

OCK Group

Multiple Growth Drivers in Place

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Our meeting with OCK has reinforced our confidence that it is on track to deliver robust earnings. This is mainly driven by: (i) Malaysia - sustained 5G roll-out, (ii) Vietnam - tower network expansion, (iii) Indonesia - higher value contracts for network management, and (iv) interest savings from debt restructuring. Moving forward, OCK may pay constant dividends with a formal dividend policy. We maintain our forecasts, TP of RM0.74 and OUTPERFORM call.

No stopping its tower portfolio expansion. The group does not intend to slow down the expansion of its tower portfolio after having achieved its target of owning 5,300 towers across Malaysia, Myanmar and Vietnam. Moving forward, in the near-to-medium term, OCK targets to secure additional telco towers in the following markets; (i) Malaysia: 150-200, and (ii) Vietnam: 500. The group is on track to attain the latter, after having secured approval to acquire an additional 120 towers in Vietnam recently. Meanwhile, in terms of geographical expansion, OCK is mulling over the option to apply for a tower license in Laos. This may potentially be the next frontier for OCK following its previous ventures to Myanmar (2015) and Vietnam (2017).

Riding on 5G roll-out momentum in Malaysia. We expect OCK to continue to benefit from sustained deployment of the first 5G network in Malaysia. This would be via involvement in the roll-out of an additional estimated 2,500 5G sites in 2024 (2023: c. 5,000 sites). Moving forward, for Malaysia's upcoming second 5G network, we believe that OCK may also gain from: (i) co-location at its existing tower sites, and (ii) construction of new build-to-suit (BTS) towers. This is underpinned by OCK's track record and involvement in the successful roll-out of 5G sites for the first network. Furthermore, we believe that new BTS sites are required to expand Malaysia's 5G coverage footprint.

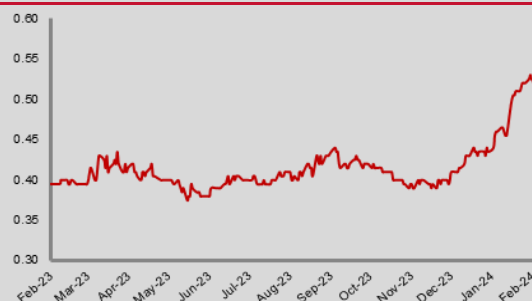
Eyeing 5G in Indonesia as well. OCK targets 15%-20% topline growth in Indonesia, largely driven by higher scope of works for network-managed services (NMS). Additionally, to a smaller extent, the group expects growth to be boosted by new fiberization contracts. To recap, in 3QCY23, OCK's market share of NMS in Indonesia dwindled QoQ to circa 29%, based on coverage of 32,125 sites (2QFY23: 45%; 49,200 sites). This was partly due to consolidation and rationalization of tower sites by Indosat to avoid duplication. This was after the latter's merger with Hutchison 3 to form the second largest telco operator in Indonesia.

On the bright side, NMS contract values have increased due to wider job scopes that include enhanced 'comprehensive and active' components. As such, this translates to margin expansion and hence higher profitability. Moving forward, OCK expects the award of higher value job orders to sustain, particularly if Indonesia ramps up the roll-out of 5G. At this juncture, according to OpenSignal, Indonesia's 5G network availability is 1%, which implies significant room for expansion.

OUTPERFORM ↔

Price: **RM0.53**
Target Price: **RM0.74** ↔

Share Price Performance



KLCI	1516.58
YTD KLCI chg	4.3%
YTD stock price chg	19.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OCK MK Equity
Market Cap (RM m)	546.5
Shares Outstanding	1051.0
52-week range (H)	0.54
52-week range (L)	0.38
3-mthavg daily vol:	3,372,866
Free Float	42%
Beta	0.5

Major Shareholders

Aliran Armada SdnBhd	35.0%
Lembaga Tabung Angkatan Tentera	9.7%
Employee Provident Fund	5.0%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Revenue	617.1	712.8	739.2
EBITDA	191.1	198.5	209.9
EBIT	82.4	100.5	118.1
PBT	48.4	65.1	86.0
Net Profit (NP)	32.8	42.6	57.0
Core PATAMI	36.9	42.6	57.0
Consensus (NP)	-	41.4	51.4
Earnings Revision	-	-	-
Core EPS (sen)	3.5	4.0	5.4
Core EPS growth	28.1	15.6	33.6
DPS (sen)	-	0.5	0.5
BVPS (RM)	0.6	0.6	0.7
PER (x)	15.2	13.1	9.8
PBV (x)	0.9	0.8	0.8
Net Gearing (x)	0.8	0.8	0.7
Div. Yield (%)	-	0.9	0.9

05 February 2024

Bottomline boost from interest savings. OCK is aggressively bidding for new projects to replenish its order book, which amounts to circa RM278m as at end-Sept 2023. Amongst others, this includes: (i) a large scale solar power plant in East Malaysia, and (ii) contracts to provide 5G solutions in Malaysia (e.g. installation of systems that apply artificial intelligence such as smart CCTV networks). Hence, these new contracts are expected to boost FY24 bottomline, alongside expected interest cost savings. To recap, in end Nov 2023, OCK issued the first tranche (RM400m) for its RM700m Sukuk Murabahah program (MARC rating: AA-). In Jan 2024, OCK utilized the sukuk proceeds to refinance or pare down the bulk of its USD-denominated debt. As a result, the group expects to recognize quarterly interest savings of RM1.5m-2.0m.

Business as usual in Myanmar. In spite of the ongoing political upheaval at Myanmar, it is business-as-usual for OCK's operations at Myanmar. Moreover, lease payments for its towers billed to local mobile network operators (e.g. MyTel) remain timely. As such, this dispels concerns that OCK may need to recognize impairments on its assets in Myanmar, which has estimated book value of USD100m. Nevertheless, OCK does not intend to increase its investments in Myanmar until the political situation stabilizes. Whilst there are some restrictions on the repatriation of funds from Myanmar, the group remains unperturbed, as it intends to plough back its profits into the market.

Consistent dividends in future? The group alluded to the possibility that it may formulate a new dividend policy in the near term. In addition, moving forward, OCK targets to declare dividends once every year. This is underpinned by: (i) robust operating cash flows, (ii) a firm balance sheet, and (iii) enhanced liquidity from its new sukuk program. For the same reasons, OCK does not plan to secure equity funding for expansion in the near-to-medium term. To recap, in recent years, OCK paid dividends sporadically, including in FY17 (0.9 sen) and FY21 (0.5 sen).

Forecasts. Maintained.

We also keep our TP of RM0.74 based on 7x FY24F EV/EBITDA. This is at a discount to our valuation of 8x ascribed to AXIATA's towerco (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 4).

We continue to like OCK given that: (i) it is well positioned to benefit from JENDELA Phase 2 and 5G roll-out projects in ASEAN, (ii) it has strong earnings visibility as 55% of its top line emanates from recurring income derived mainly from telco tower leasing and network management contracts, and (iii) it may potentially expand to new regional markets with growth potential such as Laos. Maintain **OUTPERFORM**.

Risks to our call include: (i) unfavorable regulatory changes, (ii) delayed roll-out of 5G infrastructure, and (iii) country and political risks at frontier markets where OCK has a presence.

05 February 2024

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.				
TELECOMMUNICATIONS																	
AXIATA GROUP BHD	OP	2.72	3.10	14.0%	24,967.1	Y	12/2023	4.4	7.3	-63.7%	66.6%	62.3	37.4	1.4	-0.3%	9.5	3.5%
CELCOMDIGI BHD	OP	4.21	5.34	26.8%	49,389.6	Y	12/2023	12.0	12.8	-16.8%	7.2%	35.1	32.8	3.2	9.2%	18.0	4.3%
MAXIS BHD	OP	3.82	5.30	38.7%	29,918.5	Y	12/2023	17.0	16.7	11.0%	-1.6%	22.5	22.9	4.9	21.4%	21.0	5.5%
OCK GROUP BHD	OP	0.520	0.743	42.9%	546.5	Y	12/2023	3.7	5.0	15.4%	33.8%	14.0	10.5	0.9	6.4%	0.0	0.0%
TELEKOM MALAYSIA BHD	OP	5.90	6.76	14.6%	22,642.0	Y	12/2023	49.4	41.2	49.1%	-16.7%	11.9	14.3	2.5	20.5%	25.0	4.2%
SECTOR AGGREGATE					127,463.8					-4.5%	1.0%	25.3	25.0	2.6	11.4%		3.5%

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	☆		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Cybersecurity & Data Privacy	★	★	☆		
	Digitalisation & Innovation	★	★	☆		
	Supply Chain Management	★	★	★		
	Talent Management	★	★	★		
	Customer Satisfaction	★	★	★		
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.**

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Published by:

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