

30 August 2021

Communications | Telecommunications Infrastructure

OCK Group (OCK MK)

Steady As She Goes; Stay BUY

Buy (Maintained)

Target Price (Return): MYR0.59 (+28%)
Price: MYR0.46
Market Cap: USD114m
Avg Daily Turnover (MYR/USD) 0.46m/0.11m

Analyst

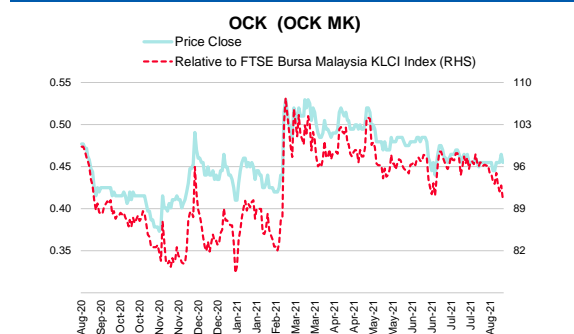
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- **Maintain BUY and SOP-based TP of MYR0.59, 28% upside.** OCK Group's 1H21 results were in line with steady site leasing revenue and higher growth for the power solutions segment. The group has demonstrated resiliency despite the pandemic, and remains a strong beneficiary of 4G & 5G infrastructure-led play. We see site deployments picking up pace into FY22F as key projects get underway. The stock trades at inexpensive 5.1x FY21F EV/EBITDA, considering the bulk of earnings are recurring in nature.
- **Within expectations.** 2Q21 core earnings grew 8.3% YoY (-3.3% QoQ) to MYR6.9m, taking 1H21 core earnings to MYR14.1m, at 45-46% of our and consensus forecasts. Group revenue rebounded from the seasonal low in 1Q21, led by the telco network services (+1.1%), as well as green energy and power solutions (+48%), partially offset by weaker trading and mechanical & engineering revenue. We anticipate a stronger 2H21F with site deployments delayed by the movement restrictions and inclusion of new revenue generating sites in Vietnam. Despite the pandemic, EBITDA was up 5% in 1H21, supported by resilient tower leasing revenue, which was secured by long-term lease agreements (> 80% of EBITDA).
- **Recurring revenue at 68% in 1H21.** Domestic contracting revenue rebounded a strong 31% QoQ (+19% YoY) – its first in over six quarters. This was partially offset by the 2% decline in site leasing revenue from weaker FX translation (mainly Myanmar). Despite the political upheaval, there has been no lapse in lease payments and all site obligations in Myanmar are being honoured, with the group having a good orderbook of built-to-suit sites from Mytel.
- **JENDELA adds to positive near- and mid-term prospects.** The group is well positioned to ride on the National Digital Infrastructure Plan (JENDELA) with new 4G sites to be deployed under the universal service provisioning (USP) and clawback schemes. On top of an existing MYR60m order under JENDELA, OCK has submitted bids for the Phase 1 USP tender, which involves 1,661 sites. Regionally, there are pending site orders of 300 in Myanmar (majority Mytel) and it is in final negotiations to acquire another 340 brownfield sites in Vietnam, which would add to the existing 2,700 sites. OCK is conducting site survey works for Digital Nasional Berhad (DNB) and is poised to also benefit directly from the impending 5G network rollout, with 500 sites targeted in the initial phase (Klang Valley and Putrajaya).
- **Downside risks** are weaker-than-expected earnings, execution of site order and acquisitions, as well as pandemic-related delays. Upside risks are stronger-than-expected earnings, and value unlocking of the tower business (OCK South East Asia Towers Pte Ltd (OCTK)).

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.1	(1.1)	(5.2)	(6.2)	(1.7)
Relative	3.4	(6.1)	(5.0)	(7.0)	(4.0)
52-wk Price low/high (MYR)	0.37 – 0.53				



Source: Bloomberg

Overall ESG Score: 2.9 (out of 4) E: Good

OCK has plans to increase revenue contribution from green energy sources and continues to look at potential M&A of solar assets.

S: Good

OCK deploys and maintains the core network infrastructure for telcos and has a good track record of deploying network infrastructure in rural areas under the Universal Service Provisioning (USP) Fund. As part of its corporate social responsibility (CSR) endeavors, the group undertakes sponsorship of events, particularly in the education sector and organises 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 management and the 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 strongly 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	473	542	574	605
Recurring net profit (MYRm)	28	26	32	33	34
Recurring net profit growth (%)	15.6	(8.7)	25.1	4.2	3.2
Recurring P/E (x)	18.66	20.43	16.33	15.67	15.18
P/B (x)	1.0	1.0	0.9	0.9	1.2
P/CF (x)	2.66	2.07	2.64	2.15	1.19
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	7.26	6.19	5.02	4.38	3.77
Return on average equity (%)	5.2	3.4	5.7	5.6	6.5
Net debt to equity (%)	62.4	50.5	41.0	28.9	22.6

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.02	0.02	0.03	0.03	0.03
Communications	BVPS	0.45	0.47	0.50	0.53	0.39
OCK	Return on average equity (%)	5.2	3.4	5.7	5.6	6.5
OCK MK						
Buy						
Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
SOP	Recurring P/E (x)	18.66	20.43	16.33	15.67	15.18
	P/B (x)	1.0	1.0	0.9	0.9	1.2
	FCF Yield (%)	12.4	22.9	18.7	27.4	65.1
	EV/EBITDA (x)	7.26	6.19	5.02	4.38	3.77
	EV/EBIT (x)	13.92	14.18	10.39	9.44	8.44
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	473	542	574	605
ii. JENDELA site deployment;	Gross profit	124	125	160	170	180
iii. Value accretive solar M&A.	EBITDA	131	145	172	183	193
	Depreciation and amortisation	(63)	(82)	(89)	(98)	(107)
Key risks	Operating profit	68	63	83	85	86
i. Weaker-than-expected margins/earnings;	Net interest	(32)	(35)	(38)	(38)	(38)
ii. Execution;	Pre-tax profit	36	28	45	47	48
iii. Funding.	Taxation	(9)	(6)	(7)	(7)	(8)
Company Profile	Reported net profit	24	18	32	33	34
OCK is the largest telecommunications services provider in Malaysia with a growing tower leasing business in Indo-China. It also owns a number of solar assets domestically which are parked under the green energy and power solutions segment	Recurring net profit	28	26	32	33	34
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	44	75	(8)	27	214
	Cash flow from operations	197	253	198	243	441
	Capex	(132)	(133)	(100)	(100)	(100)
	Cash flow from investing activities	(132)	(133)	(100)	(100)	(100)
	Cash flow from financing activities	(65)	25	0	0	0
	Cash at beginning of period	55	117	271	314	381
	Net change in cash	(0)	145	98	143	341
	Ending balance cash	57	262	369	457	722
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	117	271	314	381	458
	Tangible fixed assets	533	587	599	601	594
	Total assets	1,385	1,573	1,661	1,714	1,577
	Short-term debt	225	400	348	348	348
	Total long-term debt	255	180	232	232	232
	Total liabilities	804	961	1,012	1,025	1,039
	Total equity	582	612	649	688	539
	Total liabilities & equity	1,385	1,573	1,661	1,714	1,577
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	3.6	(0.1)	14.6	5.9	5.4
	Recurrent EPS growth (%)	15.6	(8.7)	25.1	4.2	3.2
	Gross margin (%)	26.1	26.5	29.5	29.6	29.7
	Operating EBITDA margin (%)	27.6	30.8	31.7	31.8	32.0
	Net profit margin (%)	5.1	3.8	5.9	5.8	5.7
	Capex/sales (%)	27.9	28.1	18.4	17.4	16.5
	Interest cover (x)	2.13	1.81	2.17	2.22	2.26

Source: Company data, RHB

Figure 1: Results review table

FYE Dec (MYR m)	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)	1H20	1H21	YoY (%)	Comments
Revenue	108.0	113.4	116.5	2.7	7.8	217.2	229.8	5.8	A stronger quarter following the low base in 1Q21. Recurring revenue contribution at 68% in 1H21
EBITDA	36.7	37.2	38.6	3.8	5.1	72.4	75.8	4.7	
EBITDA Margin (%)	34.0	32.8	33.2			33.3	33.0	(1.0)	Supported by higher tenancies at its towerco business in Myanmar/Vietnam and cost discipline
Depreciation	(21.4)	(21.2)	(22.5)	6.1	5.5	(41.1)	(43.8)	6.5	
EBIT	15.4	16.0	16.1	0.7	4.7	31.3	32.1	2.4	
EBIT Margin (%)	14.2	14.1	13.8			14.4	13.9		
Finance cost	(8.0)	(6.2)	(6.4)	3.3	(20.1)	(15.5)	(12.5)	(19.3)	
Pretax profit	7.7	9.8	9.7	(0.8)	26.8	16.1	19.5	21.6	
Pretax Margin (%)	7.1	8.6	8.3			7.4	8.5		
Tax	(0.9)	(1.4)	(1.9)	35.0	115.8	(2.3)	(3.3)	47.5	
Effective tax rate (%)	11.6	14.5	19.7			14.1	17.1		
PAT	6.8	8.4	7.8	(6.9)	15.1	13.8	16.2	17.3	
Minority Interest	(0.4)	(1.2)	(0.9)	(28.2)	>100	(0.8)	(2.1)	155.4	
PATAMI	6.4	7.2	6.9	(3.3)	8.3	13.0	14.1	8.6	
Core Profit	6.4	7.2	6.9	(3.3)	8.3	13.0	14.1	8.6	In line with estimates
Net Margin (%)	5.9	6.3	6.0			6.0	6.1		

Source: Company data, RHB

Figure 2: SOP valuation

Operating Segments	Valuation (MYRm)	% of SOP	Comments
Telco network services (TNS)^	241.6	36	13x FY22F EPS
Green energy (solar) & power solutions	21.7	3	13x FY22F EPS
OCK Vietnam (towerco)	107.6	16	DCF valuation (WACC: 11.1%, TG: 2%)
OCK Yangon (towerco)	272.4	40	DCF valuation (WACC: 11%, TG: 2%)
Trading & Maintenance	14.3	2	10x FY22F EPS
Interest savings on debt net of tax	22.0	3	Estimated proceeds from the conversion of warrant-B assuming 5%
Equity Value	679.5		
Enlarged share base (m shares)	1150.3		Includes rights shares and full exercise of warrant-B into 95.9m new shares.
Target price (MYR)	0.59		

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
2019-05-28	Buy	0.82	0.40

Source: RHB, Bloomberg

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