

31 May 2024

OCK Group

Busy with 5G and AI

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

To kick-start its digital venture, OCK plans to bid for contracts to provide AI solutions. Meanwhile, 2024 is shaping out to be a busy year as 5G deployment kick starts in Laos and Vietnam. Meanwhile, the second 5G network in Malaysia is anticipated to boost OCK's tower tenancy ratios. We maintain our forecasts, TP of RM0.86 and OUTPERFORM call.

We came away from OCK's post-results briefing feeling optimistic that the pace of 5G has finally picked up in regional markets. The key takeaways are as follows:

Aims to provide AI solutions for digital contracts. For its new digital solutions unit, OCK has identified the transportation and healthcare industries as its key focus. To kick start this venture, OCK plans to bid for a sizeable contract to provide connectivity solutions for an airport operator. One of the work scopes for this project includes the provision of tools and platforms powered by artificial intelligence (AI) with facial authentication capabilities. On the back of this, OCK has partnered with SenseTime, a leading AI software company based in China.

Laos 5G on steroids. In Laos, OCK revealed that it was awarded 100 sites with specific location coordinates for the deployment of 5G towers for Best Telecom (Best). On the back of this, OCK aims to deliver 50-60 sites for Best in FY24. We do not anticipate steep capex requirements for 5G roll-out in Laos given the relatively low cost of c. RM100k per tower.

Given that Best is a new 5G player without an existing 4G network, it will build its network from scratch. As such, over the longer term, Best targets an aggressive roll-out of 600 5G sites by FY25. On the back of this, OCK anticipates robust opportunities to provide build-to-suit towers for Best.

Kick-started 5G at Vietnam. To recap, the Vietnamese telco regulator recently awarded two 5G spectrum licenses in March for Viettel and VNPT. Additionally, in 2023, the regulator announced the shutdown of 2G services by end-Sept 2024. Therefore, to cope with this transition, more towers need to be rapidly deployed. Given OCK's leading market share, this translates to upside for OCK's tenancy ratios and opportunities to provide BTS towers. To-date, OCK has delivered twenty 5G sites in Vietnam.

5G to boost Malaysia tenancy ratios. For the upcoming second 5G network in Malaysia, OCK believes it will likely be deployed on existing 4G sites during its initial phase. Hence, this may translate to higher tenancy ratios for OCK's tower network (current overall: 1.35x). Meanwhile, OCK is in discussions with local municipal authorities to secure new sites in urban areas for the first 5G network's next phase of roll-out. This is in line with the need for densification in urban areas.

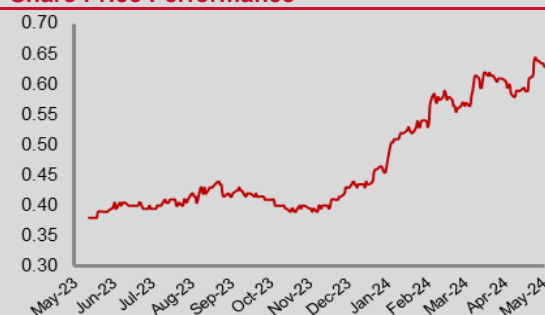
Forecasts. Maintained.

Valuations. We also keep our TP of RM0.86 based on 7x FY25F EV/EBITDA. 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: **RM0.62**
Target Price: **RM0.86** ↔

Share Price Performance



KLCI	1,604.26
YTD KLCI chg	10.3%
YTD stock price chg	42.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OCK MK Equity
Market Cap (RM m)	659.6
Shares Outstanding	1,063.9
52-week range (H)	0.65
52-week range (L)	0.38
3-mth avg. daily vol.	3,532,621
Free Float	47%
Beta	0.5

Major Shareholders

Aliran Armada Sdn Bhd	31.7%
Lembaga Tabung AngkatanTentera	9.5%
Phillip Capital Mana	2.7%

Summary Earnings Table

FYE Dec (RMm)	2023A	2024F	2025F
Revenue	724.6	777.7	814.7
EBITDA	218.3	224.0	233.8
EBIT	107.3	110.1	117.6
PBT	60.5	79.1	88.5
Net Profit (NP)	39.4	55.7	60.2
Core PATAMI	45.9	55.7	60.2
Consensus (NP)	-	56.0	60.8
Earnings Revision	-	-	-
Core EPS (sen)	4.4	5.3	5.7
Core EPS Growth (%)	24.6	21.2	8.0
DPS (sen)	1.0	1.5	1.5
BVPS (RM)	0.7	0.7	0.7
PER (x)	14.3	11.8	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

31 May 2024

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.

31 May 2024

Income Statement						Financial Data & Ratios					
FYE Dec (RM m)	2021	2022	2023	2024F	2025F	FYE Dec	2021	2022	2023	2024F	2025F
Revenue	488	617	725	778	815	Growth					
EBITDA	161	191	218	224	234	Revenue	3.1%	26.4%	17.4%	7.3%	4.8%
Depreciation	(96)	(109)	(111)	(114)	(116)	EBITDA	4.6%	18.8%	14.2%	2.6%	4.4%
EBIT	65	82	107	110	118	EBIT	-0.1%	26.2%	30.2%	2.6%	6.8%
Net Interest Exp	(24)	(30)	(40)	(31)	(29)	PBT	5.1%	27.4%	24.9%	30.8%	11.9%
Associates	(0)	(0)	0	0	0	Core Net Profit	-1.9%	28.1%	24.6%	21.3%	8.0%
Exceptionals	(3)	(4)	(6)	0	0	Profitability					
Profit Before Tax	38	48	60	79	89	EBITDA margin	33.0%	31.0%	30.1%	28.8%	28.7%
Taxation	(5)	(10)	(14)	(16)	(19)	EBIT Margin	13.4%	13.4%	14.8%	14.2%	14.4%
Minority Interest	(7)	(6)	(7)	(8)	(10)	PBT Margin	7.8%	7.8%	8.3%	10.2%	10.9%
PATAMI	25	33	39	56	60	Core Net Margin	5.9%	6.0%	6.3%	7.2%	7.4%
Core Net Profit	29	37	46	56	60	Effective Tax Rate	14.3%	20.6%	23.3%	20.0%	21.0%
Balance Sheet						ROA	2.0%	2.4%	2.5%	2.7%	2.9%
FYE Dec (RM m)	2021	2022	2023	2024F	2025F	ROE	5.1%	6.0%	6.8%	7.7%	7.9%
Fixed Assets	682	758	813	816	822	DuPont Analysis					
Intangible Assets	183	187	193	193	193	Net Margin	5.9%	6.0%	6.3%	7.2%	7.4%
Other Fixed Assets	194	209	195	195	195	Assets Turnover (x)	0.3	0.4	0.4	0.4	0.4
Inventories	63	87	113	117	121	Leverage Factor (x)	2.2	2.3	2.5	2.5	2.4
Receivables	167	268	301	328	349	ROE	5.1%	6.0%	6.8%	7.7%	7.9%
Other Curr Assets	94	70	159	159	159	Leverage					
Cash	82	70	229	259	294	Debt/Asset (x)	0.2	0.3	0.3	0.3	0.3
Total Assets	1465	1649	2004	2068	2133	Debt/Equity (x)	0.5	0.7	0.8	0.7	0.6
Payables	149	116	148	164	175	Net Debt (RM m)	360	506	603	573	539
ST Borrowings	264	228	186	337	284	Net Debt/Equity (x)	0.6	0.8	0.9	0.8	0.7
Other ST Liability	35	48	46	46	46	Valuations					
LT Borrowings	179	348	646	495	548	Core EPS (sen)	2.7	3.5	4.4	5.3	5.7
Other LT Liability	165	183	182	182	182	DPS (sen)	0.5	0.0	1.0	1.5	1.5
Net Assets	674	725	796	843	897	BV/share (RM)	0.6	0.6	0.7	0.7	0.7
S'holders' Equity	597	639	703	743	787	Core PER (x)	22.9	17.9	14.3	11.8	11.0
Minority Interests	77	86	93	101	110	Div. Yield (%)	0.8	0.0	1.6	2.4	2.4
Total Equity	674	725	796	843	897	PBV (x)	1.1	1.0	0.9	0.9	0.8
Cashflow Statement						EV/EBITDA (x)	6	6	5	5	5
FYE Dec (RM m)	2021	2022	2023	2024F	2025F						
Operating CF	168	31	172	193	202						
Investing CF	(149)	(71)	(177)	(117)	(122)						
Financing CF	(46)	42	190	(47)	(45)						
Change In Cash	(26)	2	186	30	35						
Free CF	54	(57)	77	77	80						

Source: Kenanga Research

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	2.77	3.00	8.3%	25,433.9	Y	12/2024	7.1	7.2	19.6%	1.7%	39.2	38.5	1.4	3.0%	10.0	3.6%
CELCOMDIGI BHD	OP	3.89	5.97	53.5%	45,635.6	Y	12/2024	17.2	18.8	6.4%	9.0%	22.6	20.7	2.7	11.4%	13.8	3.5%
MAXIS BHD	OP	3.66	5.30	44.8%	28,665.4	Y	12/2024	16.7	17.9	6.2%	7.2%	22.0	20.5	5.0	22.7%	20.0	5.5%
OCK GROUP BHD	OP	0.620	0.860	38.7%	658.5	Y	12/2024	4.8	5.2	21.4%	8.1%	12.8	11.8	1.0	7.7%	1.5	2.4%
TELEKOM MALAYSIA BHD	OP	6.26	7.22	15.3%	24,023.6	Y	12/2024	45.6	46.2	-13.2%	1.5%	13.7	13.5	2.4	18.0%	23.5	3.8%
SECTOR AGGREGATE					124,416.9					0.9%	5.5%	21.6	20.5	2.5	12.6%		3.8%

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.**

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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