RHB Research Institute Sdn Bhd
A member of the RHB Banking Group
Company No: 233327 -M

New Listing

16 July 2012

OCK Group

Public Issue Of 75m New Shares

Issue Price : RM0.36
Fair Value : RM0.40

Table 1. Investment Statistics — **Bloomberg: OCK MK**

FYE Dec	Turnover (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PER (x)	P/NTA (x)	P/CF (x)	ROE (%)	Net Gearing (x)	NDY (%)
2011A	88.3	8.5	3.3	>100	12.2	2.2	6.6	19.6	Net Cash	0.0
2012F	98.9	9.7	3.8	14.1	10.7	2.1	3.9	21.0	Net Cash	0.0
2013F	106.8	10.5	4.0	7.6	9.9	1.7	5.3	18.4	Net Cash	0.0
2014F	113.2	11.1	4.3	5.7	9.4	1.4	5.1	16.3	Net Cash	0.0

Valuations based on estimated fair value of RM0.40/share

Issued capital (m shares) 259.0 (RM0.10 par) **Market capitalisation (RMm)** 103.6 (@ FV)

- **Background.** OCK Group (OCK) is principally involved in the provision of telecommunications network services. Among other things, this mainly encompasses network planning, deployment and operations & maintenance to provide network deployment services for the local mobile operators such as Maxis, Celcom and 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.

- **Key investment themes.**

  1) **Room for growth.** Protégé Associates forecasts the market size of Malaysia's telecommunication network services market to grow at a CAGR of 2.9% from 2011 to 2016. This bodes well for OCK who operates within the sub-segment of telecommunications infrastructure, hardware and equipment expenditure, which make up 65-75% of the telecommunication network services market.

  2) **4G brings opportunities.** We believe there are opportunities for more network deployment contracts once the mobile operators begin rollout of 4G services beginning Jan 2013.

  3) **A strong Tier-1 player.** Only 10% of the market players including OCK (estimated by Protégé Associates to be less than 200) are Tier-1 players. The services from Tier-1 players are more comprehensive, offering the whole spectrum of telecommunications network services from network planning to infrastructure management.

- **Risks.** 1) Dependency on major customers such as DiGi and Ericsson; 2) Project risks during execution; and 3) Network sharing, which may lead to erection of less towers going forward.

- **Forecasts.** We forecast OCK's net profit to grow at a CAGR of 9% from FY11-14, on the back of new contracts for network deployment supported by a healthy order book of RM67.1m.

- **Valuation.** We value OCK at RM0.40/share, based on a target multiple of 10x on our FY13 EPS forecast of 4.0 sen. Our PER target for the stock is at a 50% discount to the large market cap telecommunications sector average of about 19.8x due to: 1) significantly smaller scale of operations; 2) potential foreign country and exchange risk; 3) dependence on DiGi and Ericsson; and 4) lack of a well-articulated dividend policy. OCK has not set out a formal dividend policy.

LISTING DETAILS

Listing Sought	Ace Market
Listing Date	17 Jul 2012
Public Issue	75m new shares, including: - 58.5m for private placement - 9.5m to eligible employees; and - 7.0m to the public

MAJOR SHAREHOLDERS (After IPO)

Abdul Halim Bin Abdul Hamid	42.2%
Ooi Chin Khoon	21.1%

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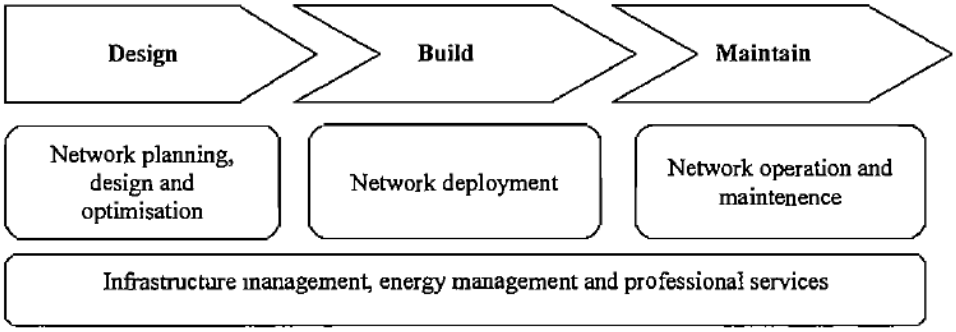
Please read important disclosures at the end of this report.

COMPANY PROFILE

- **Background.** OCK Group (OCK) is principally involved in the provision of telecommunications network services. Among other things, this mainly encompasses network planning, deployment and operations & maintenance to provide network deployment services for the local mobile operators such as Maxis, Celcom and DiGi. The contracts for network deployment services are awarded either through telecommunications technology providers (such as Ericsson and Alcatel-Lucent) or directly 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.

Chart 1 : Full Spectrum Of OCK's Telecommunications Network Service Offering



Source: OCK Prospectus

- **Future plans.** On future plans, OCK hopes to generate steady recurring income by becoming a telecommunications infrastructure owner, which involves owning and leasing out telecommunication sites (towers and rooftop structures). This is now possible after securing the Network Facility Provider (NFP) license from the regulator, Malaysia Communications and Multimedia Commission (MCMC) in Nov 2011.

  Management envisages tower lease income to be the key earnings growth driver going forward. Of the RM27m proceeds to be raised from the IPO, management expects to spend an initial RM10m on constructing new sites and to use internally generated funds for any potential site acquisition.

  While mobile operators have traditionally owned their own infrastructure, rising infrastructure development costs has prompted operators to share their infrastructure and also lease towers to keep capex under control. This trend has already been seen in major mobile markets such as India and Indonesia, while in Malaysia both DiGi and Celcom are already engaged in passive infrastructure sharing.

  OCK also aims to be a regional telecommunications network provider and has already started commencing project trials in Vietnam for a local mobile operator. Other countries that OCK are targeting include Philippines, Thailand, Indonesia and Myanmar where there is strong potential for telecommunications network deployment due to lower mobile penetration. So far, OCK has started negotiations with the technology providers on details of agreements in Indonesia and Vietnam, and will be setting up local offices to commence operations thereafter.

- **Major customers.** OCK derives a significant portion of its revenue from major customers, in particular DiGi and Ericsson, who each contributed more than 10% of the group's revenue in FY11. OCK operates on frame agreements with its customers who are not committed to purchase a minimum amount from OCK at any specific interval during the frame agreement period. There is no specified value in these agreements other than unit rates for services and materials. Instead, OCK receives purchase orders or bills of quantity for the required work, service and materials during the duration of the agreement in no specific intervals.

  Nonetheless, the frame agreements ensure that OCK is the selected provider of such services rendered. In addition, the established long business relationships with its customers (ranging from 4 to 8 years) and OCK's continuous relationship building helps to mitigate the group's dependency risk on its customers.

Table 2 : Increasing Revenue Contributions From Overseas

Name	Country	Length Of Relationship (years)	2009 RMm	2009 %	2010 RMm	2010 %	2011 RMm	2011 %
Alcatel-Lucent	Network Deployment	8	12.5	27.2	7.7	11.5	3.7	4.2
DiGi	Turnkey N. Deployment	8	12.4	26.9	11.5	17.3	14.6	16.5
Ericsson	Network Deployment	8	5.7	12.4	11.9	17.8	11.5	13.0
Huawei	Network Deployment	4	2.6	5.6	6.3	9.5	8.0	9.0
NEC	Network Deployment	4	1.7	3.8	10.7	16.0	3.9	4.4
ZTE	Network Deployment	4	3.7	8.0	7.5	11.2	5.7	6.5
Total			**38.5**	**83.9**	**55.6**	**83.3**	**47.4**	**53.7**
Total no. of customers			29	100.0	58	100.0	97	100.0

Source: OCK Prospectus

- **Revenue contributors.** OCK derives the bulk of its revenue from providing telecommunication network services (see Table 3). The 32.2% increase in group revenue in FY11 was mainly driven by increased orders from new and existing customers in telecommunication network services for expansion of the customers' WiMAX and 3G coverage.

  Green energy and power solutions involve supplying power generation equipment including engine-generators, transformers and other related equipment used as back-up electricity generators for commercial, retail and factory buildings. Recognising the potential of renewable energy, OCK is in trial stages of introducing co-generation power systems that utilise both electricity generators and solar power panels in tandem to customers.

  OCK also trades in telecommunications hardware and installation materials such as antennas, feeder cables, connectors and water proofing tapes. The group leverages on its relationship with telecommunications technology providers (such as Ericsson and ZTE) and mobile operators (such as DiGi) to ease product offerings.

  Mechanical and electrical (M&E) engineering services are needed for deployment and turnkey services, i.e. mainly for the construction of the network sites. In addition, the group offers M&E engineering services on 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.

Table 3 : OCK Primarily A Telecommunication Network Provider

(RMm)	2008	2009	2010	2011
Telecommunication network services				
Turnkey	16.0	15.8	12.3	24.8
Deployment	22.6	31.0	49.7	49.0
Operations & Maintenance	4.0	0.4	0.2	3.2
	42.6	**47.2**	**62.2**	**77.1**
Green Energy And Power Solutions	**0.0**	**0.0**	**2.4**	**15.0**
Trading	**0.3**	**0.6**	**3.6**	**4.4**
M&E Engineering Services	**4.9**	**0.3**	**4.1**	**3.8**
Less: Inter-Company Elimination	-2.2	-2.2	-5.4	-11.9
Total Products	**45.6**	**45.9**	**66.8**	**88.3**

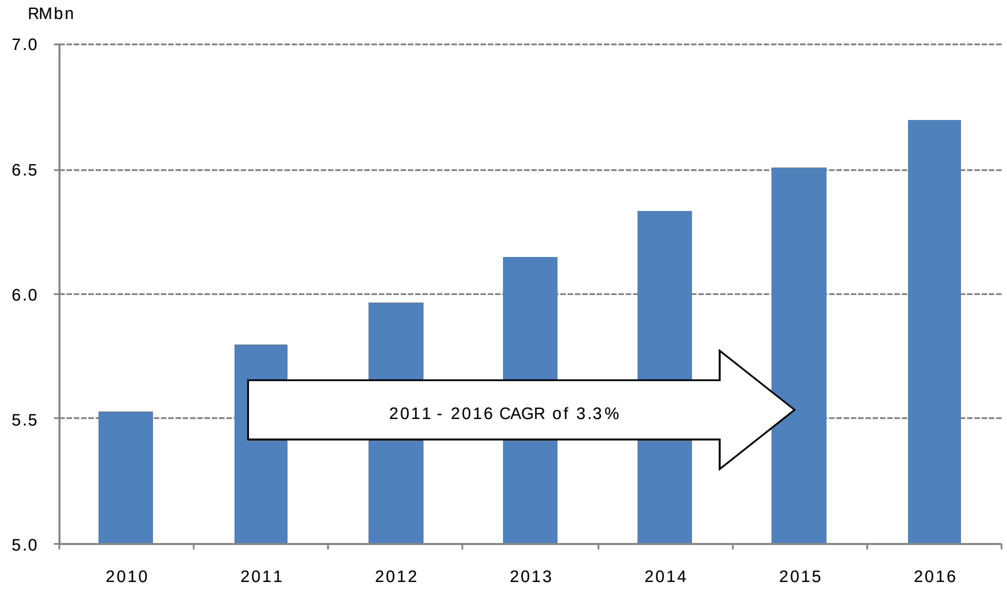
Source: OCK Prospectus

KEY INVESTMENT THEMES

- **Room for growth.** Protégé Associates forecasts the market size of Malaysia's telecommunication network services market to grow at a CAGR of 2.9% from 2011 to 2016. This will be driven by capex spending by the local mobile operators in Malaysia who easily spend RM700-1,000m per annum.

  Protégé Associates estimates telecommunications infrastructure, hardware and equipment expenditure to account for 65-75% of the total market size for telecommunications network services, with much of the required products imported from overseas. This bodes well for OCK and the other market players who operate within the sub-segment of telecommunications infrastructure, hardware and equipment expenditure.

Chart 2 : Market For Telecommunications Network Services Is Growing



Source: OCK Prospectus, Protégé Associates

- **4G brings opportunities.** We believe there are opportunities for more network deployment contracts once the mobile operators begin rollout of 4G services beginning Jan 2013. Although we expect mobile operators to spend more on capex in 2013 (since existing capex guidance excludes 4G-related capex), the increase may be more moderate compared to the period when mobile operators were transitioning from 2G to 3G. We believe this may be partly due to the lack of 4G capable devices in the market that can take advantage of higher network speeds.

- **A strong Tier-1 player.** Only 10% of the market players (estimated by Protégé Associates to be less than 200) 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 RM25m, 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, offering the whole spectrum of telecommunications network services from network planning to infrastructure management. Other notable Tier-1 market players include Instacom Engineering Sdn Bhd and R&A Telecommunications Sdn Bhd.

  OCK is one of the key Tier-1 players in the market, and possesses relatively decent profit margins relative to its peers as shown below in a comparison against selected Tier-1 market players. We note, however, that the figures may not be directly comparable, since the figures may be at group level that include other business segments' contributions while the products and services offered are not identical.

Table 4 : Comparisons Between OCK And Selected Market Players

Industry Player	OCK	Instacom	R&A
Financial Year Ended	31 Dec 2011	31 Dec 2010	31 Dec 2011
Revenue (RMm)	88.3	47.4	42.0
Market Share (%)	1.5	0.9	0.7
Gross Profit (RMm)	22.4	7.9	20.5
Gross Profit Margin (%)	*25.4*	*16.6*	*48.8*
Profit Before Tax (RMm)	12.3	4.3	11.2
Profit Before Tax Margin (%)	*14.0*	*9.1*	*26.7*
Profit After Tax (RMm)	9.2	3.5	8.0
Profit After Tax Margin (%)	*10.4*	*7.3*	*19.1*
Current Assets (RMm)	51.1	122.1	57.3
Current Liabilities (RMm)	38.7	82.0	31.5
Current Ratio (x)	1.3	1.5	1.8

Source: OCK Prospectus, Protégé Associates

KEY RISKS

- **Dependency on major customers.** DiGi and Ericsson collectively contributed 29.5% of the group's revenue in FY11. To mitigate this risk, the group takes effort to expand its customer base every year. Besides that, the group has a history and track record in managing telecommunications network turnkey projects and provision of deployment services.

- **Project risks.** As the bulk of OCK's revenue is mainly derived from the provision of telecommunications network services, it is crucial for the group to meet customers' requirements of products and services on a timely basis. Occasionally, the group may face downtime due to weather, sub-contractor's manpower shortage and delay in delivery of supplies and equipments which may be beyond the group's control. This risk is mitigated by assigning project managers to monitor progress.

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

Table 5 : Utilisation Of Proceeds

Details	Timeframe for utilisation	RMm	%
Capital expenditure	Within 2 years	9.9	36.7
Operating expenditure	Within 1 year	9.7	35.9
Working capital	Within 2 years	5.4	20.0
Estimated listing expenses	Upon listing	2.0	7.4
Total proceeds		**27.0**	**100.0**

Source: OCK Prospectus

EARNINGS FORECASTS

- **Forecasts.** We forecast OCK's net profit to grow at a CAGR of 9% from FY11-14, on the back of new contracts for network deployment supported by a healthy order book of RM67.1m. We expect higher finance costs going forward assuming OCK taps into bank borrowings to part finance future acquisition of towers. We have assumed operating profit margins to remain relatively stable in FY12-14 ranging at 15.6-15.8%. This assumes steel prices would remain stable going forward (steel and other metal related products account for 39% of total material costs).

Table 6 : Earnings Forecasts					
FYE Dec (RMm)	FY10	FY11	FY12F	FY13F	FY14F
Revenue	**66.8**	**88.3**	**98.9**	**106.8**	**113.2**
Revenue growth (%)	*45.4*	*32.3*	*12.0*	*8.0*	*6.0*
EBITDA	**7.3**	**14.8**	**16.9**	**18.0**	**18.9**
EBITDA margin (%)	*10.9*	*16.8*	*17.1*	*16.9*	*16.7*
Operating profit	**6.4**	**13.9**	**15.7**	**16.8**	**17.7**
Operating profit (%)	*9.5*	*15.7*	*15.8*	*15.7*	*15.6*
Finance costs	(1.4)	(1.6)	(1.6)	(1.6)	(1.7)
Pretax	**5.0**	**12.3**	**14.1**	**15.2**	**16.0**
Pretax margin (%)	*7.5*	*14.0*	*14.2*	*14.2*	*14.1*
Tax	(1.5)	(3.1)	(3.5)	(3.8)	(4.0)
Effective tax rate (%)	*(29.5)*	*(25.4)*	*(25.0)*	*(25.0)*	*(25.0)*
Minority interests	(0.1)	(0.7)	(0.8)	(0.9)	(1.0)
Net Profit	**3.4**	**8.5**	**9.7**	**10.5**	**11.1**
Growth (%)	*>100*	*>100*	*14.9*	*7.6*	*5.7*

Source: OCK Prospectus, RHBRI

VALUATIONS

- **Valuation.** We value OCK at RM0.40/share, based on a target multiple of 10x on our FY13 EPS forecast of 4.0 sen. Our PER target for the stock is at a 50% discount to the large market cap telecommunications sector average of about 19.8x due to: 1) significantly smaller scale of operations; 2) potential foreign country and exchange risk; 3) dependence on DiGi and Ericsson; and 4) lack of a well-articulated dividend policy. OCK has not set out a formal dividend policy.

Table 7 : Comparative Valuations						
		Mkt Cap	EPS GWTH (%)		PER (x)	
Telecommunications	FYE	(RMm)	FY12	FY13	FY12	FY13
Maxis	Dec	49,125	0.5	1.9	22.0	21.6
Axiata	Dec	48,793	4.3	2.5	18.3	17.9
DiGi	Dec	33,510	7.3	9.3	19.6	17.9
TM	Dec	21,178	27.1	0.2	26.0	26.0
Sector Average			**5.9**	**3.6**	**20.6**	**19.8**

Source: RHBRI

IMPORTANT DISCLOSURES

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Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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