

OCK Group (OCK MK)

Buy (Maintained)

Communications - Telecommunications Infrastructure

Target Price: MYR1.65

Market Cap: USD154m

Price: MYR1.42

Building Up For 2H

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	2.03m/0.64m
Cons. Upside (%)	-99.3
Upside (%)	13.0
52-wk Price low/high (MYR)	0.61 - 1.58
Free float (%)	36
Share outstanding (m)	342
Shareholders (%)	
Aliran Armada SB	44.7
Lembaga Tabung Angkatan	12.1
Low Hock Keong	2.4

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	77.5	(7.2)	2.2	83.2	132.8
Relative	77.8	(6.4)	2.5	81.6	123.4

Shariah compliant

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OCK's 1H14 results were broadly in line with our expectations. We expect a much stronger 2H as new projects kickstart and the company recognises maiden revenue from its Indonesian acquisition. Mobilisation costs squeezed margins slightly in 2Q14 but we think this is necessary groundwork for the execution of new projects in 2H14. Maintain BUY, with an unchanged FV of MYR1.65.

- ◆ **Broadly in line.** OCK Group (OCK)'s 1H14 net profit of MYR6.1m (+27.1% y-o-y) contributed 30% to our full-year estimates. Nonetheless, we deem the results broadly in line as we anticipate OCK to begin recognising revenue from a major celco for maintenance work involving 4,000 telco sites beginning 3Q14. In addition, the company should begin consolidating revenue from its recent acquisition of PT Putra Mulia Telecommunication (PMT), a telco site maintenance company in Indonesia, also some time in 3Q14, upon securing shareholders' approval at an EGM to be held on 2 Sept.
- ◆ **Building up for 2H14.** Y-o-y, 2Q14 revenue jumped 30.4% mainly due to more execution work required by mobile operators for telco network services. OCK's EBIT margin, however, fell 1.8ppts to 13.4% due to mobilisation costs in preparation for the abovementioned telco site maintenance work. This, coupled with a higher effective tax rate of 25.9% (2Q13: 25.0%), led to 2Q14 net profit growing at a slower 15.3%.
- ◆ **News flow should pick up in coming weeks.** While the Malaysian Communications and Multimedia Commission (MCMC) has taken its time with regard to the award of the 1,000 new telco towers to be built (1st phase will involve 400 sites), we gather from our channel checks that the award may take place some time next month.
- ◆ **Forecasts.** Maintained.
- ◆ **Investment case.** We maintain our BUY call on OCK, with an unchanged TP of MYR1.65, based on a target FY15 P/E of 18.5x. We like OCK for its: i) strong growth prospects, ii) diversification into less developed foreign markets, iii) growing recurring revenue base, and iv) above-industry average ROE.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover (MYRm)	88	139	152	207	265
Reported net profit (MYRm)	8.5	13.1	13.6	20.9	31.4
Recurring net profit (MYRm)	8.5	13.1	13.6	20.9	31.4
Recurring net profit growth (%)	na	54.3	3.3	53.7	50.3
Recurring EPS (MYR)	0.04	0.06	0.05	0.07	0.09
Recurring P/E (x)	36.9	23.9	28.2	19.4	16.0
P/B (x)	13.9	6.6	5.0	3.9	4.3
P/CF (x)	na	na	25.4	34.4	36.0
EV/EBITDA (x)	28.2	16.6	18.2	13.0	11.1
Return on average equity (%)	70.7	35.3	20.1	22.6	25.9
Net debt to equity (%)	89.0	54.9	51.3	22.2	15.4
Our vs consensus EPS (adjusted) (%)				0.0	0.0

Source: Company data, RHB

Figure 1: Results review

FYE Dec (MYR m)	2QFY13	1QFY14	2QFY14	q-o-q (%)	y-o-y (%)	1HFY13	1HFY14	y-o-y (%)	Comments
Revenue	33.3	36.6	43.4	18.6	30.4	64.0	80.0	25.1	Higher q-o-q largely driven by telecom network services.
EBITDA	5.5	6.7	6.9	3.4	24.6	9.7	13.5	39.6	
<i>EBITDA Margin (%)</i>	16.6	18.2	15.8			15.2	16.9		Q-o-q decline partly also due to some cost overruns related to telecom network services.
Depreciation	(0.5)	(0.9)	(1.1)	23.7	123.7	(0.9)	(1.9)	121.6	
EBIT	5.1	5.8	5.8	0.4	15.3	8.8	11.6	31.6	
<i>EBIT Margin (%)</i>	15.2	15.8	13.4			13.8	14.5		
Finance costs	(0.9)	(1.3)	(1.2)	(3.1)	36.5	(1.4)	(2.5)	73.4	Total debt as at 2Q14 was MYR79.0m (1Q14: MYR67.5m; 2Q14: MYR59.5m).
Pretax profit	4.1	4.5	4.6	1.4	10.7	7.4	9.1	23.4	
<i>Pretax Margin (%)</i>	12.4	12.4	10.6			11.5	11.4		
Tax	(1.0)	(1.1)	(1.2)	9.0	14.7	(1.8)	(2.3)	23.6	
<i>Effective tax rate (%)</i>	25.0	24.2	25.9			25.0	25.1		
Minority interests	0.5	0.4	0.4			(0.8)	(0.8)		
Net Profit	2.6	3.1	3.0	(1.1)	15.3	4.8	6.1	27.1	
<i>Net Margin (%)</i>	7.9	8.3	7.0			7.5	7.6		

Source: RHB, Company data

Figure 2: Results review by segment

FYE Dec (MYR m)	2QFY13	1QFY14	2QFY14	q-o-q (%)	y-o-y (%)	1HFY13	1HFY14	y-o-y (%)	Comments
Telecom network services	20.2	21.4	26.5	24.0	31.2	41.1	47.9	20.2	Higher q-o-q driven by more execution work required by mobile operators.
Green energy and power	8.9	12.6	11.1	(11.7)	25.3	13.3	23.7	8.9	Lower q-o-q due to lumpy recognition of engineering, procurement and construction work completed in 1Q.
Trading	3.1	1.5	2.0	29.8	(36.6)	6.2	3.5	3.1	
M&E Engineering services	1.2	1.1	3.9	240.3	234.7	3.3	5.0	1.2	
Total Revenue	33.3	36.6	43.4	18.6	30.4	64.0	80.0	33.3	

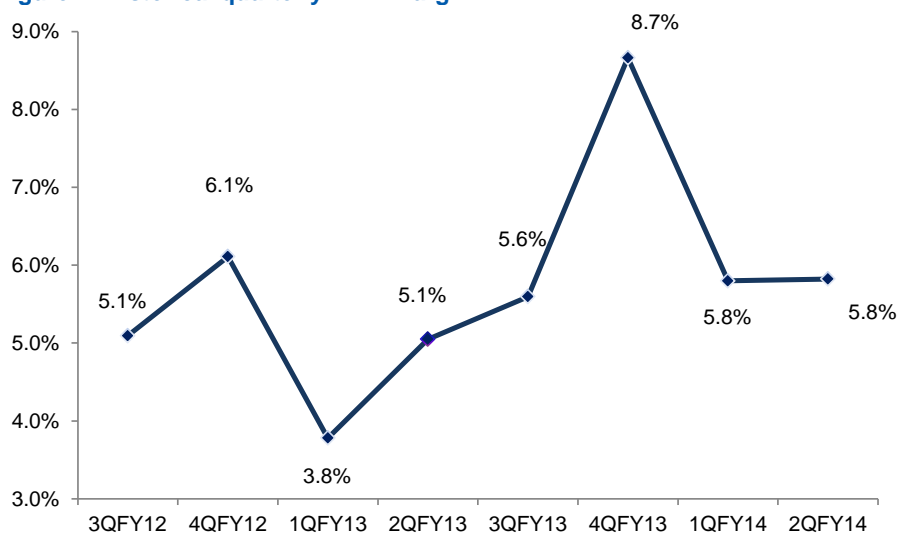
Source: RHB, Company data

Figure 3: Historical quarterly results

FYE Dec (MYRm)	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14
Revenue	37.7	35.8	30.6	33.3	40.1	46.2	36.6	43.4
<i>Growth q-o-q (%)</i>	13.0	-4.8	-14.5	8.7	20.4	15.2	-20.8	18.6
<i>Growth y-o-y</i>				-0.1	6.4	28.9	19.5	30.4
EBITDA	5.4	6.5	4.2	5.5	6.1	9.4	6.7	6.9
<i>EBITDA Margin (%)</i>	14.4	18.2	13.6	16.6	15.1	20.3	18.2	15.8
Depreciation	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)	(0.7)	(0.9)	(1.1)
EBIT	5.1	6.1	3.8	5.1	5.6	8.7	5.8	5.8
<i>EBIT Margin (%)</i>	13.5	17.0	12.3	15.2	14.0	18.8	15.8	13.4
Finance costs	(0.7)	(0.4)	(0.5)	(0.9)	(0.7)	(1.3)	(1.3)	(1.2)
Pretax profit	4.4	5.7	3.2	4.1	4.9	7.3	4.5	4.6
<i>Pretax Margin (%)</i>	11.8	15.8	10.6	12.4	12.3	15.9	12.4	10.6
Tax	(1.1)	(1.7)	(0.8)	(1.0)	(0.9)	(2.5)	(1.1)	(1.2)
<i>Effective tax rate (%)</i>	23.9	30.8	25.0	25.0	18.6	34.0	24.2	25.9
Minority interests	(0.3)	(0.1)	(0.3)	(0.5)	(0.5)	(0.3)	(0.4)	(0.4)
Net Profit	3.1	3.8	2.2	2.6	3.6	4.5	3.1	3.0
<i>Net Margin (%)</i>	8.3	10.6	7.1	7.9	8.9	9.8	8.3	7.0

Source: RHB, Company data

Figure 4: Historical quarterly EBIT margin



Source: RHB, Company data

Financial Exhibits

Profit & Loss (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover	88	139	152	207	265
Cost of sales	(66)	(103)	(113)	(152)	(189)
Gross profit	22	35	39	55	76
Gen & admin expenses	(11)	(16)	(17)	(25)	(32)
Operating profit	12	20	22	30	44
Operating EBITDA	13	21	24	34	49
Depreciation of fixed assets	(1)	(1)	(2)	(4)	(5)
Operating EBIT	12	20	22	30	44
Other recurring income	2	1	2	3	4
Interest expense	(2)	(2)	(3)	(4)	(4)
Pre-tax profit	12	19	21	29	43
Taxation	(3)	(5)	(6)	(7)	(10)
Minority interests	(1)	(1)	(2)	(1)	(2)
Profit after tax & minorities	9	13	14	21	31
Reported net profit	9	13	14	21	31
Recurring net profit	9	13	14	21	31

Source: Company data, RHB

Cash flow (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Operating profit	12	20	22	30	44
Depreciation & amortisation	1	1	2	4	5
Change in working capital	(11)	(28)	(3)	(12)	(21)
Operating cash flow	1	(6)	21	23	28
Interest received	0	0	0	-	-
Interest paid	(0)	(0)	(0)	(4)	(4)
Dividends received	0	-	-	-	-
Tax paid	(3)	(3)	(6)	(7)	(10)
Cash flow from operations	(1)	(10)	15	12	14
Capex	(1)	(7)	(23)	(20)	(20)
Other investing cash flow	3	1	(8)	4	4
Cash flow from investing activities	3	(5)	(32)	(16)	(16)
Dividends paid	(0)	(1)	(1)	-	-
Shares repurchased	-	0	(0)	-	-
Proceeds from issue of shares	-	27	12	-	-
Increase in debt	(0)	1	14	19	17
Other financing cash flow	3	(11)	(3)	3	5
Cash flow from financing activities	3	16	22	22	22
Cash at beginning of period	5	10	11	17	35
Total cash generated	4	1	5	18	19
Forex effects	1	1			
Implied cash at end of period	10	11	17	35	55

Source: Company data, RHB

Financial Exhibits

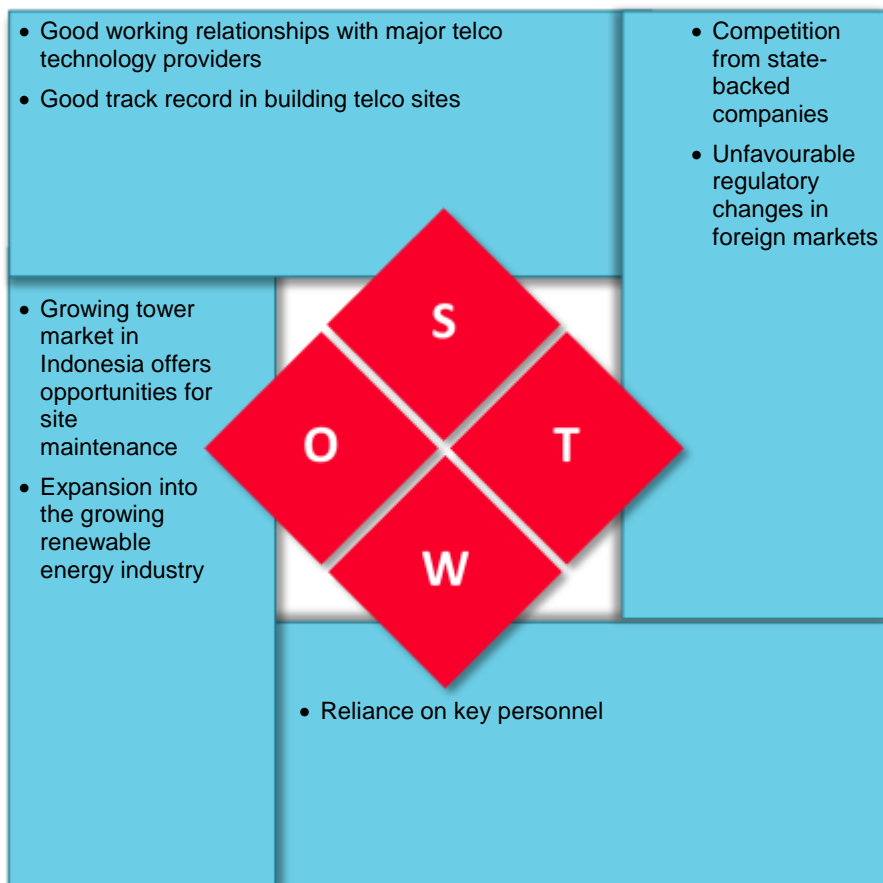
Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total cash and equivalents	10	11	17	35	55
Inventories	9	13	18	20	25
Accounts receivable	29	60	67	74	94
Other current assets	3	9	13	-	-
Total current assets	51	94	115	129	174
Tangible fixed assets	15	35	66	82	97
Total non-current assets	15	35	66	82	97
Total assets	66	129	181	211	271
Short-term debt	21	25	42	36	46
Accounts payable	16	24	36	36	46
Other current liabilities	2	3	3	4	4
Total current liabilities	39	53	81	76	96
Total long-term debt	7	18	17	24	31
Other liabilities	0	0	0	0	0
Total non-current liabilities	7	18	18	24	31
Total liabilities	46	71	98	100	127
Share capital	18	26	28	28	28
Retained earnings reserve	14	26	38	58	90
Other reserves	(14)	4	13	19	19
Shareholders' equity	19	56	79	106	137
Minority interests	1	2	4	5	7
Total equity	20	58	83	111	144
Total liabilities & equity	66	129	181	211	271

Source: Company data, RHB

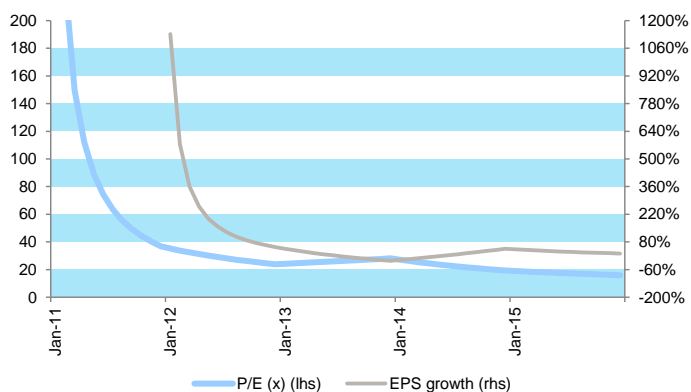
Key Ratios (MYR)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Revenue growth (%)	0.0	56.9	9.7	36.2	27.8
Operating profit growth (%)	0.0	71.3	11.8	36.5	44.8
Net profit growth (%)	0.0	54.3	3.3	53.7	50.3
EPS growth (%)	0.0	54.3	(15.1)	45.3	21.5
Bv per share growth (%)	394.4	111.2	31.0	29.0	(9.3)
Operating margin (%)	13.1	14.3	14.6	14.6	16.6
Net profit margin (%)	9.6	9.5	8.9	10.1	11.9
Return on average assets (%)	23.9	13.5	8.8	10.7	13.0
Return on average equity (%)	70.7	35.3	20.1	22.6	25.9
Net debt to equity (%)	89.0	54.9	51.3	22.2	15.4
Recurrent cash flow per share	(0.01)	(0.04)	0.06	0.04	0.04

Source: Company data, RHB

SWOT Analysis

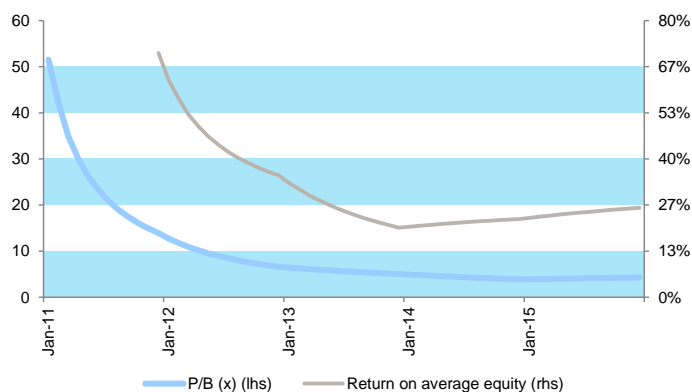


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

OCK is the largest telecommunication service provider in Malaysia. It primarily focuses on the building and renting out of telecommunication towers. It also has a smaller segment focusing on solar energy.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2014-06-26	Buy	1.60	1.41
2013-12-09	Not Rated	na	0.81

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

- Buy:** Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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