

Stock Digest

Monday, 29 May, 2023

OSK Holdings Bhd

Great start to 2023

Summary

- OSK Holdings Bhd's (OSK) 1QFY23 net profit climbed 36.3% YoY to RM115.1m, driven by higher contribution from the property development and hospitality segments. Revenue for the quarter rose 8.7% YoY to RM333.2m.
- The reported numbers came in line; making up to 23.8% of our forecasted net profit of RM484.1m and 26.4% of consensus forecast of RM436.0m. We reckon that the earnings growth in the subsequent quarters will be supported by (i) progressive billings of unbilled property sales (ii) steady income from capital financing and (iii) strategic investment in RHB Bank Bhd (10.24% equity stake).
- OSK's property development unbilled sales of approximately RM1.02bn will sustain earnings visibility over the next 18-24 months. Looking ahead, there are 4 projects with a total combined GDV of RM714.0m in the pipeline to be launched in 2H23, while phase 2 of Melbourne Square (MSQ) comprising 600 units of high-rise apartment with a total GDV of AUD650.0m was soft launched in April 2023.
- We reckon that OSK's 2,002-ac of landbank (as at end-1Q23) with an estimated gross development value (GDV) of RM16.20bn should ensure earnings sustainability over the long run. The group remains active in the lookout for potential land acquisitions adjacent to their existing 2 townships.
- In 1QFY23, we gather that the loan portfolio stood at RM1.32bn with minimal non-performing loan ratio and backed by adequate security cover. Growth is expected to sustain following the launches of new products offerings and participating in fintech platform to widen its coverage.
- The construction segment will be anchored by an outstanding orderbook of RM415.1m to be recognised progressively. While the property investment segment demonstrated stability in occupancy rate, the industries segment will be kept busy, operating at close to full capacity with planned production expansion on the cards.
- We foresee that the recovery in tourism activities may continue to lend support to the hospitality segment. Domestic travelers led the recovery trend in 2022 and the re-opening of international borders in China may boost the tourism activities from 2023 onwards. With flight frequencies ramping up, Malaysia is targeting 16.1m international tourists in 2023.

Quarterly performance

FYE Dec (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue	306.5	332.7	333.2	0.1	8.7	306.5	333.2	8.7
EBITDA	37.4	46.7	24.7	(47.1)	(33.9)	37.4	24.7	(33.9)
PBT	96.7	134.8	126.0	(6.5)	30.3	96.7	126.0	30.3
PAT	84.8	122.1	115.1	(5.8)	35.7	84.8	115.1	35.7
Core PATMI	84.4	121.3	115.1	(5.1)	36.3	84.4	115.1	36.3
Reported PATMI	84.4	121.3	115.1	(5.1)	36.3	84.4	115.1	36.3
Core EPS (sen)	4.0	5.8	5.5	(5.1)	36.3	4.0	5.5	36.3
EBITDA margin (%)	12.2	14.0	7.4			12.2	7.4	
PBT margin (%)	31.6	40.5	37.8			31.6	37.8	
Core PATMI margin (%)	27.6	36.5	34.5			27.6	34.5	

Results Note – 1QFY23

Kenneth Leong
kennethleong@msec.com.my
(603) 2201 2100

BUY

Share price	RM0.97
Target price	RM1.41
Previous TP	RM1.41
Capital upside	45.3%
Dividend return	6.2%
Total return	51.5%

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)	2,042.9
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)	4.8	4.2	3.9

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 re-iterate 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	1,357.6	1,433.4	1,504.9	Cash	831.7	712.7	728.5	762.1	810.3
EBITDA	253.1	277.4	298.7	329.7	331.1	Receivables	212.9	223.1	260.4	274.9	288.6
EBIT	212.0	243.5	264.4	295.9	297.6	Inventories	322.8	342.1	351.5	371.1	389.6
Net finance income/ (cost)	(42.8)	(39.4)	(42.4)	(43.4)	(44.4)	PPE	564.3	570.6	563.5	558.4	555.0
Associates & JV	295.4	284.0	335.3	357.4	371.9	Others	7,284.2	7,831.2	8,206.1	8,625.4	9,056.3
Profit before tax	464.6	488.0	557.4	609.9	625.1	Assets	9,216.0	9,679.6	10,110.0	10,591.9	11,099.8
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	487.8	529.6	543.8	Payables	76.4	98.0	79.0	84.4	88.8
Minority interest	3.6	2.6	3.7	3.8	3.9	Others	848.6	800.1	798.9	821.0	827.0
Core earnings	398.2	427.2	484.1	525.8	539.9	Liabilities	3,676.1	3,925.1	3,980.6	4,085.6	4,175.5
Exceptional items	(4.0)	7.0	-	-	-	Shareholder's equity	5,095.7	5,411.4	5,722.9	6,083.3	6,475.1
Reported earnings	402.2	420.2	484.1	525.8	539.9	Minority interest	71.8	74.9	89.3	74.4	86.6
						Equity	5,539.8	5,754.6	6,129.4	6,506.3	6,924.3
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	557.4	609.9	625.1	Core EPS (sen)	19.2	20.1	23.1	25.1	25.8
Depreciation & amortisation	(41.1)	(33.9)	(34.2)	(33.8)	(33.5)	P/E (x)	5.1	4.9	4.2	3.9	3.8
Changes in working capital	(105.7)	(491.8)	(20.6)	(10.4)	(11.5)	DPS (sen)	5.0	6.0	6.0	6.5	6.5
Share of JV profits	-	-	-	-	-	Dividend yield	5.1%	6.2%	6.2%	6.7%	6.7%
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	0.3	0.3	0.3
Operating cash flow	84.6	(288.8)	82.7	124.2	136.9	EBITDA margin	22.5%	21.0%	22.0%	23.0%	22.0%
Net capex	(271.2)	(50.6)	6.4	(7.1)	(5.1)	EBIT margin	18.8%	18.4%	19.5%	20.6%	19.8%
Others	150.5	137.5	100.0	100.0	100.0	PBT margin	41.3%	36.9%	41.1%	42.5%	41.5%
Investing cash flow	(120.7)	86.9	106.4	92.9	94.9	PAT margin	35.7%	32.5%	35.9%	36.9%	36.1%
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%	7.9%	8.1%	7.8%
Dividends paid	(85.4)	(123.7)	(123.7)	(134.0)	(134.0)	ROA	4.3%	4.4%	4.8%	5.0%	4.9%
Others	(57.6)	(60.8)	(100.0)	(100.0)	(100.0)	Net gearing	34.6%	40.2%	38.7%	37.2%	35.4%
Financing cash flow	205.5	82.4	(173.7)	(184.0)	(184.0)						
Net cash flow	169.4	(119.6)	15.4	33.1	47.7						
Forex	(0.3)	0.5	0.5	0.5	0.5						
Others	-	-	-	-	-						
Beginning cash	662.7	831.7	712.7	728.5	762.1						
Ending cash	831.7	712.7	728.5	762.1	810.3						