315						
Other Current Assets	81	78	76	141	142						
Cash	79	98	61	123	212						
Total Assets	1403	1467	1661	1816	1,927						
Payables	145	149	136	203	199						
ST Borrowings	204	262	207	219	233						
Other ST Liability	6	7	4	6	6						
LT Borrowings	229	177	364	386	409						
Other LT Liability	32	33	35	45	55						
Net Assets	786	839	915	956	1,025						
Shareholders' Equity	870	1054	1054	1054	1,054						
Minority Interests	536	597	361	663	715						
Total Equity	85	77	92	93	100						
Cashflow Statement											
FY Dec (RM m)	2020A	2021A	2022A	2023E	2024E						
Operating CF	180	168	32	226	224						
Investing CF	(99)	(149)	(89)	(183)	(182)						
Financing CF	(61)	(45)	69	44	46						
Change In Cash	21	(26)	12	86	88						
Free CF	109	76	(68)	73	59						

Source: Kenanga Research

01 June 2023

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. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
STOCKS UNDER COVERAGE																	
AXIATA GROUP BHD	OP	2.78	4.18	50.4%	25,517.5	Y	12/2023	9.5	10.5	-45.0%	10.3%	29.2	26.5	1.4	4.1%	12.0	4.3%
CELCOMDIGI BHD	OP	4.47	5.15	15.2%	52,439.8	Y	12/2023	10.6	8.7	3.8%	-18.2%	42.0	51.4	3.2	7.6%	9.0	2.0%
MAXIS BHD	OP	4.11	5.30	29.0%	32,181.9	Y	12/2023	17.2	16.7	14.1%	-3.2%	23.8	24.6	5.0	20.3%	16.0	3.9%
OCK GROUP BHD	OP	0.380	0.730	92.1%	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	5.10	6.23	22.2%	19,492.1	Y	12/2023	30.5	32.1	0.6%	5.3%	16.7	15.9	2.3	13.7%	17.0	3.3%
SECTOR AGGREGATE					130,032.1					-9.5%	-2.1%	27.9	28.5	2.5	10.4%		3.0%

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

25 February 2022

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 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