

29 August 2019

OCK Group Bhd

1H19 Within Expectations

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1H19 earnings of RM12.3m (+32% YoY) and absence of dividends are within expectations. While we anticipate a relatively stable operating outlook, a lack of strong catalysts could leave stock sentiment soft. For now, we downgrade to MP with unchanged DCF-driven TP of RM0.630 (based on WACC: 9.5%, TG: 1.5%).

1H19 within expectations. 1H19 net earnings of RM12.3m made up 41% each of both our and consensus full-year estimates. We deem this to be in line with our expectation as the group typically register lumpier earnings in the 2H period, where more tower construction projects are recognised. No dividend was declared, as expected.

YoY, 1H19 revenue increased by 3% to RM219.3m. This was on the back of larger trading and M&E engineering services contributions. The lion's share telecommunications network services (TNS) segment experienced a 4% decline in sales, which we believe could be due to slower tower construction deliveries, as leasing revenue is usually stable. While PBT improved marginally by 2% to RM17.9m, core PATAMI registered at RM12.3m, 32% higher, thanks to lower share of minority stakeholders.

QoQ, 2Q19 sales rose by 12% from higher TNS and M&E engineering service revenues. Operating margin remained relatively stable, translating to 2Q19 net earnings of RM7.0m (+31%).

Sprouting about. Even with YTD tower portfolio of 4k, the group looks to continue expanding its footprint. Malaysia should see growing needs from the implementation of the National Fibre Optic and Connectivity Plan (NFCP). Meanwhile, Myanmar is fuelled an outstanding orderbook of more than 500 sites. Additionally, 4G LTE opportunities could soon dawn in Vietnam. Given the fragmented nature of Vietnam's towerco ecosystem, an industry consolidation may not be too far-fetched, possibly to the benefit of OCK. On another note, recent rounds from the LSS 3 tender could boost the group's Green Energy segment. However, the segment currently contributes less than 10% to revenue and PBT.

Post-results, we made minor tweaks to our FY19E/FY20E numbers as we incorporate 2Q19's results numbers.

Downgrade to MARKET PERFORM (from OUTPERFORM) with an unchanged DCF-driven TP of RM0.630. Our target price (based on WACC: 9.5%, TG: 1.5%) implies an EV/Fwd. EBITDA of 7.2x against our FY20E earnings, which is close to the stock's -1.5SD over 3-year mean. At present, the lack of meaningful developments could leave sentiment at uninspiring levels, despite the group still continuing to demonstrate stable results. It is possible that investors are still holding their breath on further news-flows on the potential spin-off of its towerco unit (OCK SEA towers). At the meantime, prospective acquisition opportunities (i.e. Vietnam) would be a positive re-rating to the group.

Risks to our call include: (i) faster/slower-than-expected expansion of tower portfolios; (ii) higher/lower-than-expected operating margins.

MARKET PERFORM

Price: **RM0.590**
Target Price: **RM0.630**

Share Price Performance



KLCI	1,589.82
YTD KLCI chg	-6.0%
YTD stock price chg	38.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OCK MK Equity
Market Cap (RM m)	514.2
Shares Outstanding	871.5
52-week range (H)	0.64
52-week range (L)	0.40
3-mth avg daily vol:	3,215,062
Free Float	43%
Beta	1.2

Major Shareholders

Aiiran Armada Sdn Bhd	37.8%
Lembaga Tabung Angkatan Tentera	12.4%
Employee Provident Fund	7.3%

Summary Earnings Table

FYE Dec (RM'm)	2018A	2019E	2020E
Turnover	457.2	495.0	557.1
EBITDA	99.8	113.9	125.3
EBIT	62.7	71.6	79.5
PBT	44.2	51.1	55.1
PATAMI	24.3	30.7	33.1
Core PATAMI	26.7	30.7	33.1
Consensus (NP)	-	29.7	32.2
Earnings Revision	-	1.1%	0.3%
Core EPS (sen)	3.1	3.5	3.8
Core EPS growth (%)	8.3%	15.0%	7.8%
NDPS (sen)	-	-	-
BVPS (RM)	0.5	0.5	0.6
PER (x)	19.3	16.8	15.6
PBV (x)	1.2	1.1	1.0
Net Gearing (x)	0.9	0.8	0.7
Net Div. Yield (%)	0.0%	0.0%	0.0%

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Results Highlights								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	115.8	103.5	11.9%	115.5	0.3%	219.3	213.1	2.9%
EBITDA	32.7	29.5	10.8%	25.2	29.9%	62.2	45.1	37.8%
EBIT	16.5	15.6	5.8%	14.1	17.1%	32.1	27.8	15.2%
PBT	9.7	8.2	17.5%	8.7	10.6%	17.9	17.5	2.1%
Taxation	(2.4)	(1.5)	-62.3%	(1.6)	-49.9%	(3.9)	(3.4)	-14.6%
Reported PATAMI	7.0	5.3	31.1%	4.2	65.6%	12.3	9.4	31.8%
Core PATAMI*	7.0	5.3	31.1%	6.4	8.9%	12.3	9.4	31.8%
Core EPS (sen)	0.8	0.6	31.1%	0.7	13.0%	1.4	1.0	36.8%
DPS (sen)	-	-		-		-	-	
EBITDA margin	28.2%	28.5%		21.8%		28.4%	21.2%	
PBT margin	8.4%	8.0%		7.6%		8.2%	8.2%	
Core PATAMI margin	6.0%	5.2%		5.6%		5.6%	4.4%	
Effective tax rate	24.9%	18.0%		18.4%		21.7%	19.4%	

Note:
Core adjustments made are in relation to reversal of forex gains

Source: Company, Kenanga Research

Segmental Highlights								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
Revenue (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Telecommunications network services	93.1	86.8	7.3%	104.5	-10.9%	179.9	187.9	-4.3%
Green energy and power solution	6.0	6.5	-7.5%	7.3	-17.2%	12.6	17.2	-26.8%
Trading	4.3	5.7	-23.9%	1.9	130.8%	10.0	2.6	286.0%
M&E Engineering services	12.4	4.5	174.5%	1.9	542.4%	16.9	5.4	214.4%
Total	115.8	103.5	11.9%	115.5	0.3%	219.3	213.1	2.9%
Geographical Revenue (RM'm)								
Malaysia	71.3	59.6	19.6%	70.1	1.8%	130.9	125.9	4.0%
Regional	44.5	43.9	1.5%	45.5	-2.1%	88.4	87.2	1.5%
Total	115.8	103.5	11.9%	115.5	0.3%	219.3	213.1	2.9%
PBT (RM'm)								
Telecommunications network services	7.8	7.6	1.7%	9.3	-16.9%	15.4	18.9	-18.7%
Green energy and power solution	0.1	0.7	-80.1%	0.3	-50.0%	0.8	1.8	-55.6%
Trading	0.5	1.2	-53.2%	0.3	80.8%	1.7	0.8	120.6%
M&E Engineering services	2.3	(0.0)	N.M.	(0.3)	N.M.	2.3	(0.5)	543.1%
Investment holding	2.2	0.1	N.M.	0.8	181.9%	2.3	(0.9)	353.5%
Elimination	(3.3)	(1.3)	161.6%	(1.7)	97.2%	(4.5)	(2.5)	77.9%
Total	9.7	8.2	17.5%	8.7	10.6%	17.9	17.5	2.1%
PBT Margin								
Telecommunications network services	8.3%	8.8%		8.9%		8.5%	10.1%	
Green energy and power solution	2.2%	10.3%		3.6%		6.4%	10.5%	
Trading	12.7%	20.6%		16.2%		17.2%	30.1%	
M&E Engineering services	18.5%	-1.0%		-14.8%		13.3%	-9.4%	
Total	8.4%	8.0%		7.6%		8.2%	8.2%	

Source: Company, Kenanga Research

Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
Stocks Under Coverage																	
AXIATA GROUP BERHAD	5.00	45,643.4	Y	12/2019	4.8%	-0.9%	3.9%	22.7%	44.8	43.1	35.2	2.0	1.9	4.5%	2.0%	4.55	UP
DIGI.COM BERHAD	5.03	39,108.3	Y	12/2019	-6.3%	3.1%	-9.2%	0.9%	25.4	27.9	27.7	58.1	56.9	205.7%	3.5%	4.70	MP
MAXIS BERHAD	5.41	42,308.8	Y	12/2019	-1.7%	0.6%	-11.1%	4.4%	23.9	26.9	25.8	5.9	5.7	21.6%	3.1%	4.90	UP
OCK GROUP BERHAD	0.590	514.2	Y	12/2019	8.3%	12.5%	15.0%	7.8%	19.3	16.8	15.6	1.0	1.0	6.0%	0.0%	0.630	MP
TELEKOM MALAYSIA BERHAD	4.08	15,360.0	Y	12/2019	-4.9%	0.6%	34.4%	4.5%	24.4	18.1	17.4	2.2	2.1	11.8%	2.5%	3.95	MP
Simple Average					0.0%	3.2%	6.6%	8.0%	27.6	26.6	24.3	13.8	13.5	49.9%	2.2%		
Stocks Not Under Coverage - Consensus																	
TIME DOTCOM BERHAD	9.11	5,334.2	Y	12/2019	11.3%	11.2%	11.2%	9.3%	18.5	16.6	15.2	2.2	1.9	12.1%	2.2%	10.28	BUY

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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