

05 July 2024

## OCK Group

### Riding on Digital Wave

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The key competitive advantage of OCK's new digital business lies in its capacity to offer end-to-end services, including connectivity solutions. This is possible by leveraging on the group's existing resources, such as engineering manpower. Currently, it is mainly tendering for smart city solutions from state governments. We maintain our forecasts, TP of RM0.86 and OUTPERFORM call.

We came away from OCK's briefing on its new digital business feeling optimistic that it may leverage on current digital trends (e.g. generative artificial intelligence (AI), 5G, AI cloud services) to diversify its revenue and expand its service offerings. The key takeaways are as follows:

**Tenders mainly for smart township projects.** OCK's digital unit currently has a tender book of c. RM300m-RM400m, which consists of: (i) smart city solutions (72%), (ii) managed service (18%), (iii) connectivity (6%), and (iv) cloud (4%). The corresponding market for OCK's pool of tenders mainly comprises the government, with an estimated 90% share. This includes state and federal governments, as well as various ministries. The remaining target market for OCK comprises enterprise (c. 10%), followed by retail and education.

**Integrated digital solution provider.** The key competitive advantage of OCK's digital unit lies in its capability to provide full stack services, including network connectivity solutions. Hence, this enables OCK to manage the entire infrastructure lifecycle, from planning and design to implementation, maintenance, and optimization. This is possible via leveraging on the group's existing resources, such as engineering expertise and manpower. After accounting for time needed for project deployment, OCK expects earnings contribution to materialize within the next two years, by CY25.

**Eyeing AI cloud contracts next.** OCK offers end-to-end cloud services to its clients, encompassing consultation, design, building, and operation. We understand that with the exception of Huawei Cloud, international cloud service providers (CSP) interact with end users in Malaysia through local partners such as OCK. As such, these CSPs do not directly engage with Malaysian end-users. Therefore, after the handover of cloud projects, OCK may continue to receive recurring fees from its clients for services including cloud AI, connectivity solutions, managed services, and cybersecurity. Licensing fees to the CSPs are expected to constitute only a small portion of the total fees.

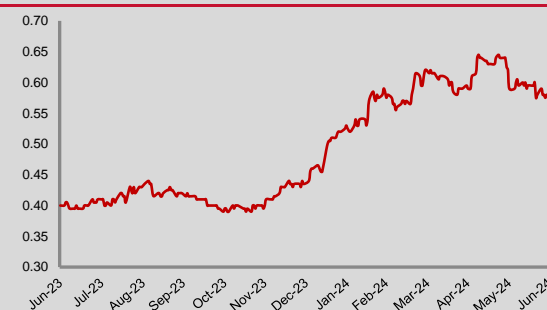
**Forecasts.** Maintained pending announcement of actual contract wins.

**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: **RM0.60**  
Target Price: **RM0.86** ↔

#### Share Price Performance



KLCI	1,616.75
YTD KLCI chg	11.1%
YTD stock price chg	37.9%

#### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OCK MK EQUITY
Market Cap (RM m)	640.2
Shares Outstanding	1,067.0
52-week range (H)	0.65
52-week range (L)	0.39
3-mth avg. daily vol.	3,150,073
Free Float	57%
Beta	0.6

#### Major Shareholders

Aliran Armada Sdn Bhd	31.6%
Phillip Capital Management Sdn Bhd	2.7%
He Swee Hong	1.8%

#### 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
<b>Net Profit (NP)</b>	<b>39.4</b>	<b>55.7</b>	<b>60.2</b>
<b>Core PATAMI</b>	<b>45.9</b>	<b>55.7</b>	<b>60.2</b>
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)	13.8	11.4	10.5
PBV (x)	0.9	0.9	0.8
Net Gearing (x)	0.9	0.8	0.7
Div. Yield (%)	1.7	2.5	2.5

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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.



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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.				
<b>STOCKS UNDER COVERAGE</b>																	
AXIATA GROUP BHD	OP	2.57	3.00	16.7%	23,597.5	Y	12/2024	7.1	7.2	19.6%	1.7%	36.4	35.8	1.3	3.0%	10.0	3.9%
CELCOMDIGI BHD	OP	3.62	5.97	64.9%	42,468.1	Y	12/2024	17.2	18.8	6.4%	9.0%	21.0	19.3	2.5	11.4%	14.0	3.9%
MAXIS BHD	OP	3.45	5.30	53.6%	27,024.3	Y	12/2024	16.7	17.9	6.2%	7.2%	20.7	19.3	4.7	22.7%	20.0	5.8%
OCK GROUP BHD	OP	0.600	0.860	43.3%	640.2	Y	12/2024	4.8	5.2	21.4%	8.1%	12.4	11.5	0.9	7.7%	1.5	2.5%
TELEKOM MALAYSIA BHD	OP	6.84	7.53	10.1%	26,249.9	Y	12/2024	45.6	46.2	-13.2%	1.5%	15.0	14.8	2.6	18.0%	23.5	3.4%
<b>SECTOR AGGREGATE</b>					<b>119,979.9</b>					<b>0.9%</b>	<b>5.5%</b>	<b>20.9</b>	<b>19.8</b>	<b>2.4</b>	<b>12.6%</b>		<b>3.9%</b>

### Stock ESG Ratings:

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
	<b>SPECIFIC</b>	Cyber Security	★	★	☆	
Employee Training		★	★	★		
Energy Efficiency		★	★	★		
Digital Transformation		★	★	☆		
Protection of Customer Data		★	★	☆		
<b>OVERALL</b>		★	★	★		

☆ 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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