

OCK Group Bhd

Affected by margins compression

Summary

- OCK Group Bhd (OCK) 3Q21 net profit declined 23.4% YoY to RM5.0m, dragged by the ringgit and Myanmar kyat currency exchange fluctuation and electricity supply disruptions from remote towers location that affected the telecommunication & network services (TNS) segment. Revenue for the quarter, however, improved marginally by 1.3% YoY to RM118.7m.
- For 9M21, cumulative net profit fell 2.1% YoY to RM19.1m. Revenue for the period, however, rose 4.2% YoY to RM348.5m. The reported earnings accounts to 54.1% of our net profit forecast of RM35.3m and 61.2% of consensus forecast of RM31.2m. The variance is due to the weaker-than-expected margins from the TNS segment.
- As of 3QFY21, OCK owns and manages over 4,330 telco sites in ASEAN regional with Malaysia (530 sites), Myanmar (1,100 sites) and Vietnam (2,700 sites) that will provide stream of recurring income over the long term. For the time being, there are more than 600 towers in the pipeline for OCK in 2022.
- Moving forward, OCK will be leveraging on the evolvement of 5G services, targeting 36.0% of high-density areas including in major cities in Johor, Selangor, Penang, Sabah and Sarawak in 2022. Under the JENDELA programme, OCK has an outstanding orderbook of RM80.0m. We also note that OCK has secured a turnkey contract for the implementation of broadband access service through satellite connectivity from Numix Engineering Sdn Bhd (Numix) valued at RM115.2m over 2 years.
- On the overseas ventures, OCK remains committed to drive the tenancy ratio in Vietnam by deploying more aggressive marketing strategy through brownfield expansions. Myanmar's expansion plan has resume after being impacted by the imposition of martial law, with the focus now on delivery of existing orders in hand.
- On the green energy segment, we note that OCK has recently secured a project for the implementation of a new net energy metering (NEM) rooftop solar project in Terengganu. The project will bring 2.0MW capacity per annum for over a 25-year lease term that is expected to be operational by 2Q2022.

Quarterly performance

FYE Dec (RM m)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)
Revenue	117.2	116.5	118.7	1.9	1.3	334.4	348.5	4.2
EBITDA	38.6	38.5	37.5	(2.6)	(2.8)	110.0	108.7	(1.1)
PBT	9.6	9.7	8.5	(12.5)	(11.0)	25.6	28.0	9.4
PAT	8.1	7.8	6.5	(16.6)	(19.6)	21.9	22.7	3.7
Core PATMI	6.5	6.9	5.0	(27.8)	(23.4)	19.5	19.1	(2.1)
Reported PATMI	6.5	6.9	5.0	(27.8)	(23.4)	19.5	19.1	(2.1)
Core EPS (sen)	0.7	0.7	0.5	(27.8)	(23.4)	2.1	2.0	(2.1)
EBITDA margin (%)	32.4	28.0	28.0			32.9	31.2	
PBT margin (%)	7.7	8.4	8.0			7.7	8.0	
Core PATMI margin (%)	5.6	6.0	5.2			5.8	5.5	

Results Note – 3QFY21

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HOLD

Share price	RM0.465
Target price	RM0.50
Previous TP	RM0.53
Capital upside	7.5%
Dividend return	-
Total return	7.5%

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)	490.3
52W High/Low	0.58/0.39
Est. Free float	41.9%
Beta (x)	0.6
3-mth avg vol ('000)	2,942.0
Shariah compliant	Yes

Major shareholders

	%
Aliran Armada Sdn Bhd	30.9
LTAT	10.2
EPF	7.7

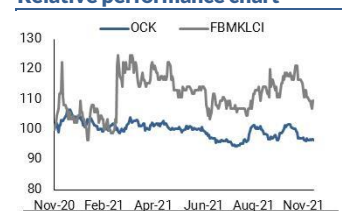
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-6.1	2.2	16.0
Relative	-2.0	4.3	20.2

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI (m)	25.9	27.0	34.7
EPS (sen)	2.5	2.6	3.3
P/E (x)	18.9	18.1	14.1

Relative performance chart



Valuation & Recommendation

- We revised our earnings forecast lower by 23.4% and 11.8% to RM27.0m and RM34.7m in FY21f and FY22f respectively. The downward revision is premised to margins contraction for the TNS segment that was affected by the Myanmar civil unrest, coupled with the higher effective tax rate assumption at 19.0% vis-à-vis our initial projection at 17.5%. Consequently, we downgrade OCK to **HOLD** (from Buy) with a lower target price of RM0.50 (from RM0.53).
- 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 9.5%, 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 FY20. 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)	FY18	FY19	FY20	FY21f	FY22f	FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	457.2	473.4	473.5	509.4	590.4	Cash	76.7	133.4	79.5	72.4	81.1
EBITDA	99.8	141.8	151.7	161.0	185.9	Receivables	317.8	240.8	189.2	174.4	177.9
EBIT	62.7	69.6	63.8	64.8	73.2	Inventories	72.4	66.2	63.4	64.6	65.7
Net finance income/ (cost)	(18.3)	(30.1)	(28.7)	(25.2)	(22.3)	PPE	463.0	511.5	597.0	628.1	663.0
Associates & JV	(0.2)	0.6	(0.0)	-	-	Others	206.6	461.1	473.8	459.5	449.8
Profit before tax	44.2	40.1	35.1	39.6	50.8	Assets	1,136.6	1,413.0	1,402.9	1,399.1	1,437.5
Tax	(14.4)	(8.5)	(4.7)	(7.5)	(9.7)	Debts	495.7	656.5	598.6	538.4	478.1
Net profit	29.8	31.6	30.5	32.0	41.2	Payables	121.4	142.7	144.7	150.9	203.3
Minority interest	5.6	3.1	4.6	5.0	6.5	Others	24.5	29.0	38.1	56.2	61.4
Core earnings	24.2	28.5	25.9	27.0	34.7	Liabilities	641.5	828.2	781.4	745.5	742.8
Diluted core earnings	-	-	-	30.8	38.4	Shareholder's equity	441.1	521.7	536.4	568.4	609.6
Exceptional items	-	-	-	-	-	Minority interest	54.0	63.0	85.1	85.1	85.1
Reported earnings	24.2	28.5	25.9	27.0	34.7	Equity	495.1	584.7	621.5	653.5	694.7
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Profit before taxation	44.2	40.1	35.1	39.6	50.8	Core EPS (sen)	2.30	2.71	2.46	2.57	3.29
Depreciation & amortisation	34.4	69.3	84.0	96.2	112.7	Diluted Core EPS (sen)	-	-	-	2.34	2.91
Changes in working capital	54.2	(41.8)	(57.8)	(22.9)	(48.2)	P/E (x)	20.2	17.2	18.9	18.1	14.1
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	19.9	16.0
Taxation	(16.9)	(11.7)	(8.7)	(7.5)	(9.7)	DPS (sen)	1.0	-	-	-	-
Others	-	-	-	-	-	Dividend yield	2.2%	0.0%	0.0%	0.0%	0.0%
Operating cash flow	45.4	151.4	179.9	212.8	188.9	BVPS (RM)	0.47	0.55	0.59	0.62	0.66
Net capex	8.5	8.4	65.7	(10.0)	(10.0)	P/B (x)	1.0	0.8	0.8	0.8	0.7
Others	-	-	-	-	-	EBITDA margin	21.8%	29.9%	32.0%	31.6%	31.5%
Investing cash flow	(109.3)	(138.6)	(98.8)	(131.3)	(151.5)	EBIT margin	13.7%	14.7%	13.5%	12.7%	12.4%
Changes in borrowings	47.4	160.8	(57.9)	(60.2)	(60.3)	PBT margin	9.7%	8.5%	7.4%	7.8%	8.6%
Issuance of shares	-	-	-	-	-	PAT margin	6.5%	6.7%	6.4%	6.3%	7.0%
Dividends paid	(2.3)	-	-	-	-	Core PAT margin	5.3%	6.0%	5.5%	5.3%	5.9%
Others	-	-	-	-	-	ROE	5.5%	5.5%	4.8%	4.8%	5.7%
Financing cash flow	6.4	(7.8)	(60.6)	(71.8)	(48.9)	ROA	2.1%	2.0%	1.8%	1.9%	2.4%
Net cash flow	(57.5)	5.0	20.5	9.7	(11.5)	Net gearing	84.6%	89.5%	83.5%	71.3%	57.2%
Forex	(4.2)	0.3	(0.1)	(0.1)	(0.1)						
Others	-	-	-	-	-						
Beginning cash	82.5	20.8	26.2	46.6	42.5						
Ending cash	20.8	26.2	46.6	42.5	47.6						

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