

# Stock Digest

Tuesday, 28 Feb, 2023

## OSK Holdings Bhd

### Ending the year on a high note

#### Summary

- OSK Holdings Bhd's (OSK) 4QFY22 net profit added 23.4% YoY to RM121.3m, driven by higher contribution from the property development and hospitality segments. Revenue for the quarter gained 5.8% YoY to RM332.7m. A final dividend of 4.0 sen per share, subject to shareholders' approvals in the forthcoming AGM in April 2023.
- For FY22, cumulative net profit that rose 7.3% YoY to RM427.2m came in line; making up to 103.2% of our forecasted net profit of RM414.1m. We reckon that earnings growth in FY23f will be mainly supported by both the property and capital financing business segments.
- Moving forward, OSK's property development unbilled sales of approximately RM1.00bn will sustain earnings visibility over the next 18-24 months. We have penciled RM1.00bn of property sales in FY23f, backed by several upcoming high-rise developments across Klang Valley and the on-going 2 township developments. Meanwhile, their 2,003-ac of landbank will ensure earnings sustainability over the long run, backed by the strong historical track record of take-up rates.
- The construction segment will be supported by an outstanding orderbook of RM460.9m (from internal property projects) to be recognised progressively. We gather that loan portfolio continues to demonstrate stability at RM1.08bn (slightly down from RM1.14bn recorded at end-3QFY22). We expected further improvement moving into FY23f, backed by the progressive products offering to tailor the market's demand and also improved contribution from Australia.
- Recovery trend in tourism activities will continue to lend support towards the hospitality segment. The aforementioned segment may stay in the black throughout FY23, anchored by better occupancy rates, coupled with the re-opening of DoubleTree by Hilton Damai Laut Resort in September 2022, which has garnered positive response.
- Following the re-tabling of Budget 2023, we reckon that demand for housing projects will stay firm, particularly for low-to-mid range units. The extension of stamp duty reduction of 75.0% for properties priced between RM500,001-1,000,000 bodes well for OSK as majority of the group's units under the property portfolio falls into the aforementioned category.

#### Quarterly performance

FYE Dec (RM m)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	12MFY21	12MFY22	YoY (%)
Revenue	314.6	347.1	332.7	(4.1)	5.8	1,126.1	1,320.9	17.3
EBITDA	61.7	44.0	46.7	6.0	(24.4)	182.3	180.3	(1.1)
PBT	128.4	131.4	134.8	2.6	5.0	464.6	488.0	5.0
PAT	99.3	114.2	122.1	6.9	23.0	401.8	429.8	7.0
Core PATMI	98.3	113.4	121.3	7.0	23.4	398.2	427.2	7.3
Reported PATMI	98.3	113.4	121.3	7.0	23.4	398.2	427.2	7.3
Core EPS (sen)	4.7	5.4	5.8	7.0	23.4	19.0	20.4	7.3
EBITDA margin (%)	19.6	12.7	14.0			16.2	13.7	
PBT margin (%)	40.8	37.9	40.5			41.3	36.9	
Core PATMI margin (%)	31.3	32.7	36.5			35.4	32.3	

#### Results Note – 4QFY22

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#### BUY

Share price	RM1.02
Target price	RM1.41
Previous TP	RM1.41
Capital upside	38.2%
Dividend return	5.9%
Total return	44.1%

#### 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)	2,137.2
52W High/Low	1.03 / 0.84
Est. Free float (%)	34.7
Beta (x)	0.7
3-mth avg vol ('000)	556.7
Shariah compliant	No

#### Major shareholders

Shareholder	%
Yellow Rock	50.1
EPF	2.5
Ong Leong Huat	2.0

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

	1M	3M	12M
Hist. return	1.0	9.7	22.9
Absolute	3.9	14.5	26.0
Relative			

#### Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	427.2	484.1	525.8
EPS (sen)	20.4	23.1	25.1
P/E (x)	5.0	4.4	4.1

#### Relative performance chart



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## Valuation & Recommendation

- Given that the reported earnings came in within expectations, we made no changes to our forecast. We introduced our FY25f forecast with net profit expected to register at RM539.9m (+2.7% YoY). Consequently, we maintained our **BUY** recommendation on OSK with an unchanged target price of RM1.41.
- 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. 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.
- Risks to our recommendation include weaker-than-expected property sales which may put a brake onto the progress of future launches. Potential default by their borrowers may result in slower contribution from the capital financing business segment.

## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	1,126.1	1,320.9	1,355.6	1,431.4	1,503.0	Cash	831.7	712.7	776.4	807.0	850.8
EBITDA	253.1	277.4	298.2	318.5	334.4	Receivables	212.9	223.1	260.0	274.5	288.2
EBIT	212.0	243.5	264.0	284.7	300.9	Inventories	322.8	342.1	351.0	370.6	389.1
Net finance income/ (cost)	(42.8)	(39.4)	(42.1)	(42.8)	(43.7)	PPE	564.3	570.6	563.5	558.3	554.9
Associates & JV	295.4	284.0	335.4	368.1	368.1	Others	7,284.2	7,831.2	8,271.5	8,623.1	8,978.9
Profit before tax	464.6	488.0	557.3	610.0	625.3	Assets	9,216.0	9,679.6	10,222.4	10,633.4	11,062.0
Tax	62.8	58.2	69.6	80.3	81.3	Debts	2,751.1	3,027.0	3,102.6	3,180.2	3,259.7
Net profit	401.8	429.8	487.7	529.8	544.0	Payables	76.4	98.0	79.0	84.3	88.7
Minority interest	3.6	2.6	3.7	4.0	4.1	Others	848.6	800.1	798.0	820.1	864.0
Core earnings	398.2	427.2	484.1	525.8	539.9	Liabilities	3,676.1	3,925.1	3,979.6	4,084.6	4,212.4
Exceptional items	-	-	-	-	-	Shareholder's equity	5,095.7	5,411.4	5,722.9	6,083.3	6,475.0
Reported earnings	398.2	427.2	484.1	525.8	539.9	Minority interest	71.8	74.9	202.7	117.0	11.9
						Equity	5,539.8	5,754.6	6,242.8	6,548.8	6,849.6
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	464.6	488.0	557.3	610.0	625.3	Core EPS (sen)	19.0	20.4	23.1	25.1	25.8
Depreciation & amortisation	(41.1)	(33.9)	(34.2)	(33.8)	(33.5)	P/E (x)	5.4	5.0	4.4	4.1	4.0
Changes in working capital	(105.7)	(491.8)	(21.2)	(10.4)	(11.5)	DPS (sen)	5.0	6.0	6.0	6.5	6.5
Share of JV profits	-	-	-	-	-	Dividend yield	4.9%	5.9%	5.9%	6.4%	6.4%
Taxation	(77.8)	(89.4)	(104.4)	(120.4)	(121.9)	BVPS (RM)	2.61	2.71	2.88	3.07	3.26
Others	(387.4)	(258.1)	(415.0)	(425.0)	(425.0)	P/B (x)	0.4	0.4	0.4	0.3	0.3
Operating cash flow	84.6	(288.8)	82.1	124.2	137.0	EBITDA margin	22.5%	21.0%	22.0%	22.3%	22.3%
Net capex	(271.2)	(50.6)	6.4	(7.1)	(5.2)	EBIT margin	18.8%	18.4%	19.5%	19.9%	20.0%
Others	150.5	137.5	100.0	100.0	100.0	PBT margin	41.3%	36.9%	41.1%	42.6%	41.6%
Investing cash flow	(120.7)	86.9	106.4	92.9	94.8	PAT margin	35.7%	32.5%	36.0%	37.0%	36.2%
Changes in borrowings	348.5	266.9	50.0	50.0	50.0	Core PAT margin	35.4%	32.3%	35.7%	36.7%	35.9%
Issuance of shares	-	-	-	-	-	ROE	7.2%	7.4%	7.8%	8.0%	7.9%
Dividends paid	(85.4)	(123.7)	(123.7)	(134.0)	(134.0)	ROA	4.3%	4.4%	4.7%	4.9%	4.9%
Others	(57.6)	(60.8)	(100.0)	(100.0)	(100.0)	Net gearing	34.6%	40.2%	37.3%	36.2%	35.2%
Financing cash flow	205.5	82.4	(173.7)	(184.0)	(184.0)						
Net cash flow	169.4	(119.6)	14.8	33.1	47.7						
Forex	(0.3)	0.5	0.5	0.5	0.5						
Others	-	-	-	-	-						
Beginning cash	662.7	831.7	838.8	854.1	887.6						
Ending cash	831.7	838.8	854.1	887.6	935.9						