

Friday, 28 February 2025

# OCK Group

## FY24 a Wash Out Year

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OCK's FY24 results were below expectations, mainly due to weakness at its Telecommunication Network Services (TNS) segment. We believe it likely underperformed due to the slowdown in roll-out of Malaysia's first 5G network as it approaches completion. We cut our FY25F earnings by 10%, lower our TP to RM0.38 (from RM0.43), but maintain our MARKET PERFORM call.

**Earnings miss as telco segment underwhelms.** FY24 core net profit of RM23.9m fell short of expectations, reaching only 78% of our full-year forecast and 68% of the consensus estimate. The shortfall versus our forecast was due to lower-than-expected contribution from the TNS segment on diminished work flows.

OCK declared 4QFY24 DPS of 0.5 sen (4QFY23: nil), bringing FY24 DPS to 1.0 sen (FY23: 1.0 sen), which was within our expectation.

**Lack of new telco orders could be the main drag.** FY24 revenue contraction (-10% YoY) was mainly attributed to lower contribution from TNS(-8% YoY) and the green energy & power (GEP) segment (-42% YoY). TNS' underperformance likely stems from a slowdown in the roll-out of Malaysia's first 5G network (NW1) as it nears completion. The combination of topline weakness and higher opex impacted bottom line, resulting in a 32% YoY decline despite lower interest costs and depreciation.

**QoQ improvement across majority of segments.** On a brighter note, 4QFY24 earnings jumped 22% QoQ, driven by improved operating leverage and revenue expansion across all segments, except for GEP. This more than offset the impact of higher interest costs and depreciation.

**Forecasts.** We introduce FY26F numbers and cut our FY25F earnings by 10% to reflect slower replenishment of TNS orders.

**Valuation.** Our TP is lowered to RM0.38 (from RM0.43) based on unchanged 5.7x CY25F EV/EBITDA, in-line with its historical average.

**Second 5G network taking shape...** According to media reports, U Mobile plans to roll out Malaysia's second 5G network (NW2) within the next 15-18 months. This will likely be in partnership with Chinese 5G equipment suppliers (either Huawei or ZTE) which will provide financing support. In addition to this partnership, U Mobile will secure bank loans to fund NW2's development. Communications Minister, Fahmi Fadzil stated that U Mobile is expected to receive its official award to proceed with NW2's roll-out in February 2025. The network's development will be guided by its Detailed Business Plan, which is currently under review by the Malaysian Communications and Multimedia Commission (MCMC).

**...but may underwhelm in scale and tenders.** While we are encouraged by the imminent roll-out of NW2, we believe its scale and capex will be significantly smaller than NW1. Based on our channel checks, U Mobile is expected to deploy c.7,000 5G sites for NW2. However, only around 20% (1,400 sites) will be entirely new, while the majority will involve upgrades to existing sites. This suggests lower contract values available for tower operators compared to NW1. We believe NW1 likely incurred RM4b in capex to-date with a nationwide footprint exceeding 7k sites.

## MARKET PERFORM ↔

Price: **RM0.41**  
Target Price: **RM0.38** ↓

### Share Price Performance



KLCI 1,586.60  
YTD KLCI chg -3.4%  
YTD stock price chg -15.5%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker OCK MK EQUITY  
Market Cap (RM m) 436.6  
Shares Outstanding 1,065.0  
52-week range (H) 0.69  
52-week range (L) 0.40  
3-mth avg. daily vol. 1,006,470  
Free Float 56%  
Beta 0.9

### Major Shareholders

Aliran Armada Sdn Bhd 31.7%  
Norges Bank 4.7%  
Kaf Investment Funds 4.6%

### Summary Earnings Table

FYE Dec (RMm)	2024	2025F	2026F
<b>Revenue</b>	650.4	627.8	637.7
EBITDA	183.5	181.4	184.3
EBIT	76.5	71.8	72.4
PBT	55.0	44.1	47.6
<b>Net Profit (NP)</b>	<b>33.0</b>	<b>27.9</b>	<b>30.1</b>
<b>Core PATAMI</b>	<b>23.9</b>	<b>27.9</b>	<b>30.1</b>
Consensus (NP)	-	35.0	46.4
Earnings Revision	-	-10%	-
Core EPS (sen)	2.1	2.6	2.9
Core EPS Growth (%)	-42.0	26.2	7.9
DPS (sen)	1.0	1.0	1.0
BVPS (RM)	0.7	0.7	0.7
Core PER (x)	19.6	15.5	14.4
PBV (x)	0.6	0.6	0.6
Net Gearing (x)	0.8	0.7	0.7
Div. Yield (%)	2.4	2.4	2.4

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**Investment case.** OCK achieved record profit in FY22, followed by a modest 4% YoY contraction in FY23, supported by strong order flows from JENDELA Phase 1 (JP1) and NW1, both of which are now nearing completion. However, at this stage, order book replenishment prospects from NW2 appear subdued, and uncertainty remains over whether JENDELA Phase 2 will ultimately proceed. As such, we believe OCK's earnings may continue to trail off unless it secures new orders of similar magnitude to JP1 and NW1 to fill the gap in its order book.

We maintain our **MARKET PERFORM** call as OCK's earnings visibility may improve in the near term from new opportunities such as: (i) power backup solutions (PBS) and fiber connectivity for data centers, (ii) new digital business (solutions for cloud, smart cities, connectivity and managed solutions), (iii) 5G network roll-outs at Laos (new venture) and Vietnam as well looming implementation in Indonesia, and (iv) new Universal Service Provision (USP) projects.

**Risks to our call include:** (i) unfavorable regulatory changes, (ii) prolonged delay in the roll-out of the second 5G network and JENDELA Phase 2, and (iii) country and political risks at frontier markets where OCK has a presence.

Results Highlights

FYE Dec (RM m)	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	165.8	160.2	3.5%	171.1	-3.1%	650.4	722.8	-10.0%
<b>EBITDA</b>	<b>48.1</b>	<b>43.0</b>	11.9%	<b>56.3</b>	-14.5%	<b>183.5</b>	<b>206.2</b>	-11.0%
Depreciation	(27.6)	(25.9)	6.6%	(29.4)	-6.0%	(107.0)	(110.9)	-3.5%
Net Finance Costs	(7.8)	(6.9)	12.4%	(9.3)	-16.8%	(30.6)	(39.5)	-22.4%
JV	0.0	0.0	Nm	0.0	Nm	0.0	(0.1)	Nm
EI	0.9	1.3	-29.4%	(4.0)	-122.8%	9.1	1.3	>100%
<b>Pretax Profit</b>	<b>13.6</b>	<b>11.5</b>	18.9%	<b>13.5</b>	0.9%	<b>55.0</b>	<b>57.0</b>	-3.5%
Taxation	(3.7)	(2.6)	43.6%	(2.4)	54.7%	(13.4)	(13.9)	-3.0%
Minority Interest	(1.9)	(1.7)	7.7%	(0.9)	102.4%	(8.6)	(6.6)	29.1%
<b>PATAMI</b>	<b>8.0</b>	<b>7.1</b>	12.6%	<b>10.2</b>	-21.1%	<b>33.0</b>	<b>36.5</b>	-9.6%
<b>Core Net Profit</b>	<b>7.1</b>	<b>5.8</b>	22.0%	<b>14.2</b>	-49.9%	<b>23.9</b>	<b>35.2</b>	-32.3%
Core EPS (sen)	0.7	0.5	21.3%	1.3	-50.4%	2.1	3.6	-42.0%
DPS (sen)	0.5	0.0	nm	1.0	-50.0%	1.0	1.0	0.0%
EBITDA margin	29.0%	26.8%		32.9%		28.2%	28.5%	
PBT Margin	8.2%	7.2%		7.9%		8.5%	7.9%	
Core Net margin	4.3%	3.6%		8.3%		3.7%	4.9%	
Effective Tax Rate	27.4%	22.6%		17.8%		24.4%	24.3%	

Source: Company, Kenanga Research

Segmental Highlights								
FYE Dec (RM m)	4Q FY24	3Q FY24	QoQ Chg	4Q FY23	YoY Chg	12M FY24	12M FY23	YoY Chg
<b>Segmental Revenue</b>								
Telecommunication Network	159.3	154.7	3.0%	176.6	-9.8%	611.4	663.6	-7.9%
Green Energy and Power	8.8	10.1	-12.2%	8.7	1.6%	32.8	56.9	-42.3%
Trading	7.2	2.3	>100%	9.0	-19.7%	20.0	27.2	-26.6%
M&E Engineering Services	6.5	4.8	36.0%	4.7	39.0%	34.6	17.9	93.4%
Elimination	(16.4)	(11.6)	40.5%	(27.9)	-41.3%	(54.6)	(41.8)	30.8%
<b>Total</b>	<b>165.5</b>	<b>160.2</b>	<b>3.3%</b>	<b>171.1</b>	<b>-3.3%</b>	<b>644.2</b>	<b>723.9</b>	<b>-11.0%</b>
<b>Segmental PBT</b>								
Telecommunication Network	14.8	13.1	12.5%	17.9	82.6%	46.8	61.8	-24.3%
Green Energy and Power	1.2	0.8	48.6%	(0.2)	>-100%	6.6	8.9	-26.2%
Trading	2.3	0.3	>100%	1.3	172.7%	3.9	6.1	-35.9%
M&E Engineering Services	0.2	1.9	-90.8%	(0.1)	>-100%	7.2	1.7	>100%
Investment Hold Co. & Elim	(4.8)	(4.7)	1.6%	(5.4)	88.1%	(9.4)	(18.0)	-47.5%
<b>Total</b>	<b>13.6</b>	<b>11.5</b>	<b>18.9%</b>	<b>13.5</b>	<b>100.9%</b>	<b>55.0</b>	<b>60.5</b>	<b>-9.1%</b>
<b>Segmental PBT Margin</b>								
Telecommunication Network	9.3%	8.5%		10.1%		7.7%	9.3%	
Green Energy and Power	13.6%	8.0%		-2.5%		20.0%	15.7%	
Trading	31.3%	14.2%		14.6%		19.4%	22.3%	
M&E Engineering Services	2.7%	39.8%		-1.1%		20.8%	9.6%	
Investment Holding Company	29.2%	40.4%		19.5%		17.3%	43.1%	
<b>Total</b>	<b>8.2%</b>	<b>7.2%</b>		<b>7.9%</b>		<b>8.5%</b>	<b>8.4%</b>	

Source: Company, Kenanga Research

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### Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	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.
<b>STOCKS UNDER COVERAGE</b>																	
AXIATA GROUP BHD	MP	2.07	2.05	-1.0%	19,008.4	Y	12/2025	8.7	9.5	-6.5%	9.2%	23.8	21.8	1.0	3.8%	11.0	5.3%
CELCOMDIGI BHD	OP	3.52	4.10	16.5%	41,294.9	Y	12/2025	16.2	18.0	6.4%	10.9%	21.7	19.5	2.5	11.7%	13.0	3.7%
MAXIS BHD	MP	3.52	3.80	8.0%	27,572.6	Y	12/2025	18.4	18.7	1.5%	1.5%	19.1	18.8	4.5	24.0%	16.0	4.5%
OCK GROUP BHD	MP	0.410	0.428	4.4%	436.9	Y	12/2025	2.8	2.9	-29.4%	2.2%	14.6	14.3	0.7	4.5%	1.0	2.4%
TELEKOM MALAYSIA BHD	OP	6.88	8.07	17.3%	26,403.4	Y	12/2025	47.1	47.5	-12.3%	0.7%	14.6	14.5	2.4	17.2%	33.0	4.8%
TIME DOTCOM BHD	OP	5.20	5.45	4.8%	9,613.9	Y	12/2025	24.7	26.1	18.3%	5.8%	21.1	19.9	2.3	9.2%	20.5	3.9%
<b>SECTOR AGGREGATE</b>					<b>124,330.1</b>					<b>-1.7%</b>	<b>5.4%</b>	<b>19.4</b>	<b>18.4</b>	<b>2.2</b>	<b>11.7%</b>		<b>4.1%</b>

Source: Bloomberg, Kenanga Research

### 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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Published by:

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