

25 November 2021

OCK Group (OCK MK)

Blame It On The Kyat; Keep BUY

Telecommunications Infrastructure

Buy (Maintained)

Target Price (Return): MYR0.58 (23.4%)
Price (Market Cap): MYR0.47 (USD116m)
ESG score: 2.90 (out of 4)
Avg Daily Turnover (MYR/USD) 1.16m/0.28m

Analyst

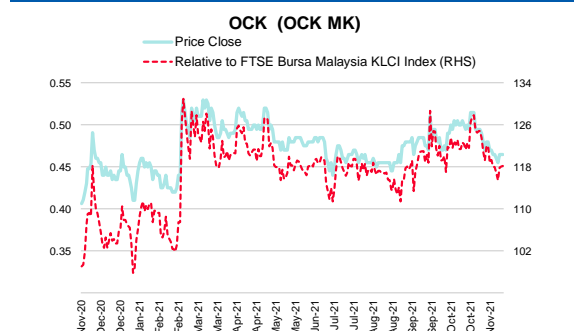
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- **Maintain BUY, new SOP-derived MYR0.58 TP from MYR0.59, 23% upside.** We see the share price weakness over the past month as a buying opportunity. 3Q21/9M21 results trailed estimates, largely due to FX. A typical bump in the December quarter is expected. Policy-led 4G and 5G site deployments and regional organic/inorganic expansion underpin FY22-23F earnings prospects. Stock remains inexpensive, at 5.5x FY22 EV/EBITDA with a 2% ESG discount imputed on our SOP.
- **FX swing factor.** 3Q21 core earnings fell 28% QoQ (-23.4% YoY) on lower EBITDA and margin, with the continued depreciation in the Myanmar Kyat (MMK) vs MYR (-30% YoY, -11% QoQ) due to the uncertain political environment. Associated revenue penalties were also recognised for power disruptions at remote sites. 9MFY21 earnings at 61% of our/consensus' estimates is behind the typical run-rate. Myanmar contributed c.17% of group revenue (MYR terms) with revenue down a further 8% QoQ (-16.5% YoY) for the quarter. We see an improvement in 4Q21 with the stabilisation of the MMK/MYR from November. On constant currency, Myanmar 3Q21 revenue and EBITDA were up a respectable 86% and 92% YoY.
- **Recurring revenues at 69% in 9M21, 51% from tower leasing.** Despite the political turbulence in Myanmar, lease payments and site obligations are still honored. The group has on-going built-to-suit orders from Mytel for about 300 sites and continues to execute steadily on inorganic expansion in Vietnam (300 new sites acquired of 1,000 planned) with the handover of more revenue generating sites. The numbers of owned sites in Myanmar and Vietnam are >1,100 and >2700. OCK has 49,000 sites under management in Indonesia, up from c.43,000 at the start of the year. Malaysia sites number about 530.
- **Satellite broadband deal a timely sweetener.** OCK has announced a MYR115m turnkey contract for satellite broadband infrastructure at several Orang Asli settlements across the Peninsula. This comes under the purview JENDELA (improvement in rural connectivity) with revenue recognition expected within the next six months.
- **FY21 forecast lowered, FY22-23F raised.** While a stronger 4Q21 is a foregone conclusion, we cut FY21F core earnings by 12% to factor in the protracted currency drag and some delays in revenue recognition. FY22-23F core earnings are raised 6-10% after baking in the new turnkey contract and stronger contracting jobs from the economic recovery and JENDELA. Key risks: Weaker-than-expected earnings, site deployment delays, and execution. There is no impact from Cukai Makmur as its taxable income is below the specified threshold. A 2% ESG discount is imputed based on our latest assessment.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.3	(6.1)	2.2	(4.1)	16.0
Relative	9.8	(1.9)	4.2	(0.9)	19.6
52-wk Price low/high (MYR)	0.41 – 0.53				



Source: Bloomberg

Overall ESG Score: 2.90 (out of 4)

E: GOOD

The Group has plans to increase the revenue contribution from green energy sources and continues to be on the lookout for new solar ventures/assets

S: GOOD

OCK deploys and maintain the core network infrastructure for telcos. The company has a good track record of rolling out network infrastructure in rural areas under the Universal Service Provisioning (USP) initiative by the Malaysian Communications and Multimedia Commission (MCMC). As part of its corporate social responsibility (CSR) endeavors, OCK undertakes the sponsorship of events, particularly in the education sector as well as hosting various fund-raising activities

G: GOOD

The board is made up of nine directors of which three are independent (33%). The investor relations function is outsourced to a third party which facilitates engagement between the management and investment community. The company was indirectly implicated in a graft case involving a senior official from the Malaysian Communications and Multimedia Commission (MCMC) in 2019 for which it has denied any involvement.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	474	474	464	565	602
Recurring net profit (MYRm)	28	26	28	37	37
Recurring net profit growth (%)	15.6	(7.6)	6.2	33.3	0.0
Recurring P/E (x)	19.07	20.64	19.44	14.58	14.58
P/B (x)	1.0	1.0	0.9	0.9	1.2
P/CF (x)	2.72	2.04	2.91	2.40	1.19
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	7.34	6.76	6.45	5.45	4.78
Return on average equity (%)	5.2	4.6	5.0	6.3	7.0
Net debt to equity (%)	62.4	59.0	56.5	47.8	47.8

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.02	0.02	0.02	0.03	0.03
Communications	BVPS	0.45	0.47	0.49	0.52	0.39
OCK	Return on average equity (%)	5.2	4.6	5.0	6.3	7.0
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Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Sum-of-the-parts (SOP) methodology	Recurring P/E (x)	19.07	20.64	19.44	14.58	14.58
	P/B (x)	1.0	1.0	0.9	0.9	1.2
	FCF Yield (%)	15.2	30.4	15.7	22.9	65.4
	EV/EBITDA (x)	7.34	6.76	6.45	5.45	4.78
	EV/EBIT (x)	14.09	15.45	15.20	12.01	10.78
Key drivers	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. Higher site tenancies, new builds and acquisitions;	Total turnover	474	474	464	565	602
ii. JENDELA site deployment;	Gross profit	124	126	124	147	157
iii. Value accretive solar M&A.	EBITDA	131	146	154	177	188
	Depreciation and amortisation	(63)	(82)	(89)	(97)	(105)
	Operating profit	68	64	65	80	84
	Net interest	(32)	(31)	(27)	(27)	(30)
	Pre-tax profit	36	33	38	53	53
	Taxation	(9)	(5)	(6)	(10)	(10)
	Reported net profit	24	24	28	37	37
	Recurring net profit	28	26	28	37	37
Key risks	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. Weaker than expected margins;	Change in working capital	44	87	6	26	239
ii. Execution;	Cash flow from operations	197	262	184	223	450
iii. Site deployment delays.	Capex	(115)	(99)	(100)	(100)	(100)
	Cash flow from investing activities	(115)	(99)	(100)	(100)	(100)
	Cash flow from financing activities	(65)	(72)	(50)	50	50
	Cash at beginning of period	55	117	67	14	101
	Net change in cash	16	91	34	173	400
	Ending balance cash	73	208	101	187	500
Company Profile	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
OCK is the largest telecommunications services provider in Malaysia with an expanding tower leasing business in Indo-China. The company also carries out site maintenance activities with a notable exposure in Indonesia (PMT). It also owns a number of solar assets domestically which are parked under the green energy and power solutions segment	Total cash and equivalents	117	67	14	101	221
	Tangible fixed assets	533	597	646	691	730
	Total assets	1,385	1,403	1,495	1,689	1,858
	Short-term debt	225	204	230	260	290
	Total long-term debt	255	229	153	173	193
	Total liabilities	804	781	841	992	1,308
	Total equity	582	621	654	697	550
	Total liabilities & equity	1,385	1,403	1,495	1,689	1,858
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	3.6	(0.0)	(2.0)	21.7	6.6
	Recurrent EPS growth (%)	15.6	(7.6)	6.2	33.3	0.0
	Gross margin (%)	26.1	26.6	26.8	26.1	26.0
	Operating EBITDA margin (%)	27.6	30.8	33.2	31.3	31.3
	Net profit margin (%)	5.1	5.1	5.9	6.5	6.1
	Capex/sales (%)	24.4	21.0	21.5	17.7	16.6
	Interest cover (x)	2.13	2.09	2.43	2.98	2.76

Source: Company data, RHB

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Communications | Telecommunications Infrastructure

Figure 1. Results review table

FYE Dec (MYR m)	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9M20	9M21	YoY (%)	Comments
Revenue	117.2	116.5	118.7	1.9	1.3	334.4	348.5	4.2	Impacted by weaker revenue translation from the depreciation of the MMK. Recurring revenue contribution at 69% in 9M21
EBITDA	38.9	38.6	38.0	(1.6)	(2.2)	111.3	113.8	2.3	
<i>EBITDA Margin (%)</i>	33.1	33.2	32.0			33.3	32.7	(1.8)	Supported by higher tenancies at its towerco businesses in Myanmar/Vietnam as well as cost discipline
Depreciation	(21.6)	(22.5)	(22.9)	1.5	5.7	(62.7)	(66.7)	6.2	
EBIT	17.2	16.1	15.1	(5.9)	(12.1)	48.5	47.2	(2.8)	
<i>EBIT Margin (%)</i>	14.7	13.8	12.8			14.5	13.5		
Finance cost	(7.7)	(6.4)	(6.6)	4.1	(13.4)	(23.2)	(19.2)	(17.3)	Lower borrowings YoY
Pretax profit	9.6	9.7	8.5	(12.5)	(11.0)	25.6	28.0	9.4	
<i>Pretax Margin (%)</i>	8.2	8.3	7.2			7.7	8.0		
Tax	(1.5)	(1.9)	(2.0)	4.3	36.8	(3.7)	(5.3)	43.3	
<i>Effective tax rate (%)</i>	15.3	19.7	23.5			14.5	19.0		
PAT	8.1	7.8	6.5	(16.6)	(19.6)	21.9	22.7	3.7	
Minority Interest	(1.6)	(0.9)	(1.5)	73.1	>100	(2.4)	(3.6)	50.9	
PATAMI	6.5	6.9	5.0	(27.8)	(23.4)	19.5	19.1	(2.1)	
Core Profit	6.5	6.9	5.0	(27.8)	(23.4)	19.5	19.1	(2.1)	Below estimates
<i>Net Margin (%)</i>	5.6	6.0	4.2			5.8	5.5		

Source: Company data

Figure 2 : SOP valuation

Operating Segments	Valuation (MYRm)	% of SOP	Methodology/Comments
Telco network services (TNS)^	259.5	37%	13x FY22 EPS
Green energy (solar) & power solutions	30.8	4%	13x FY22 EPS
OCK Vietnam (towerco)	107.6	15%	DCF valuation (WACC: 11.1%, TG: 2%)
OCK Yangon (towerco)	272.4	39%	DCF valuation (WACC: 11%, TG: 2%)
Trading & Maintenance	5.88	1%	10x FY22 EPS
Interest savings on debt net of tax	22.7	3%	Proceeds from the conversion of warrant-B (ex price of 42 sen) with interest cost of 5% assumed
Equity value	698.8		
Enlarged share base (m shares)	1,150.3		Assuming full exercise of warrant-B into 95.9m new shares
SOP valuation (MYR)	0.61		
ESG premium/(discount)	-0.02		
Target price (MYR)	0.58		

Note: ^Domestic contracting and towerco business

Source: RHB

Recommendation Chart

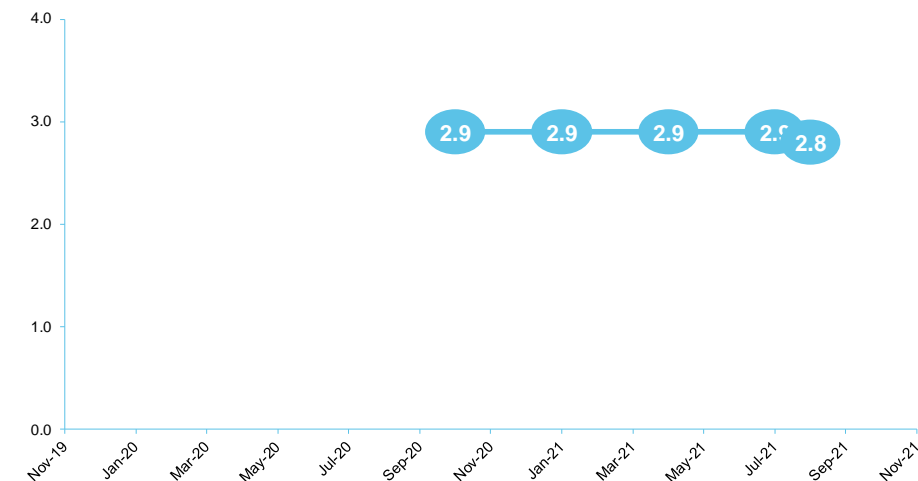


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-16	Buy	0.59	0.43
2021-01-12	Buy	0.63	0.43
2020-11-26	Buy	0.60	0.41
2020-11-06	Buy	0.63	0.42
2020-07-05	Buy	0.68	0.54
2020-03-18	Buy	0.71	0.37
2019-05-30	Buy	0.75	0.43

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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