

09 November 2023

OCK Group Bhd

Bags RM49m ICT Hardware Contract

By Kylie Chan Sze Zan | kyliechan@kenanga.com.my

OCK has secured a RM48.7m contract from the Ministry of Education (KPM) for the rental of eco-friendly ICT hardware on a lease-to-use basis. We are mildly positive on the contract value which falls within our expectations and estimate contribution of circa 1%/4% to group earnings in FY23/FY24. We maintain our forecasts, TP of RM0.73 and OUTPERFORM call.

5+ years smallish contract from the government. The ICT equipment supplied by OCK will be used for the teaching and learning needs of KPM's school computer laboratories under Phase 3 (Zone 9: Sarawak). The contract duration is for a period of 65 months from Oct 2023 to Mar 2029. The job scope includes: (i) supply, installation, testing and hardware commissioning (4 months), (ii) leasing of the laptops (60 months), and (iii) return period (1 month).

Stable earnings that boost ESG track record. This award falls within our expectations of annual revenues totalling RM18-19m for the trading segment in FY23-24F. We estimate contribution of circa 1%/4% to group earnings from this contract in FY23/FY24. We are mildly positive that this contract will generate recurring revenue for the group from a reliable party (i.e. KPM). More importantly, the eco-friendly ICT hardware provided by OCK meets green requirements and benefits the student communities in Sarawak. Hence, this provides a boost to OCK's ESG credentials.

Forecasts. Maintained.

We also keep our TP of RM0.73 based on 7x FY24F EV/EBITDA. This is at a discount to our valuation of 9x ascribed to Edotcoto, reflecting 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).

We continue to like OCK given that: (i) it is well positioned to benefit from JENDELA and 5G roll-out projects in Malaysia and ASEAN, (ii) it has strong earnings visibility as 63% of its top line emanates from recurring income derived from telco tower maintenance and leasing contracts, and (iii) it may potentially expand to new regional markets such as Indochina, Kalimantan and the Philippines. Maintain **OUTPERFORM**.

Risks to our call include: (i) unfavorable regulatory changes, (ii) delayed roll-out of 5G infrastructure, and (iii) country risks of emerging markets where OCK operates.

OUTPERFORM ↔

Price: **RM0.40**
Target Price: **RM0.73** ↔

Share Price Performance



KLCI 1,457.60
YTD KLCI chg -2.5%
YTD stock price chg -3.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OCK MK EQUITY
Market Cap (RM m)	421.9
Shares Outstanding	1,054.7
52-week range (H)	0.46
52-week range (L)	0.38
3-mth avg daily vol:	1,665,191
Free Float	42%
Beta	0.4

Major Shareholders

Aliran Armada Sdn Bhd	34.8%
Lembaga Tabung Angkatan Tentera	9.6%
Phillip Capital Management Sdn Bhd	5.0%

Summary Earnings Table

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	617.1	709.4	715.4
EBITDA	191.1	194.1	207.5
EBIT	82.4	93.6	113.9
PBT	48.4	58.2	81.8
PATAMI	32.8	38.1	57.2
Core PATAMI	36.9	38.1	57.2
Consensus (NP)	-	39.2	49.7
Earnings Revision	-	-	-
Core EPS (sen)	35.0	3.6	5.4
Core EPS growth	28.1	-89.7	50.2
NDPS (sen)	-	-	-
BVPS (RM)	0.6	0.6	0.7
PER (x)	1.1	11.1	7.4
PBV (x)	0.7	0.6	0.6
Net Gearing (x)	0.8	0.8	0.7
Div. Yield (%)	-	-	-

09 November 2023

Income Statement						Financial Data & Ratios					
FYE Dec (RM m)	2020	2021	2022	2023F	2024F	FYE Dec	2020	2021	2022	2023F	2024F
Revenue	473.5	488.2	617.1	709.4	715.4	Growth					
EBITDA	153.9	160.9	191.1	194.1	207.5	Revenue	0.0%	3.1%	26.4%	15.0%	0.8%
Depreciation & Amortization	-88.5	-95.6	-108.7	-100.6	-93.6	EBITDA	9.0%	4.6%	18.8%	1.6%	6.9%
EBIT	65.4	65.3	82.4	93.6	113.9	EBIT	13.5%	-0.1%	26.2%	13.5%	21.7%
Net Interest Expense	-28.7	-23.9	-29.9	-35.3	-32.1	PBT	20.2%	5.1%	27.4%	20.2%	40.5%
Associate Earnings	0.0	0.0	0.0	0.0	0.0	Core PATAMI	-1.9%	4.2%	28.1%	3.4%	50.2%
Exceptionals	-0.6	-3.4	-4.1	0.0	0.0	Profitability					
Profit Before Tax	36.2	38.0	48.4	58.2	81.8	Operating Margin	13.8%	13.4%	13.4%	13.2%	15.9%
Taxation	-4.6	-5.4	-10.0	-12.2	-15.2	PBT Margin	7.6%	7.8%	7.8%	8.2%	11.4%
Minority Interest	-4.6	-7.2	-5.7	-7.9	-9.3	Core Net Margin	5.8%	5.9%	6.0%	5.4%	8.0%
PATAMI	27.0	25.4	32.8	38.1	57.2	Effective Tax Rate	12.6%	14.3%	20.6%	21.0%	18.6%
Core PATAMI	27.6	28.8	36.9	38.1	57.2	ROA	2.0%	2.0%	2.4%	2.2%	3.2%
						ROE	5.2%	5.1%	6.0%	5.8%	8.1%
Balance Sheet											
FYE Dec (RM m)	2020	2021	2022	2023F	2024F	DuPont Analysis					
Fixed Assets	597.0	681.7	758.2	799.1	824.0	Net Margin	5.8%	5.9%	6.0%	5.4%	8.0%
Intangible Assets	182.9	182.9	186.8	182.6	178.5	Assets Turnover (x)	0.3	0.3	0.4	0.4	0.4
Other Fixed Assets	213.3	194.5	209.0	209.0	209.0	Leverage Factor (x)	2.3	2.2	2.3	2.3	2.2
Inventories	61.1	63.4	86.8	96.9	97.6	ROE	5.2%	5.1%	6.0%	5.8%	8.1%
Receivables	189.2	166.6	268.2	318.8	322.1	Leverage					
Other Current Assets	83.1	94.2	69.7	69.7	69.7	Debt/Asset (x)	0.3	0.2	0.3	0.3	0.3
Cash	78.9	81.9	70.0	66.7	109.3	Debt/Equity (x)	0.6	0.5	0.7	0.7	0.6
Total Assets	1,405.6	1,465.2	1,648.7	1,742.7	1,810.1	Net (Cash)/Debt (RM m)	354.7	360.3	506.3	539.5	496.9
Payables	144.7	148.9	116.5	134.6	135.5	Net Debt/Equity (x)	0.7	0.6	0.8	0.8	0.7
Short Term Borrowings	204.4	263.5	228.1	295.7	299.0	Valuations					
Other Short Term Liability	35.6	35.5	48.3	48.3	48.3	Core EPS (sen)	28.8	27.3	35.0	3.6	5.4
Long Term Borrowings	229.2	178.6	348.2	310.5	307.2	DPS (sen)	-	0.5	-	-	-
Other Long Term Liability	169.1	164.7	182.7	182.7	182.7	BV/share (RM)	0.6	0.6	0.6	0.6	0.7
Net Assets	622.6	673.9	724.9	770.9	837.5	Core PER (x)	1.4	1.5	1.1	11.1	7.4
Shareholders' Equity	537.5	597.2	639.2	677.3	734.6	Div. Yield (%)	-	1.3	-	-	-
Minority Interests	85.1	76.7	85.7	93.6	102.9	PBV (x)	0.7	0.7	0.7	0.6	0.6
Total Equity	622.6	673.9	724.9	770.9	837.5	EV/EBITDA (x)	5.7	5.7	5.4	5.5	5.0
Cashflow Statement											
FYE Dec (RM m)	2020	2021	2022	2023F	2024F						
Operating CF	179.9	168.1	30.7	139.4	189.1						
Investing CF	-98.8	-148.7	-70.9	-137.3	-114.5						
Financing CF	-60.6	-45.6	42.3	-5.4	-32.1						
Change In Cash	20.5	-26.1	2.2	-3.3	42.6						
Free CF	82.3	54.4	-56.5	2.1	74.6						

Source: Kenanga Research

Peer Table 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.		
STOCKS UNDER COVERAGE																	
AXIATA GROUP BHD	OP	2.45	3.45	40.8%	22,488.8	Y	12/2023	(2.5)	7.3	-121.2%	187.1%	N.A.	33.5	1.2	-3.1%	9.5	3.9%
CELCOMDIGI BHD	OP	4.29	5.07	18.2%	50,328.2	Y	12/2023	10.5	11.4	-34.5%	8.9%	40.9	37.6	3.2	8.1%	15.7	3.7%
MAXIS BHD	OP	4.10	5.13	25.1%	32,111.5	Y	12/2023	17.0	16.7	11.0%	-1.6%	24.1	24.5	5.3	21.4%	21.0	5.1%
OCK GROUP BHD	OP	0.400	0.730	82.5%	421.9	Y	12/2023	3.3	5.0	3.3%	50.1%	12.1	8.0	0.7	5.8%	0.0	0.0%
TELEKOM MALAYSIA BHD	OP	5.23	6.57	25.6%	20,065.4	Y	12/2023	43.3	41.3	30.6%	-4.7%	12.1	12.7	2.2	19.7%	24.0	4.6%
SECTOR AGGREGATE					125,415.7					-26.9%	23.4%	31.4	25.4	2.5	10.4%		3.4%

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

09 November 2023

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. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

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