

OCK Group Bhd

Within expectations

Summary

- OCK Group Bhd (OCK) 1QFY23 net profit expanded 16.7% YoY to RM8.6m, on better contribution in the green energy & power solution, trading and M&E engineering services business segments. Revenue for the quarter rose 41.0% YoY to RM179.7m.
- The reported earnings make up to 23.0% of our net profit forecast of RM37.5m and 21.9% of consensus forecast of RM39.5m. We deem the figures to be in line as 2H results were seasonally stronger when telco players ramp up their CAPEX spending. Recall that 1QFY22 earnings only accounted to 22.0% of total net profit in FY22.
- As at 1QFY23, OCK owns and manages over 5,300 telco sites across Vietnam, Myanmar, and Malaysia that will provide recurring income stream over the long term. We remain sanguine over the group's on-going expansion plans in Vietnam and Myanmar to subsequently register more than 6,000 telco sites in FY23f. The group aims to beef up their tower portfolio by additional 1,000 towers in Vietnam as well as 200 towers each across both Myanmar and Malaysia in 2023.
- Meanwhile, we gather that OCK has received the license by the Laotian government in January 2023 to supply telecommunication infrastructure, which marks their first step to penetrate into the Laos market. Back home, OCK now manages more than 11,000 telecommunication sites in Malaysia as well as 49,200 sites in Indonesia, placing the group's market share at c.23.0% and c.45.0% in the respective countries.
- Going forward, OCK remains committed in the delivery of orders for the JENDELA programme and the rollout of the 5G network with the outstanding orderbook of RM320.0m on hand. With Malaysia transitioning into dual 5G network operations, we reckon that the move bodes well for OCK in bid to speed up the implementation of 5G coverages across the nation. As of April 2023, the 5G network has achieved 59.5% of populated areas in the country.
- As of end-1Q23, OCK operates 22 solar farms with a combined capacity of 12.4MW in the green energy segment. Under the Net Energy Metering (NEM) programme, OCK will be constructing 188 rooftop solar farms with combined capacity of 3.2MW for a lease period between 21-25 years and this may strengthen the contribution from the green energy and power solutions segment.

Quarterly performance

| FYE Dec (RM m) | 4QFY21 | 3QFY22 | 4QFY22 | QoQ (%) | YoY (%) | 12MFY21 | 12MFY22 | YoY (%) |
|-----------------------|--------|--------|--------|---------|---------|---------|---------|---------|
| Revenue | 139.7 | 162.1 | 186.1 | 14.8 | 33.2 | 488.2 | 617.8 | 26.5 |
| EBITDA | 39.6 | 47.3 | 52.9 | 11.8 | 33.5 | 150.0 | 185.1 | 23.4 |
| PBT | 10.0 | 12.9 | 13.7 | 6.5 | 37.1 | 38.0 | 49.3 | 29.7 |
| PAT | 9.9 | 9.1 | 11.7 | 27.8 | 18.2 | 32.6 | 39.3 | 20.6 |
| Core PATMI | 6.3 | 8.2 | 10.0 | 21.4 | 59.0 | 25.4 | 33.7 | 32.6 |
| Reported PATMI | 6.3 | 8.2 | 10.0 | 21.4 | 59.0 | 25.4 | 33.7 | 32.6 |
| Core EPS (sen) | 0.7 | 0.9 | 1.1 | 21.4 | 59.0 | 2.7 | 3.6 | 32.6 |
| EBITDA margin (%) | 28.4 | 28.0 | 31.5 | | | 30.7 | 30.0 | |
| PBT margin (%) | 7.2 | 8.4 | 8.9 | | | 7.8 | 8.0 | |
| Core PATMI margin (%) | 4.5 | 5.1 | 5.4 | | | 5.2 | 5.5 | |

Results Note – 1QFY23

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BUY

| Share price | RM0.38 |
|-----------------|--------|
| Target price | RM0.48 |
| Previous TP | RM0.48 |
| Capital upside | 26.3% |
| Dividend return | 2.0% |
| Total return | 28.3% |

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) | 400.7 |
| 52W High/Low | 0.46/0.36 |
| Est. Free float | 42.4% |
| Beta (x) | 0.5 |
| 3-mth avg vol ('000) | 3,497.3 |
| Shariah compliant | Yes |

Major shareholders

| | % |
|----------------------------|------|
| Aliran Armada Sdn Bhd | 34.8 |
| LTAT | 9.6 |
| Phillip Capital Management | 5.0 |

Share price vs. KLCI (%)

| | 1M | 3M | 12M |
|--------------|------|------|------|
| Hist. return | -5.0 | -3.8 | -3.8 |
| Absolute | -3.7 | 0.2 | 8.1 |
| Relative | | | |

Earnings summary

| FYE (Dec) | FY22 | FY23f | FY24f |
|-----------|------|-------|-------|
| PATMI (m) | 33.8 | 37.5 | 36.4 |
| EPS (sen) | 3.1 | 3.6 | 3.4 |
| P/E (x) | 12.2 | 10.7 | 11.0 |

Relative performance chart



Valuation & Recommendation

- Given that the reported earnings are deemed to be within expectations, we made no changes to our earnings forecast. We maintained our **BUY** recommendation on OCK with an unchanged target price of RM0.48.
- 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 FY23f.
- 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 FY22. 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) | FY20 | FY21 | FY22 | FY23f | FY24f | FYE Dec (RM m) | FY20 | FY21 | FY22 | FY23f | FY24f |
| Revenue | 473.5 | 488.2 | 617.1 | 653.9 | 693.2 | Cash | 79.5 | 98.9 | 72.6 | 91.4 | 93.7 |
| EBITDA | 153.1 | 173.9 | 166.2 | 186.0 | 211.8 | Receivables | 189.2 | 166.6 | 268.2 | 268.7 | 275.4 |
| EBIT | 64.8 | 65.2 | 75.1 | 82.8 | 95.6 | Inventories | 61.1 | 63.4 | 86.8 | 84.9 | 102.8 |
| Net finance income/ (cost) | (28.7) | (27.2) | (26.6) | (28.0) | (27.7) | PPE | 597.0 | 681.7 | 758.2 | 830.4 | 922.1 |
| Associates & JV | (0.0) | (0.0) | (0.0) | - | - | Others | 478.7 | 454.6 | 462.9 | 461.2 | 465.2 |
| Profit before tax | 36.2 | 38.0 | 48.4 | 54.7 | 67.9 | Assets | 1,405.6 | 1,465.2 | 1,648.7 | 1,736.7 | 1,859.3 |
| Tax | (4.6) | (5.4) | (10.0) | (10.9) | (13.6) | Debts | 598.6 | 603.1 | 761.4 | 761.6 | 762.4 |
| Net profit | 31.6 | 32.6 | 38.5 | 43.8 | 54.3 | Payables | 144.7 | 148.9 | 116.5 | 134.9 | 137.5 |
| Minority interest | 4.6 | 7.2 | 5.7 | 6.3 | 7.5 | Others | 39.6 | 39.3 | 45.9 | 71.5 | 136.3 |
| Core earnings | 27.0 | 25.4 | 32.8 | 37.5 | 46.8 | Liabilities | 783.0 | 791.3 | 923.7 | 968.0 | 1,036.3 |
| Diluted core earnings | - | - | - | 43.2 | 52.4 | Shareholder's equity | 537.5 | 597.2 | 639.2 | 683.0 | 737.3 |
| Exceptional items | - | - | - | - | - | Minority interest | 85.1 | 76.7 | 85.7 | 85.7 | 85.7 |
| Reported earnings | 27.0 | 25.4 | 32.8 | 37.5 | 46.8 | Equity | 622.6 | 673.9 | 724.9 | 768.7 | 823.0 |
| Cash Flow Statement | | | | | | Valuation & Ratios | | | | | |
| FYE Dec (RM m) | FY20 | FY21 | FY22 | FY23f | FY24f | FYE Dec (RM m) | FY20 | FY21 | FY22 | FY23f | FY24f |
| Profit before taxation | 36.2 | 38.0 | 48.4 | 54.7 | 67.9 | Core EPS (sen) | 2.6 | 2.4 | 3.1 | 3.6 | 4.4 |
| Depreciation & amortisation | 84.0 | 86.7 | 102.9 | 103.2 | 116.3 | Diluted Core EPS (sen) | - | - | - | 3.3 | 4.0 |
| Changes in working capital | (57.8) | (107.5) | 223.9 | (21.6) | 25.4 | P/E (x) | 14.8 | 15.8 | 12.2 | 10.7 | 8.6 |
| Share of JV profits | - | - | - | - | - | Diluted P/E (x) | - | - | - | 11.6 | 9.6 |
| Taxation | (8.7) | (9.5) | (7.9) | (10.9) | (13.6) | DPS (sen) | - | 0.5 | - | 0.8 | 0.8 |
| Others | 28.7 | 27.6 | 35.8 | 30.0 | 30.0 | Dividend yield | 0.0% | 1.3% | 0.0% | 2.0% | 2.0% |
| Operating cash flow | 179.8 | 168.1 | 30.7 | 146.1 | 144.4 | BVPS (RM) | 0.59 | 0.64 | 0.69 | 0.73 | 0.78 |
| Net capex | (98.8) | (108.8) | (103.7) | (177.7) | (185.4) | P/B (x) | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 |
| Others | 13.5 | (39.9) | 32.8 | 30.0 | 30.0 | EBITDA margin | 32.3% | 35.6% | 26.9% | 28.4% | 30.6% |
| Investing cash flow | (85.4) | (148.7) | (70.9) | (147.7) | (155.4) | EBIT margin | 13.7% | 13.4% | 12.2% | 12.7% | 13.8% |
| Changes in borrowings | (57.9) | 4.4 | 158.7 | (0.1) | 0.8 | PBT margin | 7.6% | 7.8% | 7.8% | 8.4% | 9.8% |
| Issuance of shares | - | - | - | - | - | PAT margin | 6.7% | 6.7% | 6.2% | 6.7% | 7.8% |
| Dividends paid | - | (3.3) | (9.1) | (7.9) | (7.9) | Core PAT margin | 5.7% | 5.2% | 5.3% | 5.7% | 6.7% |
| Others | (59.3) | (42.2) | 51.4 | 20.0 | 20.0 | ROE | 5.0% | 4.3% | 5.1% | 5.5% | 6.3% |
| Financing cash flow | (60.6) | (45.6) | 42.3 | 12.1 | 12.1 | ROA | 1.9% | 1.7% | 2.0% | 2.2% | 2.5% |
| Net cash flow | 33.9 | (26.1) | 2.2 | 10.5 | 1.2 | Net gearing | 83.4% | 74.8% | 95.0% | 87.2% | 81.3% |
| Forex | (0.1) | 3.1 | (2.9) | - | - | | | | | | |
| Others | - | - | - | - | - | | | | | | |
| Beginning cash | 25.2 | 59.0 | 35.9 | 35.2 | 45.7 | | | | | | |
| Ending cash | 59.0 | 35.9 | 35.2 | 45.7 | 46.9 | | | | | | |

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