

## OCK Group Berhad

### Towers ramping up

#### Summary

- OCK Group Bhd (OCK) 1Q21 net profit gained 9.0% YoY to RM7.2m, underpinned by the progressive roll-out of additional towers under the Telecommunication & Network Services (TNS) segment and newly acquired subsidiaries under the Green Energy & Power Solution segment. Revenue for the quarter climbed 3.8% YoY to RM113.4m.
- The reported earnings accounts to 20.3% of our net profit forecast of RM35.3m and 23.4% of consensus forecast of RM30.6m. The reported revenue accounted to 22.3% of our estimated revenue of RM509.4m and 21.8% of consensus forecast of RM519.7m for the year. We reckon that the reported earnings to be in line, given that OCK's second half results are seasonally stronger.
- As of 1Q21, OCK owns and manages over 4,300 telco sites in ASEAN regional with Malaysia (500 sites), Myanmar (1,100 sites) and Vietnam (2,700 sites) that will provide stream of recurring income over the long term. Under the National Digital Network Initiative (Jendela) plan with RM4.0bn infrastructure works for more than 1,700 sites, OCK has secured orders in excess of RM60.0m.
- On the overseas ventures, OCK aims to drive the tenancy ratio in Vietnam to 1.6x (from 1.3x) in 2021 by deploying more aggressive marketing strategy. On the downside, we expect Myanmar's expansion to remain wobbly, impacted by the on-going martial law in parts of Yangon, Mandalay and other townships. Elsewhere, we expect OCK to leverage on Vietnam's Ministry of Information and Communications to approve 5G services by mid-2021 in bid to improve the capacity of digital infrastructure for its national digital transformation. All in all, OCK aims to ramp up the existing tower portfolio to more than 5,100 telco sites by end 2021.
- As of 1Q21, OCK operates 17 solar farms with a combined capacity of 11.3MW in West Malaysia. In bid to reduce the reliance on TNS segment that contributed 90.6% of total revenue in FY20, OCK remains committed in acquisitions of solar farms with decent feed-in tariff rates in Malaysia as well as participate in large scale tenders over the foreseeable future.

#### Quarterly performance

FYE Dec (RM m)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)
Revenue	109.2	138.7	113.4	(18.3)	3.8
EBITDA	35.3	38.2	32.7	(14.4)	(7.5)
PBT	8.4	10.3	9.8	(4.6)	16.9
PAT	7.0	8.2	8.4	2.4	19.5
Core PATMI	6.6	6.1	7.2	17.3	9.0
Reported PATMI	6.6	6.1	7.2	17.3	9.0
Core EPS (sen)	0.7	0.7	0.8	17.3	9.0
EBITDA margin (%)	32.4	28.0	28.0		
PBT margin (%)	7.7	8.4	8.0		
Core PATMI margin (%)	6.0	6.0	5.2		

#### Results Note – 1QFY21

**Kenneth Leong**  
[kennethleong@msec.com.my](mailto:kennethleong@msec.com.my)  
(603) 22012100

#### BUY

Share price	<b>RM0.48</b>
Target price	<b>RM0.53</b>
Previous TP	RM0.53
Capital upside	10.4%
Dividend return	-
Total return	10.4%

#### Company profile

Provision of telecommunications network services as well as green energy and power solutions

#### Stock information

Bursa Code	0172
Bloomberg ticker	OCK MK
Listing market	Main
Share issued (m)	1,054.4
Market Cap (m)	506.1
52W High/Low	0.58/0.36
Est. Free float	41.3%
Beta (x)	0.6
3-mth avg vol ('000)	6,270.4
Shariah compliant	Yes

#### Major shareholders

	%
Aliran Armada Sdn Bhd	30.9
LTAT	10.2
EPF	7.6

#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-4.0	-1.0	-5.9
Relative	-3.1	-2.0	-13.9

#### Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI (m)	25.9	35.3	39.3
EPS (sen)	2.5	3.3	3.7
P/E (x)	19.5	14.3	12.9

#### Relative performance chart



## Valuation & Recommendation

- With the reported earnings deem to be within expectations, we made no changes to our earnings forecast. Following the recent share price weakness, we upgrade OCK to **BUY** (from HOLD), with an unchanged target price of RM0.53.
- We adopt a sum-of-parts (SOP) approach as we valued its telecommunication network services and green energy & power solutions business segments on a discounted cash flow approach (key assumptions include a WACC of 9.5%, terminal growth rate of 1.5%). Meanwhile, we ascribed an unchanged target PER of 13.0x to both its fully-diluted trading and mechanical & electrical engineering services businesses, based on their potential earnings contribution in FY21f.
- Risks to our recommendation include rising raw material costs. OCK's business is heavily dependent on steel that accounts for slightly below 40.0% of the group's costs of construction in FY20. Any project delay could also impact its income growth and cash flow as the group is operating in a capital intensive industry.

## Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	457.2	473.4	473.5	509.4	532.8	Cash	76.7	133.4	79.5	42.3	46.5
EBITDA	99.8	141.8	151.7	170.0	187.7	Receivables	317.8	240.8	189.2	174.4	175.2
EBIT	62.7	69.6	63.8	73.8	76.7	Inventories	72.4	66.2	63.4	64.6	67.8
Net finance income/ (cost)	(18.3)	(30.1)	(28.7)	(25.5)	(23.0)	PPE	463.0	511.5	597.0	628.1	650.3
Associates & JV	(0.2)	0.6	(0.0)	-	-	Others	206.6	461.1	473.8	459.5	426.3
<b>Profit before tax</b>	<b>44.2</b>	<b>40.1</b>	<b>35.1</b>	<b>48.3</b>	<b>53.7</b>	<b>Assets</b>	<b>1,136.6</b>	<b>1,413.0</b>	<b>1,402.9</b>	<b>1,369.0</b>	<b>1,366.0</b>
Tax	(14.4)	(8.5)	(4.7)	(8.4)	(9.4)	Debts	495.7	656.5	598.6	538.4	478.1
<b>Net profit</b>	<b>29.8</b>	<b>31.6</b>	<b>30.5</b>	<b>39.8</b>	<b>44.3</b>	Payables	121.4	142.7	144.7	161.7	195.5
Minority interest	5.6	3.1	4.6	4.5	5.0	Others	24.5	29.0	38.1	65.3	119.7
<b>Core earnings</b>	<b>24.2</b>	<b>28.5</b>	<b>25.9</b>	<b>35.3</b>	<b>39.3</b>	<b>Liabilities</b>	<b>641.5</b>	<b>828.2</b>	<b>781.4</b>	<b>765.3</b>	<b>793.4</b>
<b>Diluted core earnings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39.1</b>	<b>43.0</b>	Shareholder's equity	441.1	521.7	536.4	516.0	488.3
Exceptional items	-	-	-	-	-	Minority interest	54.0	63.0	85.1	85.1	85.1
Reported earnings	24.2	28.5	25.9	35.3	39.3	<b>Equity</b>	<b>495.1</b>	<b>584.7</b>	<b>621.5</b>	<b>601.1</b>	<b>573.3</b>
<b>Cash Flow Statement</b>						<b>Valuation &amp; Ratios</b>					
FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Profit before taxation	44.2	40.1	35.1	48.3	53.7	Core EPS (sen)	2.30	2.71	2.46	3.35	3.73
Depreciation & amortisation	34.4	69.3	84.0	96.2	111.1	Diluted Core EPS (sen)	-	-	-	2.96	3.26
Changes in working capital	54.2	(41.8)	(57.8)	(34.0)	(53.3)	P/E (x)	20.9	17.7	19.5	14.3	12.9
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	16.2	14.7
Taxation	(16.9)	(11.7)	(8.7)	(8.4)	(9.4)	DPS (sen)	1.0	-	-	-	-
Others	-	-	-	-	-	Dividend yield	2.1%	0.0%	0.0%	0.0%	0.0%
<b>Operating cash flow</b>	<b>45.4</b>	<b>151.4</b>	<b>179.9</b>	<b>202.7</b>	<b>190.2</b>	BVPS (RM)	0.47	0.55	0.59	0.57	0.54
Net capex	8.5	8.4	65.7	(10.0)	(10.0)	P/B (x)	1.0	0.9	0.8	0.8	0.9
Others	-	-	-	-	-	EBITDA margin	21.8%	29.9%	32.0%	33.4%	35.2%
<b>Investing cash flow</b>	<b>(109.3)</b>	<b>(138.6)</b>	<b>(98.8)</b>	<b>(131.3)</b>	<b>(137.1)</b>	EBIT margin	13.7%	14.7%	13.5%	14.5%	14.4%
Changes in borrowings	47.4	160.8	(57.9)	(60.2)	(60.3)	PBT margin	9.7%	8.5%	7.4%	9.5%	10.1%
Issuance of shares	-	-	-	-	-	PAT margin	6.5%	6.7%	6.4%	7.8%	8.3%
Dividends paid	(2.3)	-	-	-	-	Core PAT margin	5.3%	6.0%	5.5%	6.9%	7.4%
Others	-	-	-	-	-	ROE	5.5%	5.5%	4.8%	6.8%	8.0%
<b>Financing cash flow</b>	<b>6.4</b>	<b>(7.8)</b>	<b>(60.6)</b>	<b>(71.8)</b>	<b>(48.9)</b>	ROA	2.1%	2.0%	1.8%	2.6%	2.9%
<b>Net cash flow</b>	<b>(57.5)</b>	<b>5.0</b>	<b>20.5</b>	<b>(0.3)</b>	<b>4.2</b>	Net gearing	84.6%	89.5%	83.5%	82.5%	75.3%
Forex	(4.2)	0.3	(0.1)	(0.1)	(0.1)						
Others	-	-	-	-	-						
Beginning cash	82.5	20.8	26.2	46.6	42.3						
Ending cash	20.8	26.2	46.6	42.3	46.5						

*Disclaimer: This report is prepared exclusively for Malacca Securities Sdn Bhd's (MSSB) clients and is not intended to be distributed to any other party in any form or manner. All information, assumptions, estimates and opinions contained in this report is based on available data and the information is believed to be reliable at the time of writing. MSSB and/or its associated persons does not warrant, represent and/or guarantee the accuracy of any opinions and information herein in any manner whatsoever and no reliance upon the report and/or any parts thereof by anyone shall give rise to any claim whatsoever against MSSB. This report is for information purposes only and shall not be construed as an offer, invitation or solicitation to buy or sell the securities or any related investment or financial instruments mentioned in this report. MSSB and/or its associated persons may from time to time have an interest in the securities mentioned herein.*