

05 July 2012

OCK Group

A turnkey solution provider

We initiate a review on OCK Group with a non-rated rating and a target price of RM0.42, based on a targeted FY13 PER of 8.0x in tandem with FTSE Bursa Malaysia small capital index forward PER. OCK Group ("OCK") is principally involved in the provision of telecommunications network services, of which the Malaysia market is the group's principal market. The group has recently been granted a 5-year NFP license from MCMC, which allows it to build and own telecommunications towers. This could further strengthen the group's recurring income source, which currently mainly dependent on maintenance income generated from its telecommunications network services segment. The group's competitive strengths are 1) a full range of turnkey solution provider for telecommunications network services; 2) its established market reputation and 3) its strong relationship with technology providers.

One-stop turnkey solution provider for telecommunications network services. OCK provides a full range of turnkey solutions for telecommunication network services ranging from network planning, design and optimisation to energy management as well as infrastructure management. With these comprehensive end-to-end solutions coupled with its vast expertise in the latest technology knowledge, the group is able to act as a one-stop-centre for telecommunication operators in its efforts to expand, upgrade, consolidate or manage their network infrastructures.

Rising recurring income via owning telecommunications infrastructure. The group's current recurring income is mainly derived from providing maintenance works. With the recent award of its 5-year NFP licence from MCMC, OCK plans to venture into being a telecommunication infrastructure owner by building/buying and managing telecommunication towers. Management believes tower operations could further strengthen its recurring income while at the same time yield it other additional revenue streams such as the sale of replacement equipments and maintenance packages. We understand that OCK has allocated RM9.9m (or 36.7%) from its IPO proceeds for this purpose and is targeting to build and own 40 telecommunication towers in the next one year and subsequently 50 towers for each year thereafter up to the next five years.

Expecting net profit to hit RM10.7m (+25.5% YoY) and RM13.6m (+26.8% YoY) in FY12 and FY13 respectively. We expect the group's FY12-FY13 turnover to be at RM107.3m (+21.5% YoY) and 136.8m (+27.4% YoY) respectively. Our assumptions are based on 1) a 15% p.a. growth in its core businesses and 2) telecommunication tower revenue contributions of RM2.9m in FY12 and RM6.5m in FY13 on the assumption that 40 and 50 towers will be built in these two financial years coupled with a monthly rental fee of RM6k per site. Margin-wise, we expect the group to be able to sustain its gross profit margin at around 26% but it may face some pressure at the PBT level due to escalating depreciation and administrative costs.

NON-RATED

IPO Price: RM0.36
Target Price: RM0.42

KLCI	1,613.75
YTD KLCI chg	5.4%
YTD stock price chg	N.A.

Stock Information

Bloomberg Ticker	OCK MK Equity
Market Cap (RM m)	93.2
Issued shares	259.0m
52-week range (H)	N.A.
52-week range (L)	N.A.
3-mth avg daily vol:	N.A.
Free Float	36.1%
Beta	N.A.

Major Shareholders

Aliran Armada	63.94%
Low Hock Keong	2.84%
Chan Tan Chin	2.13%

Summary Earnings Table

FYE Dec (RM'm)	2011A	2012E	2013E
Turnover	88.3	107.3	136.8
EBIT	13.9	16.0	19.7
PBT	12.3	15.2	19.0
Net Profit (NP)	8.5	10.7	13.6
Core NP	8.5	10.7	13.6
Consensus (NP)	-	-	-
Earnings Revision	-	-	-
EPS (sen)	4.6	4.8	5.2
EPS growth (%)	152.3%	4.3%	8.4%
DPS (sen)	-	-	-
NTA/Share (RM)	0.11	0.26	0.28
PER	7.8	7.5	6.9
Price/NTA (x)	3.3	1.4	1.3
Net Gearing (x)	0.9	(0.1)	0.1
Dividend Yield (%)	0.0%	0.0%	0.0%

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Investment Merits

Full range turnkey solution provider. OCK Group Berhad (“OCK”) is a one-stop turnkey solution provider for telecommunications network services ranging from network planning, design and optimisation to energy management as well as infrastructure management. On top of that, OCK also offered managed services for the operation and maintenance of telecommunications networks. With these comprehensive end-to-end solutions coupled with its vast expertise in the latest technology knowledge (i.e. WiMax, 3G, HSDPA, HSBB), the group has a strong competitive edge against its peers. Meanwhile, with all these capabilities, the group can act as a one-stop-centre for telecommunications operators in its efforts to expand, upgrade, consolidate or manage their network infrastructure.

Strong relationship with key technology providers. The group has established a close and long standing working relationships with several major telecommunications technology providers, which include Alcatel-Lucent, Ericsson Huawei, NEC and ZTE since it commences business in 1999. These relationships have strengthened OCK project tenders as the group is able to provide its clients with the confidence in its services, underpinned by these well known technology providers. Its working relationships with these partners have continued to improve due to the good and timely services that OCK had provided throughout the years. Meanwhile, the strong working relationships with these partners have also benefited group as there were incidences where they also referred OCK as their turnkey partners in their own project tenders.

Established market reputation. The group has been operating since 1999 and has an established market reputation throughout the years through the delivery of quality and timely services to telecommunication operators. The continuous provision of turnkey telecommunication network solutions to clients such as Digi, Celcom, U Mobile, YTL and P1 have helped its reputation during project tenders. On top of that, OCK is also a partner for technology providers such as Alcatel-Lucent, Ericsson, Huawei, NEC, SIAE and ZTE for their telecommunications projects in Malaysia. The group has also received acknowledgement of its works through the Golden Bull Award in 2007, 2009, 2010 and 2011 (100 outstanding SMEs) and it also earned “best partner” awards from technology providers such as Huawei and ZTE.

Aiming to strengthen its recurring income via becoming a local telecommunications infrastructure owner. OCK has been granted a five-year NFP (network facility provider) license from MCMC in November 2011. The license is attached with conditions whereby the group has the obligation to build and own 40 telecommunications towers in the next one year and subsequently 50 telecommunications towers for each year thereafter up to five years. We understand that the estimated cost for each tower is approximately RM0.35m.

Out of the 117 companies with NFP licenses, 17 companies have been granted with NFP license solely for the provision of network facilities for towers, poles, ducts and pits to be used in conjunction with other network facilities, which is similar to the license granted to OCK group. With the award of the NFP licence, the group intends to capitalise on its expertise in building and managing telecommunications infrastructure, which may include it to buy existing telecommunication towers from local telecommunication carriers and renting it back to them. The key rationales for the group's venture into being a telecommunication infrastructure owner are to generate a recurring income from this investment and yield it other additional revenue streams such as the sale of replacement equipments and maintenance packages.

Capitalising on the trends in telecommunication infrastructure collaboration. In response to the government's call to optimise network deployment, telecommunication operators are joining forces to share network infrastructure resources to reduce operating costs. In view of this direction, major local telecommunication operators will be embarking on infrastructure consolidation, relocation and joint development works. This is a clear opportunity for OCK to capitalise on as the group has existing expertise in turnkey services for telecommunication infrastructures. The collaboration of Digi and Celcom in 2011 has opened up opportunities for OCK as the group is one of the three service providers being selected to carry out the deployment task for an integration project with an estimated value of RM400m for infrastructure collaboration. We understand that OCK intends to capture further similar opportunities from other similar collaborations between telecommunication operators.

Company Background

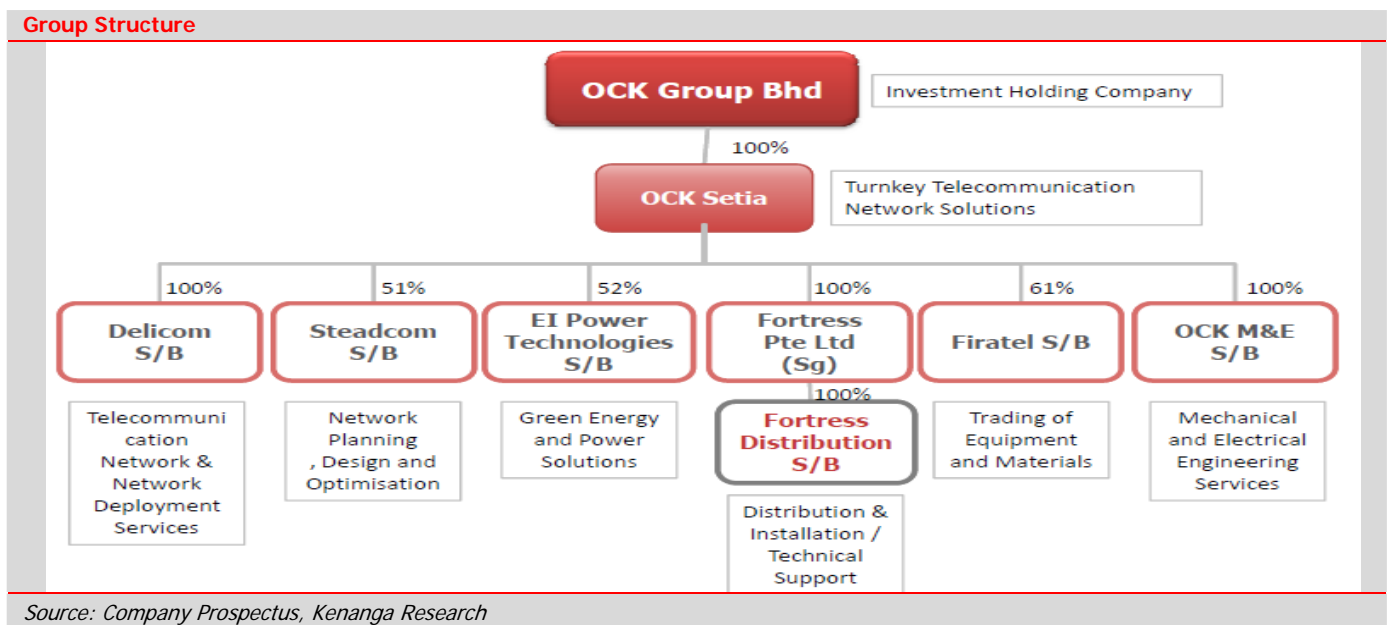
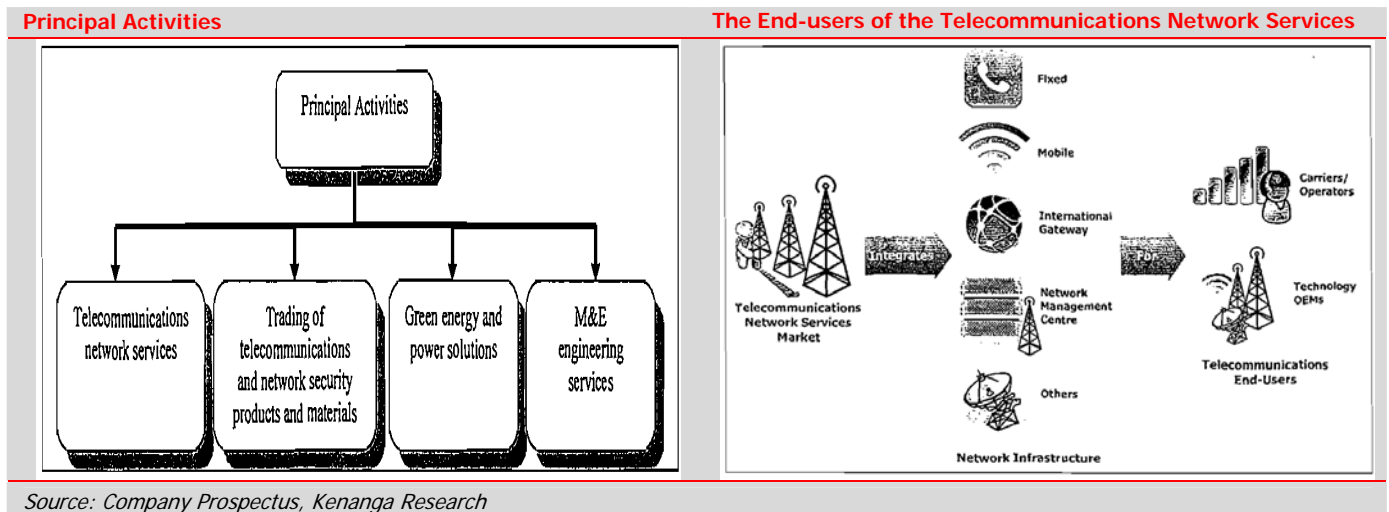
OCK Group Berhad (“OCK”) was established in 2000 which principally involved in the provision of telecommunications network services. Its principal activities are mainly categorised into four segments, namely 1) Telecommunications network services; 2) Trading of telecommunications and network security products and materials; 3) Green energy and power solutions; and 4) M&E engineering services.

The group are able to provide turnkey solutions, which include design, build and maintain all means of telecommunications network infrastructure for its telecommunication clientele. The group are familiar with current and upcoming telecommunications technologies and networks, including fixed-line networks, cellular telecommunication, wired and wireless broadband modes and optical technologies. However, at present, OCK is focused on providing services for cellular telecommunications networks in lien with a current market trend. The group completed implementation works for major local cellular network operators, including Maxis, Celcom, Digi, U Mobile, P1 and YTL.

The group also trades in telecommunications hardware and installation materials, such as antennas, feeder cable, connectors and water proofing tapes via Firatel. This business complements the core business of the group as Firatel is supplying its products not only to the group but also other telecommunications network service providers and operators. Apart from trading telecommunication products, OCK also distributes a range of network security products and solutions (i.e. Rapid7, Ironkey, Giritech, Solera Networks, Lumension Security, and SecureAge) in the Asia-Pacific region.

Meanwhile, the group also supplies power generation equipment, which including engine-generators, transformers and other related equipment used as back-up electricity generators for commercial, retail and factory building. Apart from supplying these equipments, OCK also provides installation, commissioning and testing services. The revenue contribution from green energy and power solution's segment is still relatively small at this juncture. However, the group believed this segment contribution will gradually improve due to escalating energy-saving awareness.

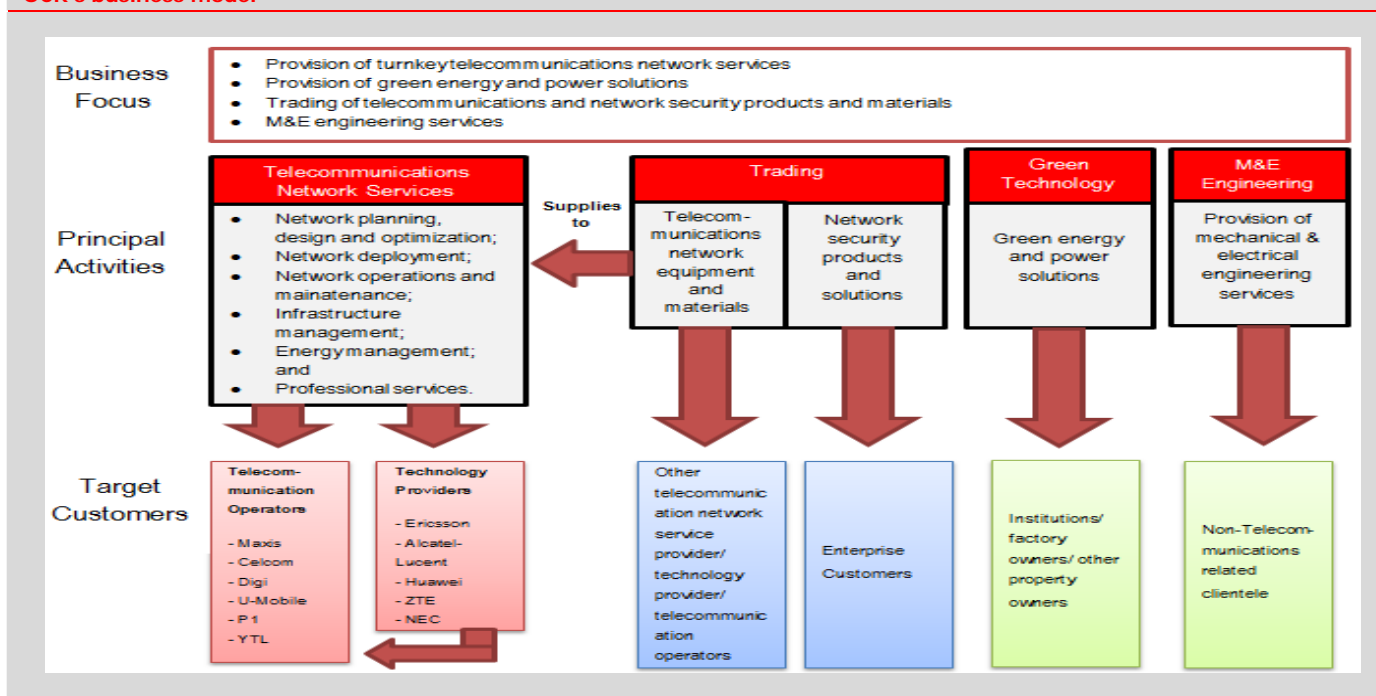
The group is also involved in the provision of M&E engineering services in collaboration with other construction companies. The M&E engineering services that provided by the group are mainly focused on deployment and turnkey services, i.e. the construction of network site.



Business Model

The group's core business is mainly focused on providing turnkey telecommunications network services solutions (which contributed more than 87% to the group's total turnover during the past four financial years) to its targeted telecommunications clientele. The remaining three segments namely trading, green technology and M&E Engineering service segments generally serves as support units to the earlier core division. The group's business processes and project life cycle could be generally divided into four basic processes namely 1) Tender, marketing and sales; 2) Project planning; 3) Project implementation and 4) Project completion.

OCK's business model



Source: Company Prospectus, Kenanga Research

Principal Markets

Malaysia is the group's principal market for its products and services. As of FY11, 99% of the group's total turnover of RM88.3 was generated from the Malaysian market while the balance of 1% was contributed by its Singapore subsidiary – Fortress Singapore, which is principally involved in the distribution and installation of network security products.

Distribution Channels and Key Customers

OCK markets and promotes its telecommunications network services directly to telecommunication operators as well as to technology providers. Its network security products and solutions on the other hand is sold through the network of resellers in Singapore and Malaysia currently. Meanwhile, its green energy products and solutions as well as M&E engineering services are marketed directly to the respective groups of customers who require such services. Digi, Ericsson and Huawei were the group's top three largest customers and accounted for 16.5%, 13.0% and 9.0% respectively to the group's total turnover of RM88.3m in FY11.

Use of IPO Proceeds

Based on the issue price of RM0.36/share, a total gross proceeds of RM27m will be raised from the public issue. In order to diversify its business activities, the group has obtained a NFP license from MCMC on November 2011 to build and own telecommunications towers. For this purpose, OCK has allocated RM9.9m or 36.7% of the gross IPO proceeds to be utilised within 2 years to enable the group to add a new source of revenue in the future. The group also allocated RM9.7m or 35.9% of the gross IPO proceeds for operating expenditure in anticipating the additional manpower it will require for its escalating turnkey telecommunications network projects. This will be mainly driven by the expected expanding construction works and outsourcing of services of telecommunication tower sites by telecommunication operators.

IPO Proceeds & Utilisation

Purposes	RM'000	%	Estimated Time Frame for Use
i) Capital expenditure	9,900	36.67	Within 2 years
ii) Operating expenditure	9,700	35.92	Within 1 year
iii) Working capital	5,400	20.00	Within 2 years
iv) Estimated listing expenses	2,000	7.41	Upon Listing
Total gross proceeds	27,000	100.00	

Source: Company Prospectus, Kenanga Research

Key Management Team

The group's key management staffs have an average of 10 years experience each in the telecommunications industry. Some of its key management personnel have also served on the as previous management teams of its technology partners and providers prior to joining OCK Group. As the telecommunications industry is technology oriented and requires a lot of expertise in the technical field, the group's ability to retain a team of capable and experienced human capital has allowed OCK stay ahead of its competitors.

Key Management Team

Name	Designation	Responsibility and Experiences
Abdul Halim Bin Abdul Hamid	Deputy Chairman	Responsible for the oversight of the technical aspect of OCK.
Ooi Chin Khoon	Executive Director and Managing Director	A founding member of the group. Responsible for formulating and executing the business strategies of the group.
Low Hock Keong	General Manager	Oversees the daily operations of the group.
Cheng Tee Han	Chief Financial Officer	Responsible for the oversight of the group's financial strategy and planning, monitoring, and management and reporting.
Chang Tan Chin	Executive Director and Technical Director	Key responsibility is to monitor the overall project planning and implementation, manages procurement planning and delivery and project cash flow projections.
Chong Wai Yew	Executive Director and Project Management Director	Oversees the telecommunications projects undertaken for Huawei as well as the group's turnkey network deployment with P1.

Source: Company Prospectus, Kenanga Research

Industry Overview and Outlook

The performance of the local telecommunications network services market is positively correlated with the level of new investment involving capital expenditure and other network services related operating expenses such as maintenance and repair works by the local telecommunication operators. The market size of Malaysia's telecommunications network services market in 2011 is estimated at RM5.8b according to Protégé Associate, an independent market and industry research house. The research outfit is expecting the local telecommunication network services market to grow by a 5-year CAGR of 2.9% to RM6.7b in CY16, underpinned by the introduction of new technologies (i.e. LTE or 4G); higher broadband penetration rate and a constantly upgrading telecommunication infrastructure plans to support value-added mobile broadband services.

The outlook for the local telecommunications network services remains bright underpinned by 1) the growing prominence of broadband internet, where Malaysia's household broadband penetration rate is expected to reach 75% in 2015 from 62.9% in 1QCY12; 2) advancement in technology for ICT products; 3) the inherent need for continued capital expenditure by telecommunication operators and 4) the increasing importance of ICT in business activities.

Market Share

The number for telecommunication network services market players in Malaysia is relatively small, estimated at less than 200 market players. Of these, it is estimated that 10% can be classified as Tier-1 market players (i.e. Huawei, ZTE Corp and Ericsson). In view of the wide service scope in the telecommunication network services market, Protégé Associate estimated that 25%-35% (or RM1.45b – RMRM2.0b) of the total estimated telecommunication network services market size of RM5.8b in CY11 can be attributed to telecommunications network service providers that are involved in the areas of network planning, design and optimisation, network deployment, network operations and maintenance, infrastructure management, energy management and professional services. According to Protégé Associate, OCK's market share of the Malaysian telecommunications network services is estimated at 1.5% in CY11 with the balance (~98%) dominated by Tier-1 market players (i.e. Huawei, ZTE Corp and Ericsson).

Risks

Network sharing provides pros and cons to the group. With the government's call for infrastructure sharing, telecommunications operators have begun to collaborate to share network base stations to reduce costs whilst maintaining network coverage. As a result of such government initiatives, approvals for new sites may be reduced going forward. While there is a potential negative impact to the group due to lower require on building new towers, such initiatives may provide opportunities to the group given this initiatives require fresh infrastructure planning, development and maintenance works as well as dismantling works with regards to legacy infrastructure, thus benefit the group on the other end.

Dependency on major customers. OCK derived a significant portion of their income from two major customers, namely Digi and Ericsson, who aggregately contributed 29.5% to the group's total turnover of RM88.3m in FY11 (vs 35.1% in FY10). To mitigate this risk, OCK has taken the effort to expand its customer base from 33 customers in FY08 to 97 in FY11.

Dependency on the telecommunications industry. The group revenue is mainly derived from the provision of telecommunications network services, which contributed to 87.2% to the group's total turnover in FY11. To mitigate the risk, OCK plans to increase the contributions from other business segments such as becoming a telecommunications network infrastructure owner and provision of green energy and power solutions.

Future Plans and Strategies

Strengthening a position towards becoming a regional telecommunications network service provider. The group has currently started to commence project trials in Vietnam for optimisation and drive test services for 3G cellular networks whereby a report of project trials has been submitted to a telecommunications operator in Vietnam for their consideration. OCK plans to venture into emerging countries like Philippines, Thailand, Indonesia, Vietnam and Myanmar where the potential for telecommunications network deployment remains strong. We understand that the group is currently in the preliminary stages of discussion with technology partners in those countries.

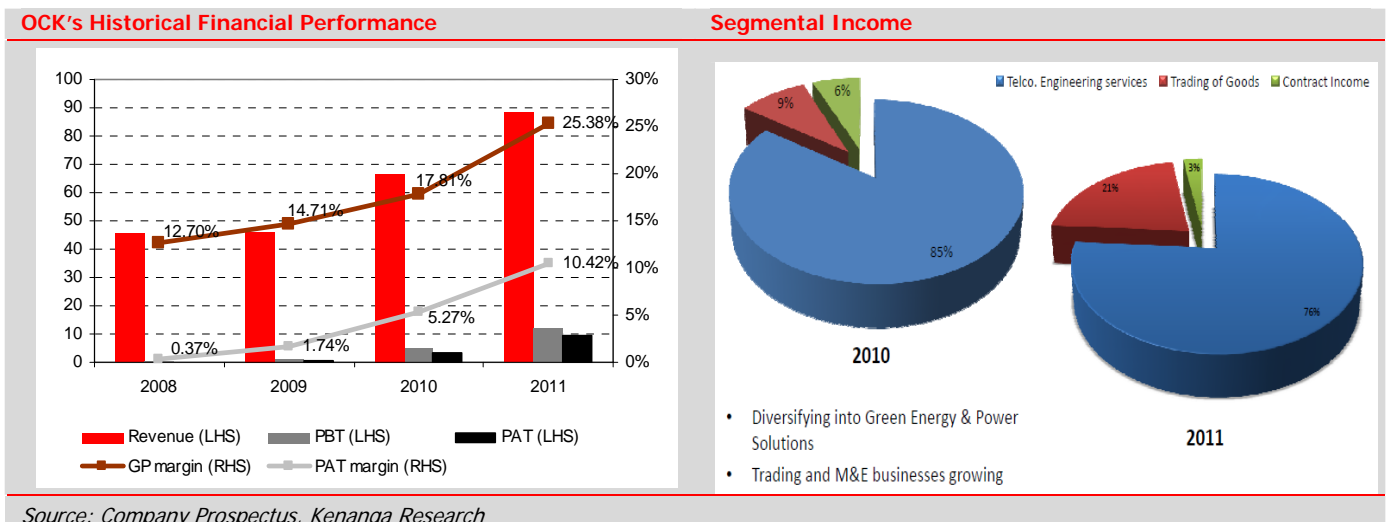
To become a local telecommunication infrastructure owner. The group intends to capitalise its expertise in building and managing telecommunications infrastructure, which may include buying existing telecommunication towers from local telecommunication carriers and renting it back to them. We understand that the group has allocated RM9.9m of the IPO proceed for this purpose.

Incorporating green technology into telecommunications infrastructure. With the increase of network traffic, power consumption will increase proportionally to the number of base stations. Concurrent with global initiatives to reduce global warming and to promote sustainable energy consumption, the group intends to incorporate green technologies and green energy solutions to its infrastructure deployments.

Historical Financial Highlights

The group's turnover recorded a strong 3-year CAGR of 24.6% to RM88.3m in FY11, thanks to escalating revenue contribution from its telecommunication network services segment as well as the introduction of green energy and power solution since 4QFY10. Its PAT meanwhile has grown by a 3-year CAGR of 371.7% to RM8.5m in FY11. The increasing net profit trend was mainly attributed to 1) higher turnover; 2) improvement in margins as a result of improvement in cost and labour efficiency and 3) economic of scale.

Balance-sheet wise, the group's current ratio has strengthened since FY08 from 1.04x to 1.32x in FY11. The improvement was mainly attributed to rising current assets over the years from 27.9m in FY08 to RM51.1m in FY11. OCK has successfully reduced its gearing ratio to 1.46x in FY11 from 6.48x in FY08. The relatively high gearing ratio in FY11 was mainly contributed by the revolving project loan, which was secured for the purpose of project financing of the group's network deployment activities. Post-IPO and utilisation of the proceeds, the group's gearing is expected to reduce to 0.6x.



Income Statement						Financial Data & Ratios					
FY Dec (RM'm)	2009A	2010A	2011A	2012E	2013E	FY Dec (RM'm)	2009A	2010A	2011A	2012E	2013E
Revenue	45.9	66.8	88.3	107.3	136.8	Growth	-	45.4	32.3	21.5	27.4
EBITDA	3.6	7.3	14.9	17.2	21.3	Turnover (%)	-	103.7	102.7	15.8	23.2
Depreciation	0.9	1.0	1.0	1.2	1.5	EBITDA (%)	-	134.2	118.2	15.3	22.9
Operating Profit	2.7	6.4	13.9	16.0	19.7	Operating Profit (%)	-	292.2	147.1	23.0	25.2
Other Income	0.0	0.0	0.0	0.0	0.0	PBT (%)	-	328.1	152.3	25.5	26.8
Interest Exp	1.4	1.4	1.6	0.9	0.7	Core Net Profit (%)	-	45.4	32.3	21.5	27.4
Associate	0.0	0.0	0.0	0.0	0.0						
Exceptional Items	(5.0)	(4.0)	(3.0)	(2.0)	(1.0)	Profitability (%)					
PBT	1.3	5.0	12.3	15.2	19.0	EBITDA Margin	-	11.0	16.9	16.1	15.5
Taxation	0.5	1.5	3.1	3.8	4.7	Operating Margin	-	9.5	15.7	14.9	14.4
Minority Interest	(0.0)	(0.1)	(0.7)	(0.7)	(0.7)	PBT Margin	-	7.5	14.0	14.1	13.9
Net Profit	0.8	3.4	8.5	10.7	13.6	Core Net Margin	-	5.1	9.6	10.0	9.9
Core Net Profit	0.8	3.4	8.5	10.7	13.6	Effective Tax Rate	-	29.5	25.4	25.0	25.0
						ROA	-	-	12.9	12.2	11.1
						ROE	-	-	42.8	18.4	18.7
Balance Sheet											
FY Dec (RM'm)	2009A	2010A	2011A	2012E	2013E	DuPont Analysis					
Fixed Assets	-	-	14.9	26.9	47.5	Net Margin (%)	-	-	9.6%	10.0%	9.9%
Intangible Assets	-	-	-	-	-	Assets Turnover (x)	-	-	1.3x	1.2x	1.1x
Other FA	-	-	-	-	-	Leverage Factor (x)	-	-	3.3x	1.5x	1.7x
Inventories	-	-	8.9	10.7	13.5	ROE (%)	-	-	42.8	18.4	18.7
Receivables	-	-	29.5	35.8	45.7						
Other CA	-	-	1.7	1.7	1.7	Leverage					
Cash	-	-	11.0	12.5	13.7	Debt/Asset (x)	-	-	0.4	0.1	0.2
Total Assets	-	-	65.9	87.6	122.0	Debt/Equity (x)	-	-	1.5	0.1	0.3
Payables	-	-	16.6	20.0	25.3	Net Cash/(Debt)	-	-	(16)	5	(8)
ST Borrowings	-	-	20.5	-	14.4	Net Debt/Equity (x)	-	-	0.8	-0.1	0.1
Other ST Liability	-	-	1.6	1.9	2.4						
LT Borrowings	-	-	7.0	7.0	7.0	Valuations					
Other LT Liability	-	-	0.3	0.4	0.5	EPS (sen)	-	1.8	4.6	4.8	5.2
Minorities Int.	-	-	1.1	1.8	2.5	GDPS (sen)	-	0.0	0.0	0.0	0.0
Net Assets	-	-	18.8	56.5	70.0	NTA (RM)	-	-	0.11	0.26	0.28
Share Capital	-	-	18.4	45.4	45.4	PER (x)	-	19.6	7.8	7.5	6.9
Reserves	-	-	0.4	11.1	24.6	Gross Div. Yield (%)	-	0.0%	0.0%	0.0%	0.0%
Equity	-	-	18.8	56.5	70.0	P/NTA (x)	-	-	3.3	1.4	1.3
						EV/EBITDA (x)	-	9.0	6.3	5.1	5.4
Cashflow Statement											
FY Dec (RM'm)	2009A	2010A	2011A	2012E	2013E						
Operating CF	-	-	0.9	8.2	9.0						
Investing CF	-	-	(0.3)	(13.3)	(22.1)						
Financing CF	-	-	2.6	6.5	14.4						
Change In Cash	-	-	3.9	1.5	1.2						
Free CF	-	-	5.9	21.5	31.2						

Source: Company Prospectus, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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