

OCK Group Bhd

Towerco expansion progressing well

Summary

- OCK Group Bhd (OCK) 1QFY22 net profit improved 3.2% YoY to RM7.4m, mainly due to higher contribution from the telecommunication network services and green energy and power solution segment. Revenue for the quarter climbed 12.4% YoY to RM127.4m.
- The reported earnings make up to 21.4% of our net profit forecast of RM34.6m and 21.9% of consensus forecast of RM33.8m. We deem the reported figures to be in line given that 1H results are seasonally weaker as major telco players traditionally ramp up their un-utilised budgeted capex towards the end of the year.
- As at end-1QFY22, OCK owns and manages over 4,800 telco sites (up from 4,600 telco sites as at end-4QFY21) in the ASEAN region that will provide stream of recurring income over the long term. We expect sequential improvement in coming quarters for the year in tandem with OCK expansion plans as the group looks to record more than 5,000 telco sites (3,200 sites in Vietnam, 1,300 sites in Myanmar and 800 sites in Malaysia) by end-2022.
- Moving forward, the progressive 5G services rollout by Digital Nasional Bhd (DNB) is expected to require 3,000-4,000 sites of 5G wholesale network by end-2022. Already, DNB has engaged OCK to conduct site survey for 5G infrastructure works. As of end-1QFY22, OCK will be kept busy with the delivery of outstanding order book of more than RM280.0m, from the JENDELA programme.
- Apart from ramping up the number of towers, OCK also remains committed to drive the tenancy ratio in Vietnam by deploying more aggressive marketing strategy through brownfield expansions. Following a period of instability in 2021 after the military coup has resulted in mobile operators shutting down internet access, economic activities in Myanmar have recovered and set to returning to normalcy.
- On the green energy segment, OCK is operating 11.3MW of solar farms. OCK will be kept busy with the 18 new net energy metering (NEM) rooftop solar project in Terengganu. The aforementioned project will be able to generate 1.8MW capacity per annum for over a 25-year lease term that is expected to be operational by 3Q22.

Quarterly performance					
FYE Dec (RM m)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)
Revenue	113.4	135.7	127.4	(6.1)	12.4
EBITDA	32.7	43.2	40.2	(7.1)	23.0
PBT	9.8	10.7	11.3	6.0	15.6
PAT	8.4	10.4	9.1	(11.7)	9.0
Core PATMI	7.2	6.8	7.4	8.1	3.2
Reported PATMI	7.2	6.8	7.4	8.1	3.2
Core EPS (sen)	0.8	0.7	0.8	8.1	3.2
EBITDA margin (%)	28.8	28.0	31.5		
PBT margin (%)	8.6	8.4	8.9		
Core PATMI margin (%)	6.3	5.0	5.8		

Results Note – 1QFY22

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BUY

Share price	RM0.395
Target price	RM0.50
Previous TP	RM0.50
Capital upside	26.6%
Dividend return	1.9%
Total return	28.5%

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)	1,054.5
Market Cap (m)	416.5
52W High/Low	0.52/0.38
Est. Free float	42.5%
Beta (x)	0.7
3-mth avg vol ('000)	566.0
Shariah compliant	Yes

Major shareholders

	%
Aliran Armada Sdn Bhd	31.1
LTAT	9.6
EPF	7.5

Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	-6.0	-1.3	-18.6
Absolute	-2.5	2.9	-15.8
Relative			

Earnings summary

	FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	25.4	34.6	40.2	
EPS (sen)	2.4	3.3	3.8	
P/E (x)	16.4	12.0	10.4	

Relative performance chart



Valuation & Recommendation

- Given that the reported earnings deemed to be in line with expectations, we made no changes to our earnings forecast. Therefore, we maintained our **BUY** recommendation on OCK with an unchanged target price of RM0.50.
- 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 7.3%, terminal growth rate of 3.0%). Meanwhile, we ascribed a target PER of 13.0x to both its fully-diluted trading and mechanical & electrical engineering services businesses, based on their potential earnings contribution in FY22f.
- 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 FY21. 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)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	473.4	473.5	488.2	518.9	542.5	Cash	133.4	79.5	98.9	84.8	78.0
EBITDA	141.8	153.1	153.1	169.6	186.4	Receivables	240.8	189.2	166.6	170.6	178.4
EBIT	69.6	64.8	62.0	75.3	83.5	Inventories	66.2	61.1	63.4	64.8	67.3
Net finance income/ (cost)	(30.1)	(28.7)	(23.9)	(24.7)	(25.6)	PPE	511.5	597.0	673.6	735.0	794.8
Associates & JV	0.6	(0.0)	(0.0)	-	-	Others	461.1	478.7	462.7	463.4	467.0
Profit before tax	40.1	36.2	38.0	50.6	58.0	Assets	1,413.0	1,405.6	1,465.2	1,518.6	1,585.5
Tax	(8.5)	(4.6)	(5.4)	(8.1)	(9.3)	Debts	656.5	598.6	605.5	616.2	628.0
Net profit	31.6	31.6	32.6	42.5	48.7	Payables	142.7	144.7	148.9	148.8	155.1
Minority interest	3.1	4.6	7.2	7.9	8.5	Others	29.0	39.6	36.9	50.1	50.3
Core earnings	28.5	27.0	25.4	34.6	40.2	Liabilities	828.2	783.0	791.3	815.1	833.3
Diluted core earnings	-	-	31.4	40.2	45.8	Shareholder's equity	521.7	537.5	597.2	626.8	675.5
Exceptional items	-	-	-	-	-	Minority interest	63.0	85.1	76.7	76.7	76.7
Reported earnings	28.5	27.0	25.4	34.6	40.2	Equity	584.7	622.6	673.9	703.5	752.2
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Profit before taxation	40.1	36.2	38.0	50.6	58.0	Core EPS (sen)	2.7	2.6	2.4	3.3	3.8
Depreciation & amortisation	69.3	84.0	86.7	94.3	102.9	Diluted Core EPS (sen)	-	-	2.4	3.0	3.5
Changes in working capital	(41.8)	(57.8)	(30.3)	6.9	7.3	P/E (x)	14.6	15.4	16.4	12.0	10.4
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	16.6	13.0	11.4
Taxation	(11.7)	(8.7)	(9.5)	(8.1)	(9.3)	DPS (sen)	-	-	-	0.5	0.8
Others	-	-	-	-	-	Dividend yield	0.0%	0.0%	0.0%	1.3%	1.9%
Operating cash flow	151.4	179.9	167.9	157.4	146.4	BVPS (RM)	0.55	0.59	0.64	0.67	0.71
Net capex	8.4	66.1	44.0	(10.0)	(10.0)	P/B (x)	0.7	0.7	0.6	0.6	0.6
Others	-	-	-	-	-	EBITDA margin	29.9%	32.3%	31.4%	32.7%	34.4%
Investing cash flow	(138.6)	(98.8)	(148.7)	(155.7)	(162.7)	EBIT margin	14.7%	13.7%	12.7%	14.5%	15.4%
Changes in borrowings	160.8	(57.9)	6.9	10.7	11.7	PBT margin	8.5%	7.6%	7.8%	9.8%	10.7%
Issuance of shares	-	-	-	-	-	PAT margin	6.7%	6.7%	6.7%	8.2%	9.0%
Dividends paid	-	-	(3.3)	(7.9)	(7.9)	Core PAT margin	6.0%	5.7%	5.2%	6.7%	7.4%
Others	-	-	-	-	-	ROE	5.5%	5.0%	4.3%	5.5%	6.0%
Financing cash flow	(7.8)	(60.6)	(45.5)	4.6	14.1	ROA	2.0%	1.9%	1.7%	2.3%	2.5%
Net cash flow	5.0	20.5	(26.2)	6.3	(2.3)	Net gearing	89.5%	83.4%	75.2%	75.5%	73.1%
Forex	0.3	(0.1)	3.1	(0.1)	(0.1)						
Others	-	-	-	-	-						
Beginning cash	20.8	26.2	46.6	23.5	29.7						
Ending cash	26.2	46.6	23.5	29.7	27.3						

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