

Stock Digest

Wednesday, 13 Apr, 2022

OSK Holdings Bhd

Well diversified mini-conglomerate

- OSK Holdings Bhd (OSK) operations history dated back since 1963 as a small-scale local stockbroking company and has now evolved into a well-diversified mini-conglomerate with 5 major business segments.
- Stable loan portfolio expansion and gradual property development launches will continue to anchor growth.
- We initiate coverage on OSK with a BUY call and fair value of RM1.41, based on sum-of-parts model by valuing its capital financing and property business with 0.8x of BV, while the construction, industries and hospitality segment are pegged at 9.0x PE to FY23f earnings contribution.

Investment Highlights

- **Well diversified mini-conglomerate.** OSK has 5 core business in the financial services, property development, construction, industries and hospitality business. OSK also holds 10.18% equity stake in RHB Bank Bhd following the merger of OSK Investment Bank and RHB Investment Bank. The aforementioned strategic investment also allows OSK to reap benefits through long-term dividend income and subsequently translate to decent dividend yields over the years.
- **Stable loan portfolio growth.** OSK's loan portfolio size has delivered gradual improvement over the years with manageable NPL ratio, demonstrating OSK's ability to juggle between efficiency in customers' selection, repayment collections and rising in size of portfolio value. Moving forward, we expect the loan portfolio value to balloon to approximately RM1.68bn by end-FY24f (from RM980.0m as at end-FY21).
- **Progressive property development launches.** OSK's property business has demonstrate resilience despite the overhang of property market in Malaysia over the years with impressive take-up rates as bulk of its projects are skewed towards the affordable pricing that is targeted for the mass market. The move largely complements the previous Malaysia Budgets announcements that aim to tackle the homeownership affordability issue.

Financial highlights

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Revenue	1,085.5	1,126.1	1,232.0	1,331.2	1,407.2
EBITDA	253.0	247.1	271.0	297.5	313.1
PATMI - Core	343.7	398.2	415.6	485.7	527.5
PATMI - Reported	347.5	401.8	419.8	490.6	532.8
Revenue growth (%)	-10.1%	3.7%	9.4%	8.0%	5.7%
Core PATMI growth (%)	-16.6%	15.9%	4.4%	16.9%	8.6%
Core EPS (sen)	16.4	19.0	19.8	23.2	25.2
P/E (x)	5.8	5.0	4.8	4.1	3.8
DPS (sen)	4.0	5.0	5.0	5.0	5.5
Dividend yield (%)	4.2%	5.3%	5.3%	5.3%	5.8%
P/B (x)	0.4	0.4	0.3	0.3	0.3
ROE (%)	6.4%	7.2%	7.1%	7.8%	7.9%
Net Gearing (%)	32.3%	34.6%	33.8%	31.6%	29.1%

Source: OSK, M+ Online

Initiation Coverage

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BUY

Share price	RM0.945
Target price	RM1.41
Previous TP	-
Capital upside	49.2%
Dividend return	5.3%
Total return	54.5%

Company profile

Principally involved in the capital financing, property development, construction, industries and hospitality business

Stock information

Bursa Code	5053
Bloomberg ticker	OSK MK
Listing market	MAIN
Share issued (m)	2,095.3
Market Cap (m)	1,980.1
52W High/Low	0.99 / 0.83
Est. Free float (%)	44.7
Beta (x)	0.7
3-mth avg vol ('000)	440.8
Shariah compliant	No

Major shareholders

	%
OSK Equity Holdings S/B	27.6
Land Management S/B	10.7
Dindings Consolidated S/B	7.9

Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	3.8	5.0	1.2
Absolute	1.8	2.6	-2.5
Relative			

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	398.3	415.6	485.7
EPS (sen)	19.0	19.8	23.2
P/E (x)	5.0	4.8	4.1

Relative performance chart



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Company Background

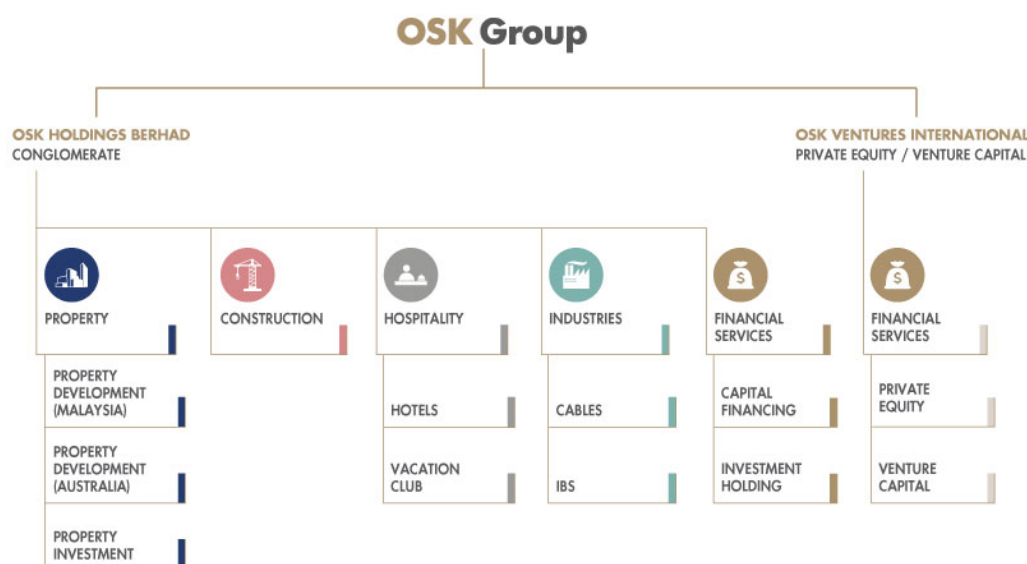
- **Operations commenced since 1963.** OSK Holdings Bhd (OSK) started off in 1963 as a small-scale stockbroking firm. Throughout the years, OSK expanded and was successfully listed on the main board of Bursa Malaysia in 1991. Over the years, OSK has also evolved into a regional investment bank.
- **Stepping into property development.** OSK marked its footprint in the property development sector in 1997 via its subsidiary; OSK Property Holdings Bhd. The property arm undertakes the development of residential, township and commercial projects. Throughout the years, OSK has successfully built its property segment presence across several states and districts in Malaysia such as Selangor, Kuala Lumpur, Penang, Kedah, Pahang and Negeri Sembilan. The group has also partnered with the Employees Provident Fund (EPF) to mark its footprint in Melbourne, Australia.
- **Divestment of assets and regional expansion.** OSK Property Holdings (OSKPH) was subsequently divested from the OSK due to regulatory requirements after OSK Investment Bank (OSKIB) obtained the Investment Bank license from Bank Negara. In bid to expand their regional presence, OSKIB obtained and commenced commercial banking in Cambodia 2008. In 2011, OSKIB's regional presence includes Singapore, Indonesia, Thailand, Cambodia, Hong Kong and Shanghai.
- **Consolidation through Merger & Acquisition (M&A).** In 2012, OSK Investment Bank undergoes a merger with RHB Investment Bank Bhd. OSK then embarked onto another corporate exercise through the merger with PJ Development Holdings Bhd (PJDH) and OSKPH. The merger of these three entities was completed in 2015 (with the delisting of PJDH and OSKPH) and this marks the coming together of complementary strengths, expertise and talents.
- **Established presence.** As a testament to their established track record and quality of their property projects, OSK also won several awards under the StarProperty Awards 2021, iProperty Development Excellence Awards 2021, Asia Pacific Property Awards for 2019 & 2020, StarProperty Awards 2020, and The Edge Property Excellence Award 2021 (ranked #10), Malaysia Property Awards 2021 (multiple categories) among others.
- **Well diversified mini conglomerate.** To-date, OSK is regarded as one of leading players under the mid-tier property players in Malaysia with strong brand presence. The group has 5 major business segments namely; property development, financial services, industries and hospitality, while the construction segment complemented the core business. Following the merger of OSK Investment Bank and RHB Investment Bank, OSK now also holds 10.18% in RHB Bank Bhd.

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Business Model



Source: OSK

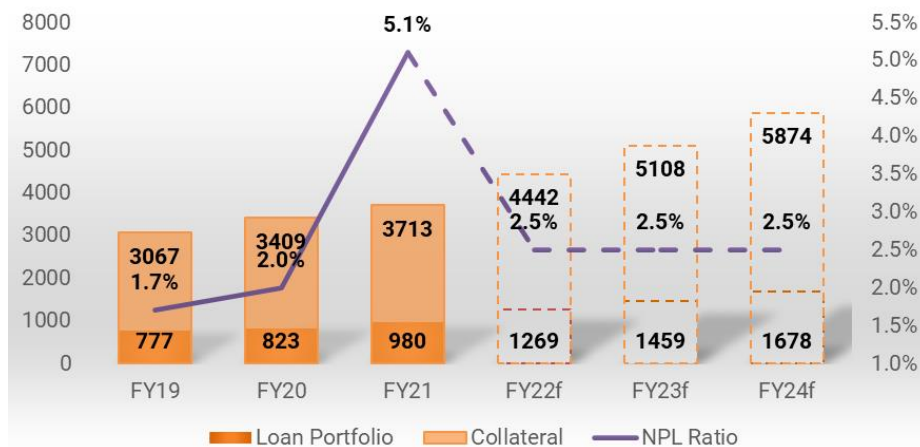
- **Financial Services.** The financial services segment revolves around capital financing and investment holding. OSK Capital is a licensed moneylender governed under the Moneylenders Act 1951 (Act 400). OSK Capital provides short-term capital financing to individuals and companies for up to 48 months, financing for corporate exercises, short-term or bridge financing for both individuals and corporates and short-term working capital for corporates. As at end-2021, OSK Capital's loan portfolio stood at RM980.0m with a healthy loan collateral of RM3.17bn, while non-performing loan ratio is manageable at 5.1%.
- The merger between OSK Investment Bank Bhd and RHB Investment Bank Bhd in 2012 revolves around cash plus issuance of new shares in RHB Bank Bhd saw OSK emerge as the second largest shareholder in the former. To-date OSK owns 10.18% in RHB Bank Bhd, valued at approximately RM2.50bn.
- In FY21, the financial services business revenue stood at RM98.0m, accounting to 8.8% of total revenue for the year. Since the merger exercise, OSK has constantly receive dividend income through dividend re-investment plan (DRP) and cash from RHB with total dividend income of RM93.0m (DRP of RM72.0m and cash of RM21.0m) in FY21.
- Moving forward, we expect the loan portfolio size to expand exponentially over the next 3 years to approximately RM1.68bn, supported by their on-going aggressive stance in building their loan portfolio size in Malaysia, while their Australia operations may see bigger contribution from FY22f onwards. Meanwhile, NPL ratio is expected to remain at a healthy level (<3.0%) and continues to be supported by healthy collaterals.

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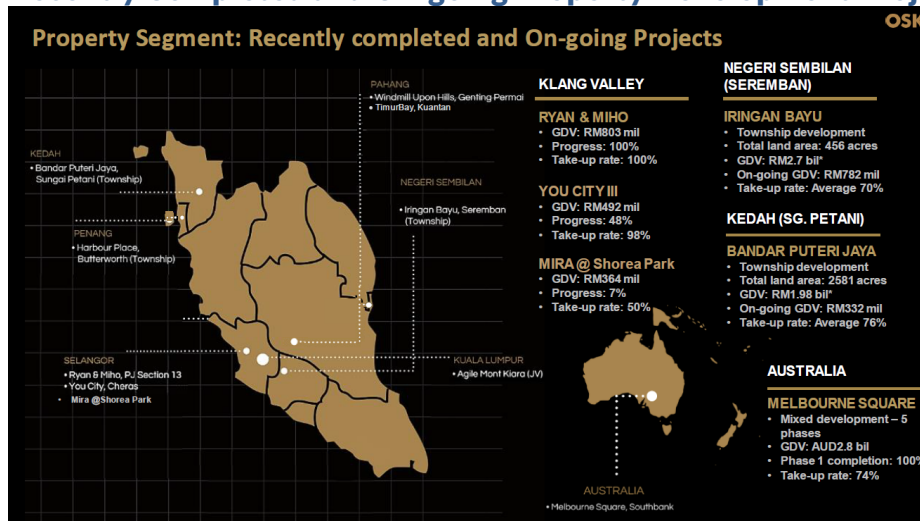
Loan Portfolio



Source: OSK

- **Property Development.** The property development segment is regarded as the core business of OSK via their venture into the aforementioned business segment in 1997 through the setup of OSKPH. OSKPH undertakes the development of residential, township and commercial projects. In 2015, OSKPH took a step forward through the merger with OSK and PJDH. Their development and investment presence spans across major cities in Peninsular Malaysia as well as overseas through a development project in Melbourne, Australia.
- We gather that take-up rates for OSK launches are relatively healthy, owing to the prudent launches timeline and pricing affordability that targets the mass market as well as majority are located and high populated areas.

Recently Completed and On-going Property Development Projects



Source: OSK

- At present, OSK on-going developments include You City III at Cheras comprising 800 units of mixed service apartment, their on-going township development at Negeri Sembilan and Kedah and MIRA @ Shorea Park at Puchong.

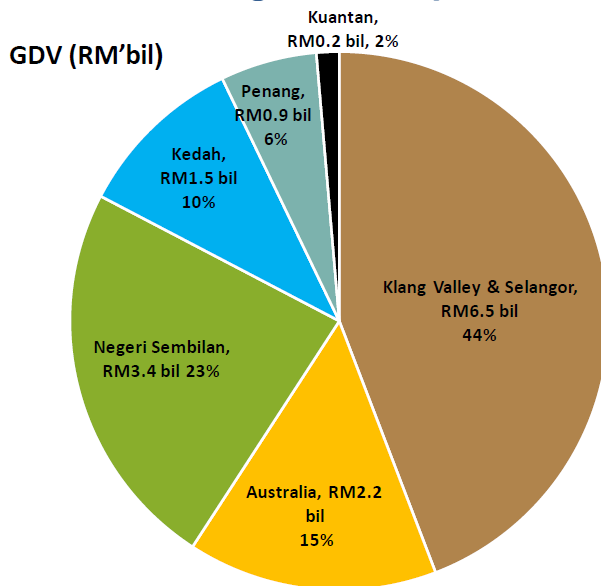
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- For FY21, the property development segment makes up a lion share; contributed 63.7% of the group's total revenue of RM1.13bn. In the same year, we gather that OSK achieved sales of RM850.0m (Malaysia at RM760.0m and Australia at RM90.0m). As at end-2021, OSK also has a total landbank of 1,980-ac, mainly in Klang Valley that is expected to generate a total gross development value (GDV) of about RM15.00bn over the next 7-8 years.
- Meanwhile, OSK also owns 2 office towers, namely Plaza OSK and Faber Towers at Kuala Lumpur with a combined net lettable area (NLA) of more than 700,000 sqf as well as a retail shopping market; Atria Shopping Gallery with NLA of close to 450,000 sqf. Take-up rates and occupancy rates for both property investment offices and the retail mall are relatively healthy (>70.0%).
- Moving forward, OSK unbilled sales stood at RM870.0m from various projects across Klang Valley, Negeri Sembilan and Kedah in Malaysia as well as Melbourne, Australia that will sustain earnings visibility over the next 24 months. Meanwhile, OSK plans to launch several projects with a combined value of approximately RM1.30bn for FY22f, depending on their current projects sales. In bid to keep margins intact due to the escalating building material costs, OSK plans revise their pricing for future launches. We also note that OSK remains active in search for land banking activities.

Estimated future gross development value (Malaysia & Australia)



Source: OSK

- **Construction.** The acquisition of PJDH in 2015 brought the construction segment to form part of OSK today. The construction segment under OSK Construction Sdn Bhd (OSK Construction) is a registered contractor with a Class A certification under Pusat Khidmat Kontraktor (PKK) and holds a G7 license under the Construction Industry Development Board (CIDB). OSK construction mainly undertakes construction of building and civil works. Some notable completed projects include Ryan & Miho at Petaling Jaya, Windmill Upon Hills in Genting, Timurbay in Kuantan, Luminari in Butterworth and Emira in Shah Alam among others.

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- Given that the construction segment pre-dominantly takes only internal works that complements the property development segment, the construction segment revenue recorded only at RM1.3m (0.1% of total revenue in FY21). The outstanding internal orderbook of RM250.0m as of end-2021 will provide earnings visibility over the next 2 years. We also gather that majority of the contracts completed have scored a relatively high QLASSIC score and were completed ahead of schedule which is in-line with the objectives of the Property-Construction collaboration.
- Industries.** The industries segment is segregated into two major businesses; production of (i) cables and (ii) Industrialised Building Systems (IBS). Under Olympic Cable Company Sdn Bhd (OCC) with their factories located at Melaka, the group manufactures and sale of low voltage power cables, medium voltage power cables and fire-resistant power cables. OCC was established since 1968, being part of PJDH before the merger exercise took place. Some of OCC notable supplies include The Intermark, KLIA, Westport, Atria, Damansara City and Mitsui Outlet Park.
- Meanwhile, the IBS factories located at Taiping, Nilai and Bandar Tenggara involves around the manufacturing and sale of IBS concrete wall panels and trading of building materials. IBS are mainly used in the construction of residential buildings (both landed and high rise), schools, hospitals, security fencings and sound barrier walls. All 3 factories have a combined production capacity of 2.2 million m² and operate at an average utilisation rate of 30.0%. In FY21, the industries segment recorded RM205.2m in revenue, representing 18.2% of total revenue for the year. Moving forward, OSK aims to ramp up their production utilisation rate, through tapping into orders from larger-scale property developers as the adoption of IBS became more common over time.

Cables and IBS

Cables



IBS



Source: OSK

- Hospitality.** OSK managed their hospitality segment under their home-grown hospitality brand; Swiss-Garden International (SGI) comprises hotels business and vacation club. Since the establishment in 1991, the hospitality segment has expanded with the group currently owns and operates 5 hotels and resorts comprising over 1,900 rooms in prime locations around Malaysia.

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- Meanwhile, SGI Vacation Club (SGIVC) was formed in September 2001 is affiliated with a global exchange partner, namely; Interval International that allow its members with access to approximately 3,000 quality hotels and resorts in over 80 countries around the world. As at end-2021, there are slightly more than 10,000 active contributing members that would generate long term sustainable income. In FY21, the hospitality segment recorded RM37.0m in revenue, accounting to 3.3% of total revenue for the year.

Hospitality – Swiss Garden



Source: OSK

Outlook

- **Increasing loan portfolio size.** We like OSK for its rising loan portfolio size over the year, which we expect further growth to materialise in subsequent years to close to RM1.70bn in value. While their portfolio continues to see gradual improve, noteworthy that the NPL ratio is manageable with zero impairments over the years; demonstrating OSK's ability to juggle between efficiency in selecting potential customers, repayment collections and rising in size of portfolio value. Meanwhile, the collateral values over the years were relatively healthy at approximately 4.0x to provide adequate security. Elsewhere, the strategic investment in RHB will continue to generate stable and long-term cash flow through interim and final dividends declared and paid by RHB.
- **Progressive property development launches.** OSK is also adopting a cautious stance in future launches. We gather that OSK will only undertake future launches, once current projects on hand achieved its targeted take-up rate in bid to avoid getting trapped in an overhang situation of prolonged unsold units. We also like OSK for its property portfolio mixture, skewing towards the affordable pricing that is targeted for the mass market. The move largely complements the previous Malaysia Budgets announcements that aim to tackle the homeownership affordability issue.

Apart from the two townships, OSK also owns pockets of lands across Peninsular Malaysia as well as has exposure in the property development market in Melbourne via a joint venture with EPF. At present, their landbank of about 2,000-ac with a GDV of about RM15.00bn will sustain the property development operations over the next 7-8 years.

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- **Integration of property and construction business model.** The property and construction segment collaboration since 2017 delivered a synergistic effect in reduction of wastage and delivery quality products ahead of schedule. OSK also achieved a relatively decent QCLASSIC score for most of their high-rise property projects in recent years. This also served as a testament in construction costs optimisation to deliver quality and affordable products pricing.
- **Industries expansion.** We gather that machine utilisation is already running at full scale for the cables segment. In order to leverage into to the rising demand as industrialisation and urbanisation continues to take shape, OSK has embarked onto the expansion progressively since 2020 with the completion of the adjacent factory building and additional machines to commission by 2022. The move will bring additional 20-25% of capacity on stream.

SWOT Analysis

Strength	Weakness
<ul style="list-style-type: none"> • Well diversified mini-conglomerate with an integrated property and construction business model • Growing loan portfolio to anchor the capital financing business • Stable recurring dividend income from strategic investment in RHB • Attractive dividend yields 	<ul style="list-style-type: none"> • Property sales are largely tied up with the ability of homebuyer's loan approvals • Relatively slower growth in Negeri Sembilan and Kedah property market compared to the Klang Valley and other more densely populated major cities
Opportunity	Threat
<ul style="list-style-type: none"> • To tap into the relatively new capital financing business in Australia • Staggered phase of new property launches from two townships • Expansion of industries business 	<ul style="list-style-type: none"> • Rising competition from larger full scale property players • Slowdown in tourism activities will continue to bleed the hospitality segment

Source: M+ Online

Financials

- In FY20, OSK net profit contracted -17.0% YoY to RM347.5m, dragged down by was largely affected by the disruption caused by the Movement Control Orders implemented in the country in bid to contain the spread of Covid-19. Nevertheless, OSK delivered a swift recovery moving into FY21 with net profit rebounded to RM401.8m (+15.6% YoY) as a result of improved interest income earned from the growth of the loan portfolio as well as higher dividend income received from the strategic investment in RHB.
- For FY22f, we see the loan portfolio to remain on the upward trajectory; alongside with the economic growth as well as higher contribution from the Australia's capital financing business. The improvement would also be supported by the progressive launches (targeting RM1.30bn in FY22f) through the developments of new projects and new phases of existing projects as well as anticipation of higher dividend income from RHB.
- We reckon that improvement in subsequent years (both FY23f and FY24f) will anchored by the core property business after some aggressive move in land banking

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replenishment activities over the past 2 years (2020 & 2021). Also, the capital financing business is expected to see gradual improvement.

- While both the top and bottomline are expected to deliver improvement, we foresee OSK to remain in a lean balance sheet with net gearing likely to be capped below 0.4x level. For FY22f, OSK has allocated close to RM50.0m as CAPEX to cater for their expansion plans under the industries segment and approximately RM200.0m for landbanking replenishment.

Valuations

- At RM0.945, OSK is trading at PERs for FY22f and FY23f of 4.8x and 4.1x, respectively. We adopted a sum-of-parts valuation by pegging 0.8x to its financial services and property development book value, while the construction, industries & hospitality segments are valued through P/E multiple of 9.0x based on their earnings potential in FY23f, arriving at a fair value of RM1.41. The discount to its book value in both the capital financing and property development is to reflect the OSK smaller scale business against pure-play property and financial services players.
- We gather that OSK is trading below the local medium scale property peers' average P/E multiple of close to 9.0x for 2022f. The steep discount alongside with current share price at RM0.945 that trades largely below its net asset value of RM2.65 as at end-2021 represents some potential upside, in our view.
- While OSK does not adopt any formal dividend policy, the group has been rewarding shareholders with decent dividends with more than 20.0% pay-out from their net profit over the years. Moving forward, we expect OSK to carve out approximately 20.0% pay-out from net profit as dividends, barring any unforeseen circumstances. For FY21, OSK has declared a total dividend of 5.0 sen per share. Moving forward, we have imputed an assumption pay out of 5.0-5.5 sen over the next 3 years, representing decent dividend yields at 5.3-5.8%.

Peers comparison

Company	Market Group	FYE	Price	Market Cap (RM 'm)	P/E (x)		Gross DY (%)	Revenue (RM 'm)	Net Income (RM 'm)
			(RM)		FY21	FY22			
OSK Holdings Bhd	MAIN	Dec	0.945	1980.1	4.9	4.7	5.3	1126.1	398.2
Matrix Concepts Holdings Bhd	MAIN	Mar	2.31	1927.1	7.7	9.0	5.5	1127.0	250.8
IGB Berhad	MAIN	Dec	2.31	2091.4	8.7	8.7	7.4	930.1	239.3
Tropicana Corporation Bhd	MAIN	Dec	1.00	1544.0	-	-	-	869.7	-30.1
Avg ex-OSK Holdings Bhd					8.2	8.9	6.4	975.6	153.3

Source: Bloomberg, M+ Online

Investment risks

- **Property sales tied up to financing players.** The property market is largely correlated with the banking system. A more stringent of customers selection by financial institutions may dampen the prospects of property sales.
- **Potential rise in loan defaulters.** OSK is exposed to the potential default by their borrowers from their capital financing business. A larger-than-expected forecasted NPL of 2.5% over the next couple of years may see lower contribution from the

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capital financing business segment and vice versa.

- **Slowdown in tourism activities.** As the tourism activities may take longer period to recover, we think that the hospitality segment will continue to remain in the red in FY22f. Further evolvement of Covid-19 variants may does not augur well for the revival in tourism activities.

Financial Highlights

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Revenue	1,085.5	1,126.1	1,232.0	1,331.2	1,407.2	Cash	662.7	831.7	842.4	918.0	1,022.6
EBITDA	253.0	247.1	271.0	297.5	313.1	Receivables	210.7	212.9	236.3	255.3	269.9
EBIT	212.1	212.0	237.2	264.2	280.2	Inventories	255.6	322.8	330.4	344.6	364.3
Net finance income/ (cost)	(46.4)	(42.8)	(37.6)	(38.4)	(39.0)	PPE	577.2	564.3	555.0	548.4	543.6
Associates & JV	251.0	295.4	294.3	351.4	385.7	Others	6,939.1	7,284.2	7,606.0	7,947.8	8,351.6
Profit before tax	416.7	464.6	493.8	577.1	626.8	Assets	8,645.3	9,216.0	9,570.0	10,014.0	10,552.0
Tax	69.2	62.8	74.1	86.6	94.0	Debts	2,397.0	2,751.1	2,819.9	2,890.4	2,962.7
Net profit	347.5	401.8	419.8	490.6	532.8	Payables	86.3	76.4	79.0	78.1	82.8
Minority interest	3.8	3.6	4.2	4.9	5.3	Others	795.5	848.6	814.0	807.1	831.0
Core earnings	343.7	398.2	415.6	485.7	527.5	Liabilities	3,278.9	3,676.1	3,712.9	3,775.5	3,876.5
Exceptional items	-	-	-	-	-	Shareholder's equity	4,836.8	5,095.7	5,411.4	5,723.8	6,106.4
Reported earnings	343.7	398.2	415.6	485.7	527.5	Minority interest	69.4	71.8	76.6	75.4	98.4
						Equity	5,366.4	5,539.8	5,857.1	6,238.5	6,675.5
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	343.7	398.2	415.6	485.7	527.5	Core EPS (sen)	16.4	19.0	19.8	23.2	25.2
Depreciation & amortisation	161.4	179.4	33.9	33.3	32.9	P/E (x)	5.8	5.0	4.8	4.1	3.8
Changes in working capital	(3.6)	(105.7)	(22.4)	(15.7)	(10.3)	DPS (sen)	4.0	5.0	5.0	5.0	5.5
Share of JV profits	-	-	-	-	-	Dividend yield	4.2%	5.3%	5.3%	5.3%	5.8%
Taxation	(64.6)	(50.7)	(77.8)	(88.9)	(103.9)	BVPS (RM)	2.56	2.64	2.80	2.98	3.19
Others	(262.2)	(387.4)	(400.0)	(415.0)	(425.0)	P/B (x)	0.4	0.4	0.3	0.3	0.3
Operating cash flow	239.3	84.6	27.0	88.2	125.0	EBITDA margin	23.3%	21.9%	22.0%	22.4%	22.3%
Net capex	(109.4)	(271.2)	(12.9)	(9.2)	(6.7)	EBIT margin	19.5%	18.8%	19.3%	19.8%	19.9%
Others	75.1	150.5	100.0	100.0	100.0	PBT margin	38.4%	41.3%	40.1%	43.4%	44.5%
Investing cash flow	(34.2)	(120.7)	87.1	90.8	93.3	PAT margin	32.0%	35.7%	34.1%	36.9%	37.9%
Changes in borrowings	20.6	348.5	50.0	50.0	50.0	Core PAT margin	31.7%	35.4%	33.7%	36.5%	37.5%
Issuance of shares	-	-	-	-	-	ROE	6.4%	7.2%	7.1%	7.8%	7.9%
Dividends paid	(85.1)	(85.4)	(103.1)	(103.1)	(113.4)	ROA	4.0%	4.3%	4.3%	4.8%	5.0%
Others	(67.5)	(57.6)	(50.0)	(50.0)	(50.0)	Net gearing	32.3%	34.6%	33.8%	31.6%	29.1%
Financing cash flow	(132.0)	205.5	(103.1)	(103.1)	(113.4)						
Net cash flow	73.1	169.4	11.0	75.9	104.9						
Forex	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)						
Others	-	-	-	-	-						
Beginning cash	590.0	662.7	831.7	842.4	918.0						
Ending cash	662.7	831.7	842.4	918.0	1,022.6						