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REGIONAL

OCK Group (OCK MK)

Buy

Communications - Telecommunications Infrastructure

Target Price: MYR1.65

Market Cap: USD138m

Price: MYR1.42

Towering Growth

Macro ◆◆
Risks ◆
Growth ◆◆◆
Value ◆◆◆

Source: Bloomberg

Avg Turnover (MYR/USD)	2.99m/0.92m
Cons. Upside (%)	-99.3
Upside (%)	13.8
52-wk Price low/high (MYR)	0.52 - 1.48
Free float (%)	36
Share outstanding (m)	342
Shareholders (%)	
Aliran Armada Sdn Bhd	41.0
Lembaga Tabung Angkatan	19.3
Low Hock Keong	2.1

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	76.3	0.7	36.9	77.4	163.6
Relative	74.9	(0.5)	33.7	74.3	154.7

Shariah compliant

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We initiate coverage on OCK with a BUY rating and a FV of MYR1.65. We see strong growth opportunities for the group in the leasing of telco sites, which, along with its growing green energy business, offers steady recurring income. Management is also pursuing growth outside of Malaysia, both organically and inorganically. OCK could see a boost to its profile upon transferring to the Main Market in 4Q14.

- **About OCK.** OCK Group (OCK) is principally involved in the provision of telecommunications network services. The group has diversified its business into renewable energy, and intends to build up its recurring revenue base mainly from leasing telco sites and selling solar energy.

- **Building for growth.** Management sees plenty of growth opportunities as a telco site owner. OCK now owns 240 telco sites and is targeting 300 telco sites by year-end. Going forward, we think Telekom Malaysia (T MK, NEUTRAL, FV: MYR6.10) (TM)ọs entry into P1 (TM intends to invest MYR1bn in P1 for long-term evolution (LTE) rollout) is positive for OCK.

- **Diversifying into site maintenance.** The group is also looking to capture a slice of the telco site maintenance market that also offers recurring revenue. The proposed acquisition of PT Putra Mulia Telecommunication (PMT) should give OCK exposure to the fast growing tower market in Indonesia.

- **Beneficiary of Budget 2014.** We understand that it is keen for a slice of the 1,000 telco sites announced by the Government during Budget 2014. While we expect bidding to be competitive, OCK is a Tier-1 player in providing telco network services, and has a solid track record.

- **Green energy.** It is keenly looking out for more engineering, procurement and construction (EPC) projects related to solar plants. Besides that, it has been producing solar energy since Oct 2013 with its maiden 1-megawatt (MW) solar plant in Kelantan. In the medium term, OCK is targeting to generate 30MW worth of solar energy.

- **Forecasts.** We forecast OCKọs net profit to grow at a CAGR of 52% from FY13-15, on the back of strong revenue growth in its traditional telecommunication network services through new contracts for network deployment and contracting work for building telco universal service provision (USP)-related sites. However, we note that its EPS will be diluted by recent new equity issued.

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)	36.6	23.8	28.0	19.2	15.8
P/B (x)	13.8	6.5	5.0	3.9	4.3
P/CF (x)	na	na	25.2	34.2	35.8
EV/EBITDA (x)	28.0	16.5	18.1	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 estimates

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Company Background

OCK Group (OCK) is principally involved in the provision of telecommunications network services. Among other things, this mainly encompasses network planning, network deployment and network operations & maintenance for the local mobile-operators such as Maxis (MAXIS MK, SELL, FV: MYR6.00), Celcom (wholly-owned subsidiary of Axiata Group (AXIATA MK, NEUTRAL, FV: MYR6.85) and DiGi (DIGI MK, BUY, FV: MYR6.20).

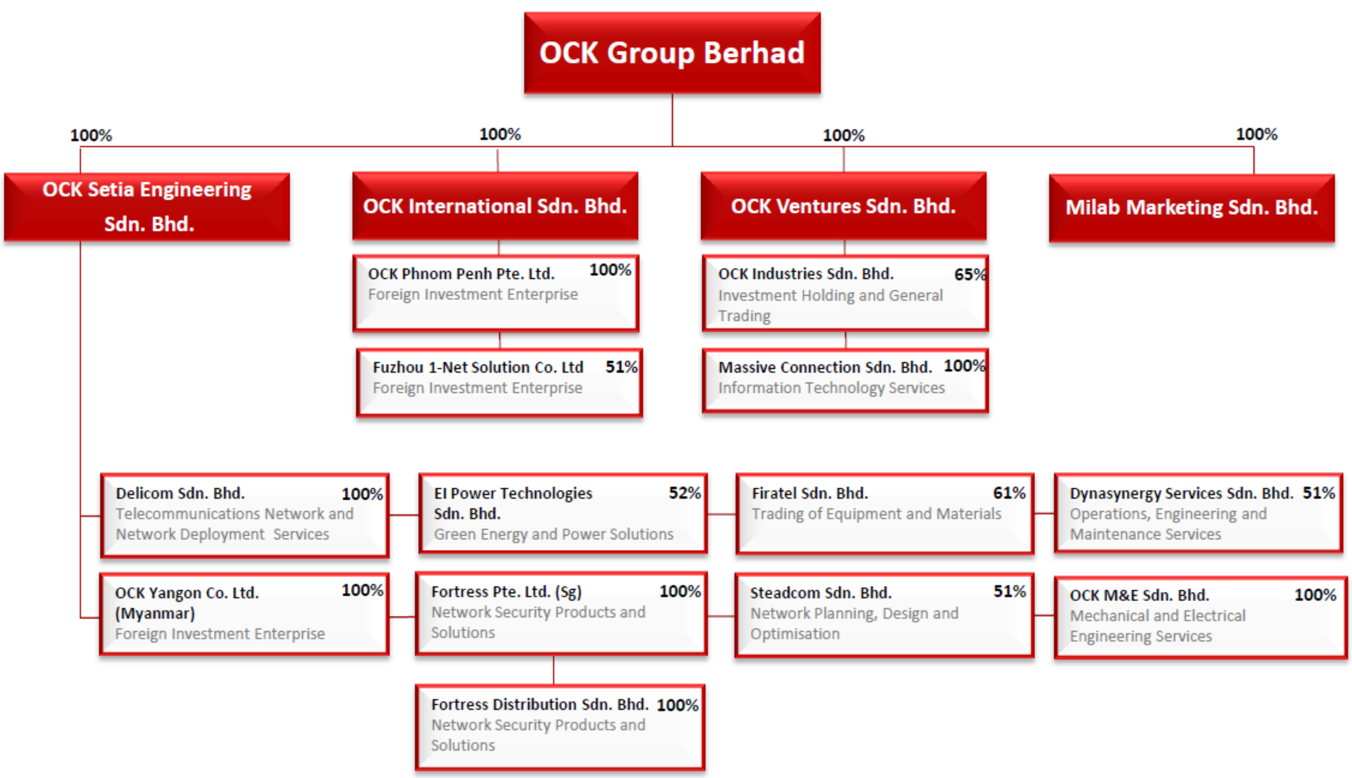
The contracts for network deployment services have been awarded either through telecommunications technology providers (such as Ericsson (ERIC US, NR) and Alcatel-Lucent (ALALF US, NR) or directly ï as was the case with DiGi.

Over the years, OCK has diversified its business into trading of telecommunications network equipment and materials, enterprise network security solutions and provision of green energy and power solutions.

Sam Ooi Chin Khoon, its MD, is the largest shareholder of OCK and responsible for the growth, development and strategic direction of the group. He has an indirect ownership in OCK via Aliran Armada SB, which holds a 45% direct equity stake in OCK. Lembaga Tabung Angkatan Tentera (LTAT) is the second largest shareholder of the company with an 11.8% equity stake. David Low Hock Keong (2.3% equity stake) is the executive director and group COO, supervising its overall daily operations.

Company Structure

Figure 1: OCK's corporate structure



Source: Company

Corporate Exercises

OCK is currently listed on the ACE Market. Having fulfilled the necessary requirements, it is expected to transfer to the Main Market in 4Q14, which could be a boost to the groupõs profile and investability.

Together with its proposed transfer to the Main Market, OCK also announced a bonus issue of up to 177,076,363 bonus shares (on the basis of one bonus share for every two existing OCK shares held). Management also expects the bonus issue exercise to be completed in 4Q14.

The group had also announced two equity fundraising exercises to finance its expansion plans. Management expects these exercises to be completed by 3Q14, and thus should not affect FY14 EPS too significantly, although it could have a full-year dilution impact on its FY15 EPS.

The first equity fund raising exercise was completed this month, which involved a private placement of 20% of OCKõs share capital. While this exercise was broken into two tranches, the issue price and the amount of new shares issued were similar at MYR1.30 and 28,490,000 placement shares respectively. As a result, OCK raised gross proceeds of MYR74.1m.

Figure 2: Proposed utilisation of proceeds from share placement

Details of utilisation	Timeframe	Min. Scenario (MYR)	Max. Scenario (MYR)
Business expansion	24 months	50,000,000	50,000,000
Repayment of borrowings	12 months	8,000,000	8,000,000
Renovation costs	12 months	3,000,000	3,000,000
General working capital	12 months	8,725,000	11,282,000
Estimated share placement expenses	Upon completion	1,500,000	1,500,000
Total		**71,225,000**	**73,782,000**

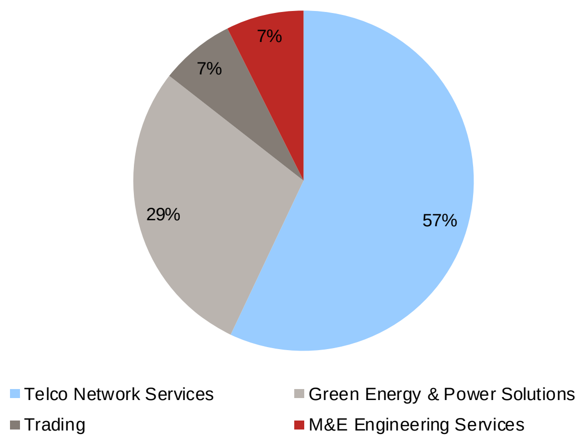
Source: Company data

Besides that, OCK is currently in the process of acquiring PMT for MYR21.25m, to be paid via a combination of MYR10m cash and issuance of 10.2m new OCK shares (to satisfy the remaining purchase consideration of MYR11.2m). Management expects this exercise to be completed by 3Q14.

The potential enlargement of OCKõs share capital and dilution to its EPS are shown in the Valuation & Recommendation section.

Segmental Information

Figure 3: FY13 revenue breakdown

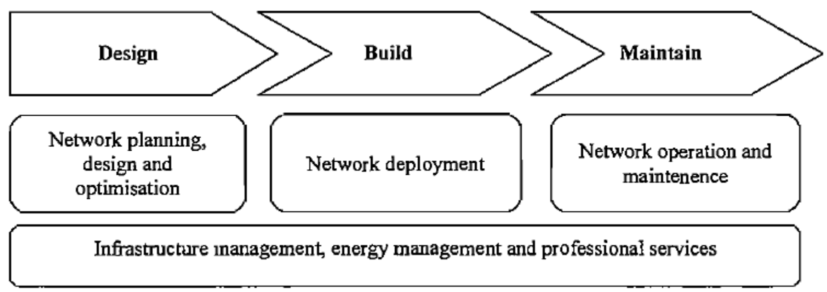


Source: Company data, RHB estimates

Business segments

The main revenue driver. OCK derives the bulk of its revenue from providing telecommunication network services, which made up 57% of its FY13 revenue. Most of the revenue from providing telecommunication network services still come from their traditional business of providing turnkey solutions (as seen below) for either the mobile operators themselves or through the telecommunication technology providers that ultimately serve the mobile operators. OCK has completed work for major players such as DiGi, U Mobile, Maxis, Celcom, Ericsson, ZTE (ZTCOF US, NR) and Alcatel Lucent.

Figure 4: Full spectrum of OCK's telecommunications network services



Source: Company

At the network design stage, OCK will work closely with either the client (mobile operator or telecommunication technology provider) to ensure that the network will achieve optimum coverage in width and depth. Once the network plans are confirmed, OCK will then embark on the network build phase and procure the necessary materials (these include telecommunications equipment and hardware). Once the network is deployed, OCK provides network maintenance, which involves providing support to maintain and troubleshoot all critical network elements.

We believe there are opportunities for more network deployment contracts as the mobile operators are still in early stages of rolling out 4G services. In fact, we expect all the mobile operators to spend more capex in 2014.

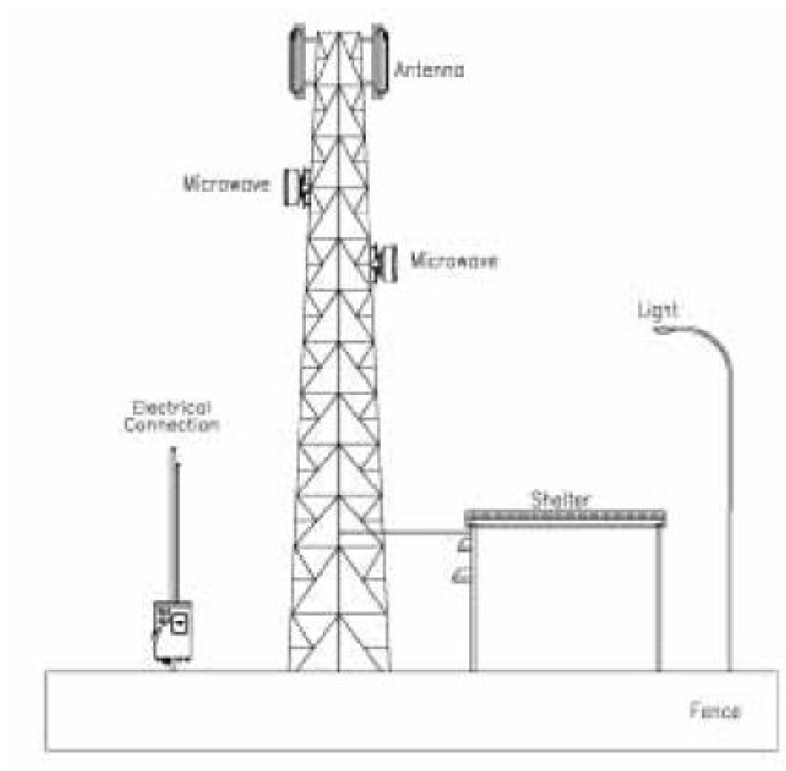
Figure 5: Mobile operators' capex to peak in 2014

MYR m	2011	2012	2013	2014F	2015F
Maxis	1,015	803	815	1,050	1,000
Celcom	965	949	923	1,000	900
DiGi	610	700	741	780	740

Source: Company data, RHB estimates

The first small but growing recurring revenue stream (we estimate roughly 10% of the telecommunication network services revenue) is the business of owning and leasing out telecommunication sites (towers and rooftop structures) as a telecommunications infrastructure owner, ie being an independent tower company (ITC). OCK has seen success since embarking on this strategy upon securing the Network Facility Provider (NFP) license from the regulator, Malaysian Communications and Multimedia Commission (MCMC) in Nov 2011. Starting from scratch following the award of the NFP license, OCK now has 240 sites achieved both via build-to-suit and acquisitions.

Figure 6: Standard facilities of a tower site



Source: Tower Bersama

Moving up with solar energy. OCK's green energy and power solutions (GEPS) division is traditionally involved in supplying power generation equipment including engine-generators, transformers and other related equipment used as back-up electricity generators for commercial, retail and factory buildings. The GEPS segment is the second largest driver to OCK's revenue, contributing 29% of FY13's revenue.

Recognising the potential of renewable energy, management intends to gradually build a second recurring income base by selling solar energy through the FiT (Feed-in-Tariff) scheme in Malaysia. Nonetheless, given OCK's background as a contractor, the group continues to offer EPC work for solar farms.

Trading business will remain a small contributor. OCK also trades in telecommunications hardware and installation materials such as antennas, feeder cables, connectors and water proofing tapes. Overall, its trading unit contributed 7% to the groupôs FY13 revenue. The group leverages on its relationships with telecommunications technology providers such as Ericsson and ZTE and mobile operators like DiGi, which makes it easier to introduce its product offerings for implementation together with their network equipment.

Besides that, OCK also trades in IT security products that cater the enterprise industry, like Giritech (virtual private network (VPN) solutions), Ironkey (secure data and online access solution) and Rapid7 (threat management solutions).

M&E engineering services will also remain a small business. Mechanical and electrical (M&E) engineering services (7% of FY13 group revenue) are needed for deployment and turnkey services, ie mainly for the construction of the network sites. In addition, the group offers M&E engineering services on a sub-contract basis, in collaboration with other construction companies for the development of commercial buildings, healthcare institutions and other types of buildings during off-peak periods.

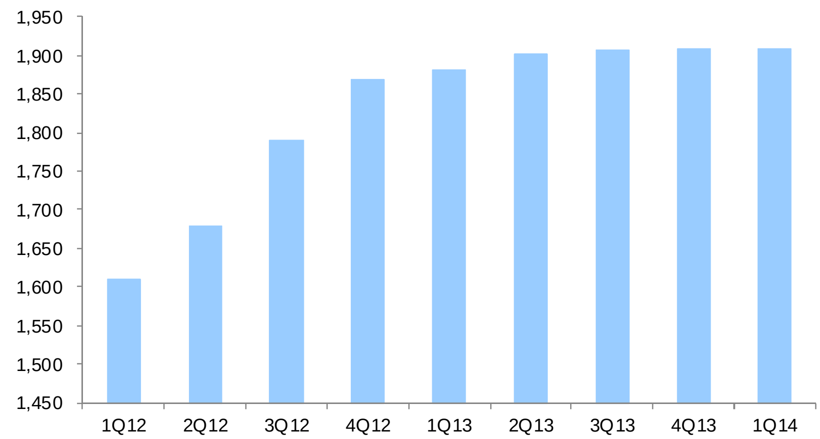
Besides providing M&E works for telecommunication towers, OCK also provides such services to the construction sector. Through its partnerships with construction companies, it has been able to win projects on a sub-contracted basis.

Key Investment Themes

Building for growth. Management sees plenty of growth opportunities as an ITC. OCK now has 240 telco sites (mainly rooftops relative to towers) achieved via both build-to-suit and acquisitions. Management expects to have 300 telco sites by year-end, which we believe will be driven by the incumbent mobile operatorsô continuous efforts to expand or fill in gaps in their 3G coverage.

Prior to TM entering the picture, Packet One (P1), which is a WiMAX operator, had seen its WiMAX rollout moderate significantly in the last four quarters ï which is unsurprising, given the capital-intensive nature of the business amid its continuing struggles to turn profitable (P1 recorded an unaudited loss of MYR133m in FY13). P1ôs current WiMAX population coverage is 50%.

Figure 7: P1's WiMAX rollout has taken a breather



Source: Green Packet

With TMôs acquisition of a 57% stake in P1, we believe OCK will likely see continued demand for telco sites. We think the entry of TM into P1 will be a significant shot in the arm for the WiMAX operator, as P1 would benefit from TMôs capital injection as well as significant fresh investments from the formerôs three major shareholders.

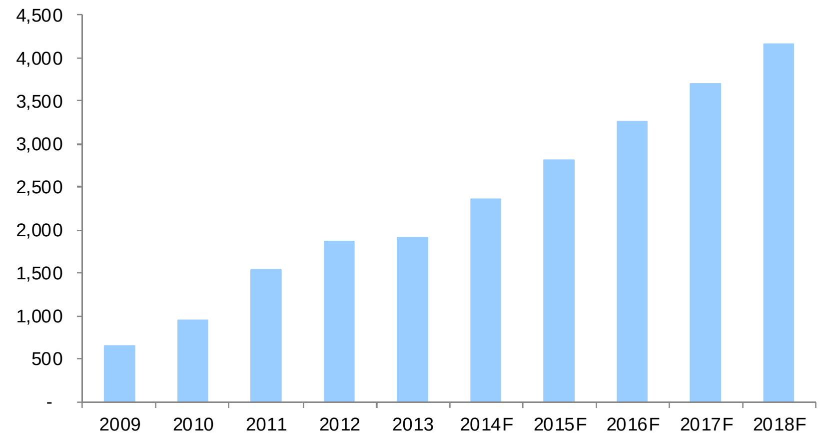
Upon completion of TMôs majority stake acquisition in P1 in 3Q14 and securing the necessary approvals (including from regulators), TM will essentially gain access to P1ôs WiMAX and LTE spectrum ï a nationwide network footprint of about 2,000 WiMAX sites, 500k wireless dongle users, as well as technical and strategic knowhow from Green Packet (GRPB MK, NR) and SK Telecom (017670 KS, NR).

We understand from management that OCK acts as a main contractor for the rollout of P1ôs telco sites, and believe that this could be positive for OCK if the arrangement remains intact following the entry of TM into P1, as TM intends to invest MYR1bn (together with an additional MYR659m combined from SK Telecom and Green Packet) to accelerate the rollout of LTE services.

Assuming one-third of the MYR1.65bn investment (from the issuance of an 8-year redeemable convertible secured bond) is used to roll out new telco sites, we estimate P1ôs telco site base could expand to 4,158 by end-2015 from 1,908 as at end-2013 (ie an average growth of about 450 telco sites annually). Our estimates are based on the assumption that an average telco site costs MYR150k, and that TM will build up P1ôs existing telco site base evenly over the duration of the bond.

If executed well, we think OCK could improve its margins going forward. The groupôs FY13 EBITDA margin stood at 16.6%, which is far below that of the major cellcos (45-50%). Nonetheless, we note that the ITCs in Indonesia such as Tower Bersama (TBIG IJ, BUY, TP: IDR8,000) and Sarana Menara (TOWR IJ, BUY, IDR4,350) command EBITDA margins of about 82-83%. Of course, the large scale, the geographic area of Indonesia and higher tenancy ratio of 1.8-1.9 are some of the key reasons for the ITCsô high EBITDA margins. Nonetheless, we think OCK will be able to show some improvement in EBITDA margin by building up more scale and improving its tenancy ratio (which we understand from management is currently in the range of 1.5-2.0).

Figure 8: TM is expected to aggressively expand P1's telco sites base



Source: Green Packet, RHB estimates

Diversifying into site maintenance. While the lease of telco sites offers OCK a growing recurring revenue base, it is also looking to capture a slice of the telco site maintenance market that offers recurring revenue. While site maintenance offers lower revenue per telco site in comparison to leasing the telco site itself, management believes there is a sizeable market in Malaysia, and an even bigger one in Indonesia.

We concur with management on the domestic prospects as incumbent mobile operators may seek to improve cost efficiencies amid stiffer competition from the smaller players, by outsourcing the maintenance of their telco sites given ongoing challenges in monetizing data. Earlier this year, we gather from management that OCK secured a deal with a major cellcoõs site maintenance unit involving 4,000 telco sites and intends to expand further.

With the proposed acquisition of PMT, we believe the move is positive as it gives OCK indirect exposure to the large tower market in Indonesia. In April, it announced that it will acquire an 85% stake in PMT for MYR21.2m from Song Chin Yew and Lim Hooi Seeh (both key management personnel will continue to hold the remaining 15% minority stake in PMT). PMT is principally involved with telco site maintenance in Indonesia. Management expects the acquisition to be completed by 3Q14.

Figure 9: PMT's financial track record

MYR m (FYE 31 Dec)	2011	2012	2013
Revenue	3.0	24.2	39.1
Profit Before Tax	(0.3)	1.3	9.3
Profit After Tax	(0.3)	0.9	7.1

Source: Company data

PMT currently counts Huawei (002502 CH, NR) and Ericsson among its main customers to maintain tower and rooftop sites totaling 7,500 owned by Hutch, Axis and XL Axiata (EXCL IJ, NEUTRAL, TP: IDR4,700). While the traditional large independent tower companies such as Tower Bersama and Sarana Menara maintain the telco sites that they own, we understand from management that these independent tower companies also outsource maintenance work for a portion of their telco sites to local companies such as PMT. As at 1Q14, Sarana Menara owns about 10,000 tower sites while Tower Bersama has 9,400.

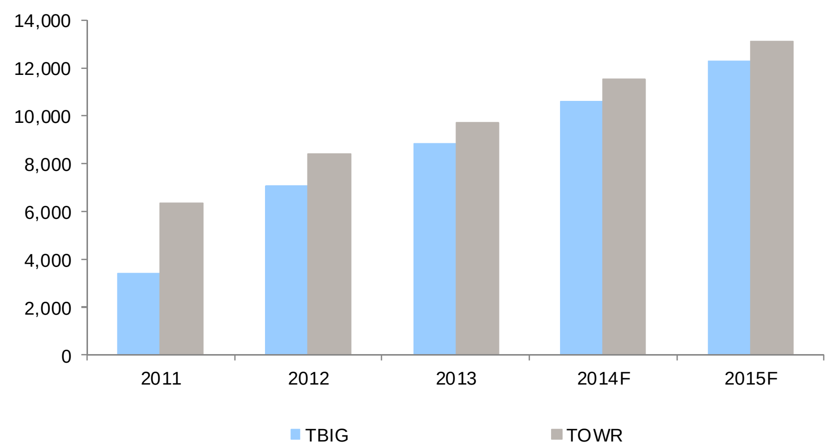
Beneficiary of Budget 2014. According to the Budget 2014, the Malaysian government had planned to construct 1,000 telco sites with a budget of MYR1.5bn over the next three years, in order to increase Internet penetration in rural and underserved areas. This development will be funded by the Universal Service Provision (USP) fund, which is regulated by Malaysian Communications and Multimedia Commission (MCMC).

We understand that OCK is keen to bid for both the building and maintenance of these telco sites. The first phase will involve around 400 telco sites, and bidding could be fairly intense as we gather from management that the group may compete with many applicants.

We do not have the exact timeline on when the results of the tender for the first phase will be known, but we think this would likely take place in the next month or two. While bidding is expected to be competitive, OCK is a Tier-1 player in providing telco network services, and has a solid track record in building such telco sites.

Making its presence felt in Indonesia. We think the growth prospects of PMT look positive in Indonesia, as we expect tower demand from the incumbent mobile operators to remain strong. We expect continued aggressive 3G deployments from Telkomsel (65% owned by Telekomunikasi Indonesia Persero (TLKM IJ, BUY, TP: IDR2,650), while Indosat (ISAT IJ, NEUTRAL, TP: IDR4,300) should become more active in the coming quarters. Indosat recently completed its network modernization in seven cities, and may be keen to ramp up coverage to avoid lagging behind peers. In addition, we think Indosat may be keen to address capacity issues following the network disruption in April. While XL Axiata is still digesting its acquisition of Axis, we gather that Hutch is still expanding its network coverage and capacity.

Figure 10: Demand for towers to remain strong in Indonesia



Source: Company data, RHB estimates

Green energy. While OCK will be on the lookout for more EPC projects related to solar plants, management is more keen on building up a recurring income base in this segment by increasing solar energy production. OCK already has a track record in building solar power plants ï the group was contracted by Malaysia Airports Holdings (MAHB MK, BUY, FV: MYR9.80) to build a 10MW solar farm at KLIA that was completed in seven months.

OCK began producing solar energy in Oct 2013, with its maiden 1-megawatt (MW) solar plant in Kelantan, which allows it to sell solar energy produced under the feed-in-tariff (FiT) program managed by the Sustainable Energy Development Authority (SEDA). Management said that the land area of its existing 1MW solar plant in Kelantan is actually sufficient to cater for an additional 2MW of solar energy capacity.

Figure 11: OCK's 1MW solar farm in Kelantan

Source: Company

SEDA is planning to ramp up the production of renewable energy (RE) under the FiT program, and with an additional RE quota of 65MW planned for 2014, this could increase to 109MW by 2017. Management expects SEDA to release the first round (allocations are done twice in a year) of the 65MW RE quota allocation by July. More importantly for OCK, solar energy will continue to be a mainstay for SEDA to achieve its target of RE constituting 5% of the countryõs energy mix in 2015 ï although other sources of RE such as hydro will start to play a more significant role.

In the medium term, OCK is targeting to generate 30MW worth of solar energy. We think this could be challenging for management to achieve given that only 82MW of solar energy quota (for non-individual >425kW) will be released in the coming three years. This implies OCK needs to win 36% of the quota available amid stiff competition. The 20MW of solar energy quota for non-individuals (500kW category) released in April 2013 was taken up within the first hour of release.

Figure 12: RE quota based on commercial operational year (MW)

Source/Technology	2014	2015	2016	2017
Biogas	10	15	15	15
Biomass	15	18	20	20
Biomass (solid waste)				15
Small hydro			50	100
Solar PV for individual	10	15	15	15
Solar PV for non individual <425 kW	10	20	20	24
Solar PV for non individual >425 kW	15	34	33	
Solar PV for community	5	7	7	7
Geothermal			30	
Total	**65**	**109**	**190**	**196**

Source: SEDA

Geographical expansion. OCK is also looking for opportunities to tap into less developed markets in the region. In preparation for the groupõs geographical expansion plan, it set up several subsidiaries in Cambodia, Myanmar and China within the last two years. We believe the potential contracts to be won in these countries will be telecommunication network services-related, which could fuel the short- to medium-term growth of the group.

In Myanmar, OCK is understood to be competing for a high-end network optimization contract from telecommunication giants such as Telenor Group (TEL NO, NR) and Qtel Group. Both were granted a telecommunication license each by the Myanmar government and are expected to install up to 3,000 towers annually under the strict implementation plans outlined during the bidding process in 2013. Meanwhile, its 51% subsidiary in Fuzhou, China is preparing for potential opportunities that may arise from telco infrastructure upgrading works.

A strong Tier-1 player. Only 10% of the market players ï estimated at less than 200 in number by Protégé Associates ï including OCK are Tier-1 players, while the remaining 90% are in Tier-2. Tier-1 market players such as OCK consist of companies with an annual revenue of at least MYR25m, possess higher technical competency and are likely to have strategic alliances or partnerships with their principal suppliers.

The services from Tier-1 players are also more comprehensive, as they offer the whole spectrum of telecommunications network services from network planning to infrastructure management. Other notable Tier-1 market players include Instacom Engineering SB and R&A Telecommunications SB.

Key Risks

Dependency on major customers. We understand that OCK's traditional major customers such as DiGi and Ericsson contribute a material amount to overall group revenue. To mitigate this risk, the group makes an effort to expand its customer base every year. This will be further supported by its ongoing efforts to expand regionally.

Problems in projects. As the bulk of its revenue is mainly derived from the provision of telecommunications network services, it is crucial for the group to meet customer requirements of products and services on a timely basis. Occasionally, the group may face downtime due to weather issues, a shortage of sub-contractor manpower and a delay in the delivery of supplies and equipment ï which may be beyond the group's control.

This risk is mitigated by assigning project managers to monitor progress. Nonetheless, the group has a track record in managing telecommunications network turnkey projects and providing deployment services.

Network sharing. The increasing trend of sharing telecommunications sites, which is encouraged by the Government, may potentially lead to the erection of less towers going forward. DiGi and Celcom are already actively engaged in passive sharing of infrastructure, which will lead to the elimination of multiple towers in one site.

Regulatory changes. OCK's recent foray into regional markets that have less developed regulatory frameworks such as Myanmar implies that the group may be vulnerable to potential unfavorable regulatory changes.

Delays in tender awards. Potential delays in the release of RE quota by SEDA as well as delays in the announcement of the tender award in relation to the first phase of the 1,000 telco sites by the Government could result in lower-than-expected earnings growth for OCK. SEDA was supposed to release the first round of RE 2014 quota in March, but was delayed. This could result in delayed revenue recognition for OCK due to lead time (several months) required to build the solar plants. Similarly, delays by the Government in its tender process for subsequent phases under the 1,000 telco sites would result in delayed revenue recognition for OCK.

Forecast and Assumptions

1QFY14 earnings review. 1Q14 rose 19.5% y-o-y, driven by completion of the engineering, procurement and construction works of 10MW solar plant in Sepang and an increase in recurring revenue from leasing telco sites. Q-o-Q, revenue fell 20.8% but we think this is seasonal, as there is typically less execution required by mobile operators, as they tend to focus on site planning and site upgrading activities instead. There were y-o-y improvements to profit margins, as OCK reduced its reliance on lower-margin businesses, such as trading and M&E services. Therefore, net profit increased 41.3% y-o-y to MYR3.1m.

Figure 13: OCK's 1QFY14 earnings review

FYE Dec (MYR m)	1QFY13	4QFY13	1QFY14	q-o-q (%)	y-o-y (%)	Comments
Revenue	**30.6**	**46.2**	**36.6**	(20.8)	19.5	Higher y-o-y mainly due to completion of the engineering, procurement, and construction of 10MW solar plant in Sepang and more recurring revenue from tower leasing.
EBITDA	**4.2**	**9.4**	**6.7**	(29.0)	59.5	Q-o-q decline largely due to less execution work required by the mobile operators, which typically focus on site planning and upgrading activities instead.
EBITDA Margin (%)	*13.6*	*20.3*	*18.2*			
Depreciation	(0.4)	(0.7)	(0.9)	21.5	119.0	
EBIT	**3.8**	**8.7**	**5.8**	(33.1)	53.4	
EBIT Margin (%)	*12.3*	*18.8*	*15.8*			
Interest expense	(0.5)	(1.3)	(1.3)	(3.5)	134.9	Total debt as at 1Q14 was MYR67.5m (4Q13: MYR60.4m; 1Q13: MYR56.4m).
Pretax profit	**3.2**	**7.3**	**4.5**	(38.4)	39.7	
Pretax Margin (%)	*10.6*	*15.9*	*12.4*			
Tax	(0.8)	(2.5)	(1.1)	(56.2)	34.9	
Effective tax rate (%)	*25.0*	*34.0*	*24.2*			
Minority interests	(0.3)	(0.3)	(0.4)			
Net Profit	**2.2**	**4.5**	**3.1**	(32.8)	41.3	
Net Margin (%)	*7.1*	*9.8*	*8.3*			

Source: RHB estimates

Figure 14: Breakdown of OCK's 1QFY14 revenue

FYE Dec (MYR m)	1QFY13	4QFY13	1QFY14	q-o-q (%)	y-o-y (%)	Comments
Telco network services	20.9	25.1	18.2	(27.5)	(12.9)	
Green energy solutions	4.4	14.0	12.6	(10.4)	>100	
Trading	3.1	1.8	1.5	(17.5)	(52.0)	
M&E electrical services	2.2	5.2	1.1	(78.4)	(48.4)	
Investment holding co.	0.0	0.0	0.0	nm	nm	
Network facilities provider	0.0	0.0	3.2	nm	nm	Telco site lease revenue.
Total Revenue	**30.6**	**46.2**	**36.6**	**(20.8)**	**19.5**	

Source: RHB estimates

Forecasts. We forecast OCK's net profit to grow at a CAGR of 52% in FY13-15 on the back of strong overall revenue growth (CAGR of 32% in FY13-15) in its traditional telecommunication network services through new contracts for network deployment and contracting work for building telco USP-related sites.

In particular, we expect the group's recurring revenue base within the telecommunication network services (estimated at 10% of telecommunication network services' FY14 revenue) to grow gradually as OCK builds up its telco site portfolio. OCK now has 240 sites and we estimate it to own 300 by end-2014 before growing the number to 400 by end-2015, driven by mobile operators and TM-P1's continuously expanding their LTE coverage.

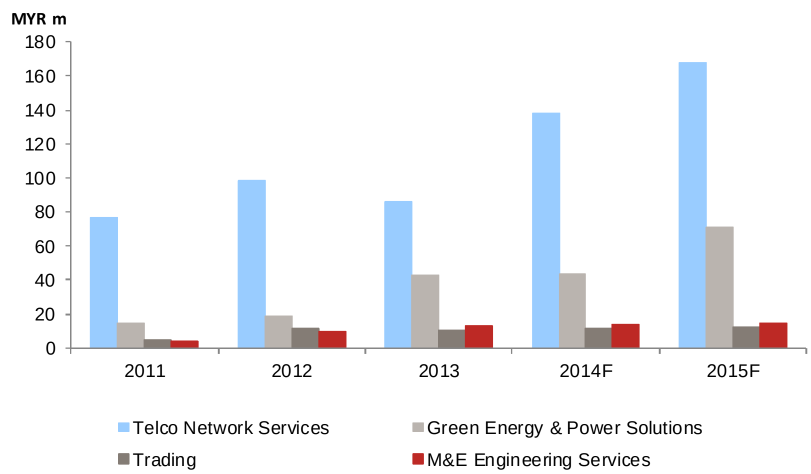
We expect its green energy to be one of the key revenue growth drivers for OCK. The group's existing 1MW solar plant in Kelantan is actually sufficient to cater for an additional 2MW of solar energy capacity. We assume OCK to add another 1MW solar energy capacity in 2015 upon securing more solar energy quota from SEDA.

Figure 15: Revenue forecasts and assumptions

	2011	2012	2013	2014F	2015F
Telco Network Services	77.1	98.6	85.8	138.4	167.9
Growth (%)		*27.9%*	*-13.0%*	*61.4%*	*21.3%*
Green Energy & Power Solutions	15.0	18.8	42.9	44.0	70.6
Growth (%)		*25.7%*	*128.3%*	*2.4%*	*60.5%*
Trading	4.4	11.7	10.6	11.2	11.9
Growth (%)		*166.7%*	*-9.2%*	*6.0%*	*6.0%*
M&E Engineering Services	3.8	9.5	12.7	13.5	14.3
Growth (%)		*150.6%*	*33.6%*	*6.0%*	*6.0%*
Total Revenue	**100.2**	**138.6**	**152.0**	**207.1**	**264.7**
Growth (%)		*38.3%*	*9.7%*	*36.2%*	*27.8%*

Source: Company data, RHB estimates

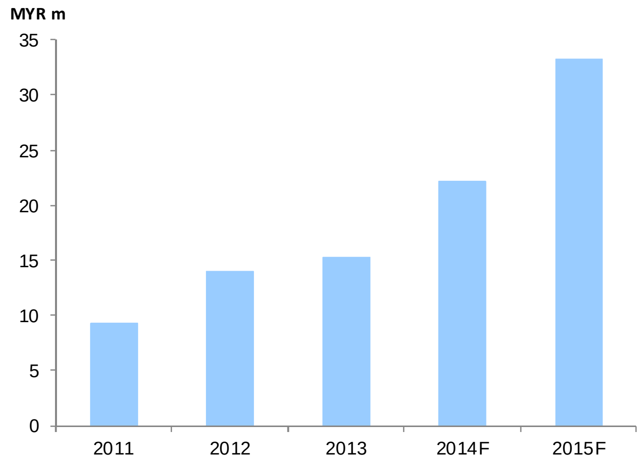
Figure 16: Telco and solar energy to drive growth



Source: Company data, RHB estimates

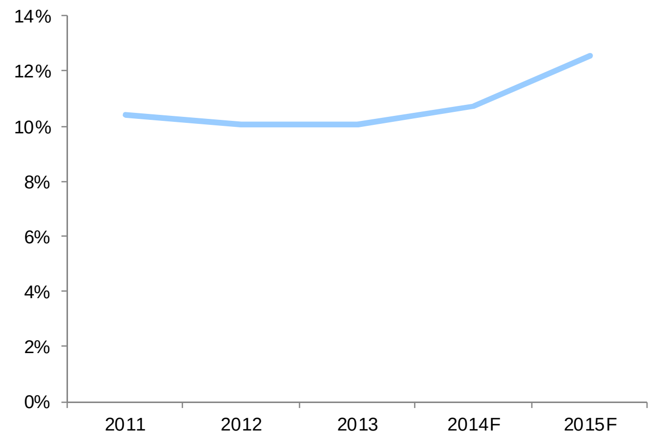
Guidance. Management guided that it may record MYR23m in net profit for FY14 (which implies 69% y-o-y growth). Our FY14 earnings forecast is slightly more conservative, at MYR20.9m (which implies 54% y-o-y growth). For FY15, we forecast OCK to achieve MYR31.4m in net profit, which implies that earnings growth could remain strong at 50%. While our FY13-15 revenue growth CAGR is only 32%, we think the better growth in bottomline while driven by a more favorable revenue mix.

Figure 17: Strong PAT growth



Source: Company data, RHB estimates

Figure 18: PAT margins expected to improve



Source: Company data, RHB estimates

PAT margins to gradually improve. We expect PAT margins to improve gradually over FY13-15, driven by a more favorable revenue mix as solar energy (PAT margins >10%) contributes more to OCKô s revenue while its smaller businesses (trading and M&E engineering services which command PAT margins in the mid-to-high single digit range) contribute less (9.3% of FY15 revenue vs 14.4% of FY13 revenue). Besides that, we expect recurring revenue (which also imply better margins) to contribute more towards overall group numbers, as it reduces reliance on contracting work, which commands thinner margins.

We do not foresee any material risk to margins as long as OCK can control its labour costs, which has risen to 16.8% of total revenue from 7.9% in FY12/ As far as the telco site leasing business is concerned, steel is one of the key raw materials used for building towers, but we estimate this may comprise roughly only 10% of total construction costs. In any case, we observe that steel prices have been relatively stable in the past 12 months (based on data from worldsteelprices.com).

Capex to trend higher. We estimate capex to be around MYR10-20m per annum in FY14-15, as OCK continues to build up its telco site portfolio via build-to-suit jobs or acquisitions. In addition, we gather that the additional 1MW of solar energy capacity at its existing Kelantan site alone could result in additional capex of MYR7m. Its regional expansion efforts in countries such as Indonesia may also result in elevated capex going forward.

Balance sheet and cash flows. OCK currently has reasonable gearing levels. As at 1Q14, its gross debt/equity level stood at 0.8x. Factoring its gross cash balance of MYR21m brings down its net gearing level to 0.6x. We note that it has a *sukuk* facility worth MYR150m in place, but only MYR4m has been drawn down so far. The capacity to gear up gives it ample financial capacity to acquire more telco sites or be used for inorganic expansion.

Dividends. As OCK is still in a high growth phase, the group currently does not pay any dividends. It does not have a formal dividend policy.

Valuation And Recommendation

Valuation. We initiate coverage on OCK with a BUY rating with a FV of MYR1.65 after attaching a target P/E of 18.5x to its FY15 EPS of 8.9 sen (taking into account the dilution from its placement exercise and new shares to be paid as consideration for its acquisition of PMT).

The ascribed target P/E is based on a 15% discount to the large-cap domestic telecom companiesô average of 21.9x, applied to account for OCKõs significantly smaller scale of operations. 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.

The upside potential for the stock, however, is somewhat limited by the dilution to its earnings as a result of the above-mentioned new equity raised for the groupõs expansion plans. We think management needs to deliver on good earnings growth to offset the dilutive effect first before the stock can see a further re-rating.

Figure 19: Impact to share capital from new equity fundraising exercises

	2015F
FY15 net profit forecast	31.4
Existing share capital (m)	284.9
20% private placement (m)	57.0
New shares to be issued to finance PMT acquisition (m)	10.2
Enlarged share capital	**352.1**
FY15 EPS forecast (sen)	8.9
P/E target multiple (x)	18.5
Target Price (MYR)	**1.65**

Source: RHB estimates

Figure 20: Scenario analysis of FVs based on EPS growth and P/E valuation

		FY15F P/E (x)				
FY15F EPS	**sen**	**14**	**16**	**18.5**	**20**	**22**
-30%	**6.2**	0.87	1.00	1.15	1.25	1.37
-20%	**7.1**	1.00	1.14	1.32	1.43	1.57
-10%	**8.0**	1.12	1.28	1.48	1.60	1.76
Base	**8.9**	1.25	1.43	**1.65**	1.78	1.96
+10%	**9.8**	1.37	1.57	1.81	1.96	2.16
+20%	**10.7**	1.50	1.71	1.98	2.14	2.35
+30%	**11.6**	1.62	1.85	2.14	2.32	2.55

Source: RHB estimates

Figure 21: Comparative valuations

Company	Bloomberg Ticker	Currency	Ratings	FV	Price	Mkt Cap (USDm)	P/E (x) FY14	P/E (x) FY15	EV/EBITDA (x) FY14	EV/EBITDA (x) FY15	P/BV (x) FY14	P/BV (x) FY15	PEG (x)	DY (%) FY14	DY (%) FY15	ROE (%) FY14	ROE (%) FY15
Malaysia																	
Axiata	AXIATA MK	MYR	Neutral	6.85	6.95	18,521.0	22.1	20.5	9.1	8.4	2.8	2.8	3.0	3.6	4.2	13.2	13.6
Maxis	MAXIS MK	MYR	Sell	6.00	6.74	15,779.3	24.1	22.9	13.0	12.6	10.3	12.3	nm	5.9	5.9	38.4	48.8
DiGi	DIGI MK	MYR	Buy	6.20	5.71	13,823.3	22.3	21.1	14.0	13.3	nm	nm	4.2	4.5	4.7	nm	nm
TM	T MK	MYR	Neutral	6.10	6.33	7,229.1	26.3	24.8	8.1	7.8	3.6	3.4	3.6	3.4	3.6	13.7	14.1
Time dotCom	TDC MK	MYR	Buy	5.20	4.62	822.3	21.8	20.2	12.1	10.7	0.8	0.8	0.5	0.9	1.3	4.9	5.0
Indonesia																	
Tower Bersama	TBIG IJ	IDR	Buy	8,000	8,050	3,197.0	25.7	20.7	18.1	15.9	7.5	5.9	1.1	0.9	1.1	33.0	31.8
Sarana Menara	TOWR IJ	IDR	Buy	4,350	3,975	3,385.3	33.1	29.2	15.6	14.1	7.4	6.0	nm	0.0	0.0	29.4	25.4
Simple Avg. - Malaysia Telcos							**23.3**	**21.9**	**11.3**	**10.6**	**4.4**	**4.8**	**2.8**	**3.7**	**3.9**	**17.6**	**20.4**
Simple Avg. - Indonesia Towers							**29.4**	**25.0**	**16.9**	**15.0**	**7.4**	**5.9**	**1.1**	**0.4**	**0.6**	**31.2**	**28.6**
OCK	OCK MK	MYR	Buy	1.65	1.42	142.5	19.4	15.9	13.2	9.3	3.9	4.3	0.7	0.0	0.0	22.5	26.5

Note: Share prices as at 2 July 2014

Source: Bloomberg, RHB estimates

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 estimates

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 estimates

Financial Exhibits

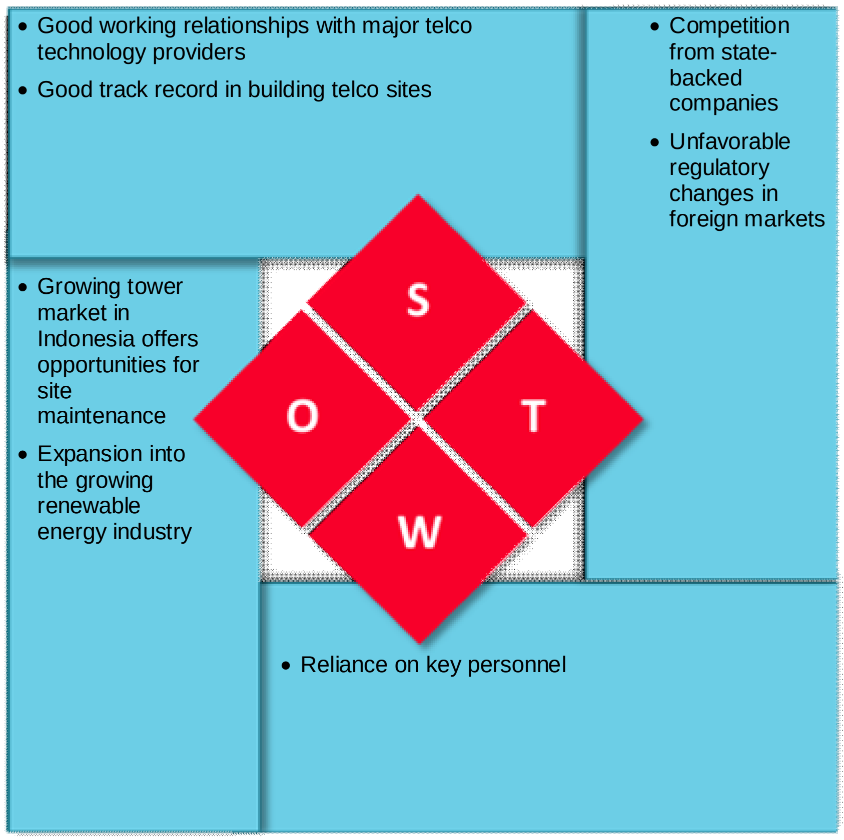
Balance Sheet (MYRm)	**Dec-11**	**Dec-12**	**Dec-13**	**Dec-14F**	**Dec-15F**
Total cash and equivalents	10	11	17	35	55
Inventories	9	13	18	20	25
Accounts receivable	29	60	67	74	94
Other current assets	3	9	13	-	-
Total current assets	**51**	**94**	**115**	**129**	**174**
Tangible fixed assets	15	35	66	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 estimates

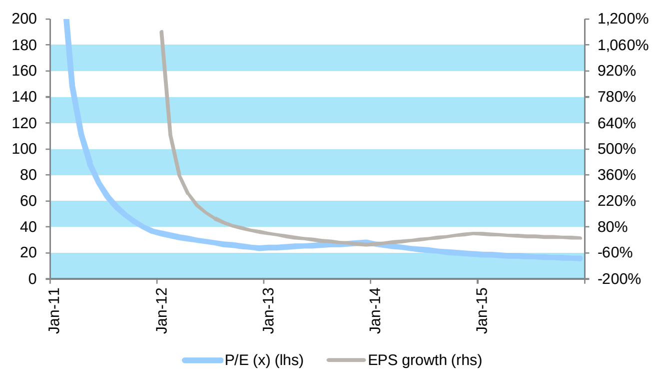
Key Ratios (MYR)	**Dec-11**	**Dec-12**	**Dec-13**	**Dec-14F**	**Dec-15F**
Revenue growth (%)	0.0	56.9	9.7	36.2	27.8
Operating profit growth (%)	0.0	71.3	11.8	36.5	44.8
Net profit growth (%)	0.0	54.3	3.3	53.7	50.3
EPS growth (%)	0.0	54.3	(15.1)	45.3	21.5
Bv per share growth (%)	394.4	111.2	31.0	29.0	(9.3)
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 estimates

SWOT Analysis

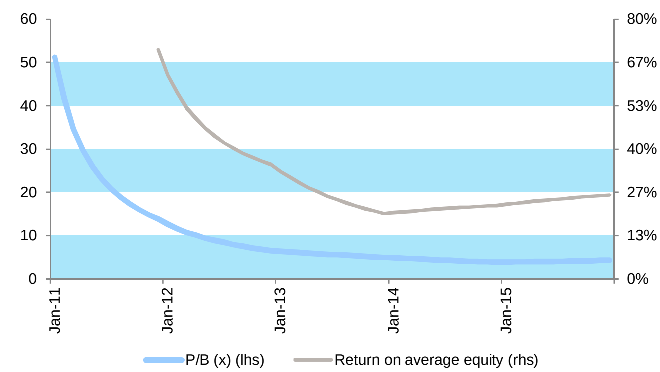


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

Company Profile

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

Recommendation Chart

Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-12-09	Not Rated	na	0.81

Source: RHB estimates, Bloomberg

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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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Sell: Share price may fall by more than 10% over the next 12 months
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