

Thursday, 30 May 2024

OCK Group

Earnings Expansion from Cost Efficiency

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OCK's 1QFY24 results were in-line with expectations. Its 1QFY24 earnings surged 40% YoY in spite of softer revenue due to effective cost management and interest savings. We maintain our earnings forecasts but lift our TP by 8% to RM0.86 (from RM0.80). Maintain OUTPERFORM.

Expect earnings to accelerate in subsequent quarters. Its 1QFY24 core net profit of RM10.5m was within expectations, coming in at 18% and 20% of our full-year forecast and the consensus estimate, respectively. We expect stronger quarters ahead, as 1Q is typically affected by seasonality. This was evident in FY22 and FY23 where 1Q earnings came in at 13% and 16% of full-year net profit, respectively.

Profit boost from interest savings. 1QFY24 topline contraction (-8% YoY) was broad-based across all segments, particularly for green energy and power. We believe this may be partly attributed to slower progress for its data center power solution contracts. This is on the back of fewer working days during the Chinese New Year festive season.

In spite of softer turnover, tight cost controls enabled EBITDA to grow by 1% YoY. On the back of this, and coupled with lower interest costs (-10% YoY), bottomline surged by 40% YoY. In particular, the expansion was largely driven by the green energy and power segment on the back of higher margin contracts.

Meanwhile, the reduction in interest expense was attributed to quarterly interest savings of c.RM1.5m-RM2.0m following debt repayment and refinancing. To recap, in end-Nov 2023, OCK issued the first tranche (RM400m) for its RM700m Sukuk Murabahah program (MARC rating: AA-). Following that, in Jan 2024, OCK utilized the sukuk proceeds to refinance or pare down the bulk of its USD-denominated debt.

Riding on rising 5G tide. We expect OCK to continue to benefit from deployment of 5G across the region. This emanates from: (i) sustained deployment of the first 5G network in Malaysia via the roll-out of an additional 2,500 (estimate) sites in 2024 (2023: c. 5,000 sites), and (ii) roll-out of c. 100 sites for Best Telecom at Laos. We understand that the latter plans to build 600 sites for its new 5G network in 2024.

Moving forward, we also believe that OCK may be involved in developing Malaysia's upcoming second 5G networks is via: (i) co-location at its existing tower sites, and (ii) construction of new build-to-suit (BTS) towers, rooftop structures, in-building solutions etc. We believe that OCK is a leading contender for future tenders given its successful prior track record in deploying sites for the first 5G network.

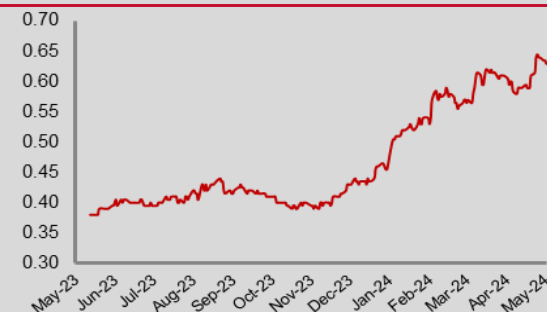
Forecasts. Maintained.

Valuations. Our TP is raised by 8% to RM0.86 (from RM0.80) based on 7x FY25F EV/EBITDA as we roll forward our valuation base year. This is at a discount to our valuation of 8x 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 4).

OUTPERFORM ↔

Price: **RM0.625**
Target Price: **RM0.86** ↑

Share Price Performance



KLCI 1,605.35
YTD KLCI chg 10.4%
YTD stock price chg 43.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OCK MK Equity
Market Cap (RM m)	663.8
Shares Outstanding	1,062.0
52-week range (H)	0.65
52-week range (L)	0.38
3-mth avg. daily vol.	3,553,953
Free Float	47%
Beta	0.5

Major Shareholders

Aliran Armada Sdn Bhd	31.8%
Lembaga Tabung AngkatanTentera	9.5%
Phillip Capital Mana	2.7%

Summary Earnings Table

FYE Dec (RMm)	2023A	2024F	2025F
Revenue	724.6	789.8	815.4
EBITDA	218.3	227.5	234.0
EBIT	107.3	113.6	117.6
PBT	60.5	82.6	88.5
Net Profit (NP)	39.4	58.2	60.1
Core PATAMI	45.9	58.2	60.1
Consensus (NP)	-	55.9	60.8
Earnings Revision	-	-	-
Core EPS (sen)	4.4	5.5	5.7
Core EPS Growth (%)	24.6	26.6	3.4
DPS (sen)	1.0	1.5	1.5
BVPS (RM)	0.7	0.7	0.7
Core PER (x)	14.3	11.3	11.0
PBV (x)	0.9	0.9	0.8
Net Gearing (x)	0.9	0.8	0.7
Div. Yield (%)	1.6	2.4	2.4

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Investment case. 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 57% of its topline emanates from recurring income derived mainly from telco tower leasing and network management contracts, and (iii) its earnings may receive a boost from new power management contracts for data centers. 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.

Results Highlights					
	1Q	4Q	QoQ	1Q	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg
Revenue	166.0	171.1	-3.0%	179.7	-7.6%
EBITDA	51.5	56.3	-8.5%	50.9	1.2%
Depreciation	(26.6)	(29.4)	-9.6%	(26.8)	-0.7%
Net Finance Costs	(8.8)	(9.3)	-6.0%	(10.2)	-14.4%
JV	0.0	0.0	Nm	0.0	nm
EI	(0.3)	(4.0)	-92.7%	1.1	-125.9%
Pretax Profit	15.8	13.5	17.1%	15.0	5.5%
Taxation	(3.6)	(2.4)	49.4%	(3.7)	-1.6%
Minority Interest	(2.0)	(0.9)	114.5%	(2.7)	-26.0%
PATAMI	10.2	10.2	0.6%	8.6	18.4%
Core Net Profit	10.5	14.2	-25.8%	7.5	40.4%
Core EPS (sen)	1.0	1.3	-25.5%	0.7	40.2%
DPS (sen)	0.0	1.0	Nm	0.0	nm
EBITDA margin	31.0%	32.9%		28.3%	
PBT Margin	9.5%	7.9%		8.3%	
Core Net margin	6.3%	8.3%		4.2%	
Effective Tax Rate	22.8%	17.8%		24.4%	

Source: Company, Kenanga Research

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Segmental Highlights					
	1Q	4Q	QoQ	1Q	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg
Segmental Revenue					
Telecommunication Network	150.2	176.6	-14.9%	153.4	97.9%
Green Energy and Power	17.6	8.7	103.0%	23.2	76.2%
Trading	5.9	9.0	-33.7%	4.2	142.0%
M&E Engineering Services	3.0	4.7	-36.0%	3.3	91.6%
Elimination	(10.8)	(27.9)	-61.2%	(4.4)	248.0%
Total	166.0	171.1	-3.0%	179.7	92.4%
Segmental PBT					
Telecommunication Network	9.6	17.9	-46.2%	13.4	71.7%
Green Energy and Power	3.5	(0.2)	-1725.2%	2.9	121.6%
Trading	0.8	1.3	-39.6%	1.2	68.1%
M&E Engineering Services	0.2	(0.1)	-574.0%	0.3	80.3%
Investment Hold Co. & Elim	1.6	(5.4)	-130.0%	(2.8)	-58.0%
Total	15.8	13.5	17.1%	15.0	105.5%
Segmental PBT Margin					
Telecommunication Network	6.4%	10.1%		8.8%	
Green Energy and Power	20.1%	-2.5%		12.6%	
Trading	13.3%	14.6%		27.7%	
M&E Engineering Services	7.9%	-1.1%		9.0%	
Investment Holding Company	-15.1%	19.5%		64.5%	
Total	9.5%	7.9%		8.3%	

Source: Company, Kenanga Research

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	2.74	3.05	11.3%	25,158.5	Y	12/2024	7.2	7.2	21.2%	0.6%	38.3	38.1	1.4	3.0%	10.0	3.6%
CELCOMDIGI BHD	OP	3.86	5.97	54.7%	45,283.6	Y	12/2024	17.2	18.8	6.4%	9.0%	22.4	20.5	2.7	11.4%	13.8	3.6%
MAXIS BHD	OP	3.64	5.30	45.6%	28,508.8	Y	12/2024	16.7	17.9	6.2%	7.2%	21.8	20.4	5.0	22.7%	20.0	5.5%
OCK GROUP BHD	OP	0.625	0.795	27.2%	663.8	Y	12/2024	5.1	5.2	26.8%	3.1%	12.4	12.0	1.0	8.0%	1.5	2.4%
TELEKOM MALAYSIA BHD	OP	6.40	7.22	12.8%	24,560.8	Y	12/2024	45.5	46.1	-13.4%	1.4%	14.1	13.9	2.4	17.9%	23.0	3.6%
SECTOR AGGREGATE					124,175.4					1.0%	5.3%	21.6	20.5	2.5	12.6%		3.7%

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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