15 March 2016

Communications | Telecommunications Infrastructure

Buy (Maintained)

OCK Group

Joining The Big League

Target Price:	MYR1.02
Price:	MYR0.71
Market Cap:	USD137m
Bloomberg Ticker:	OCK MK

OCK is an emerging towerco play in Malaysia with an ASEAN footprint. The landmark deal with Telenor Myanmar is a major coup and could potentially see a USD15m uplift in lease rentals when the sites are fully commissioned in 2017. BUY with a DCF MYR1.02 TP (from MYR1.06, 44% upside, WACC: 9.4%, TG: 1.5%) which translates into 10.5x FY17F EV/EBITDA, at a discount to the much bigger Indonesian peers for its smaller market cap/stock liquidity. We project a commendable 35% core earnings growth in FY16 (FY15: +49%) on:

1. **Steady expansion of its site maintenance segment, and**
2. **Robust 3G/LTE/fiber deployments locally.**

BUY. We like OCK for the strong earnings prospects of the TNS segment and its strategy to drive recurring revenues. Although we acknowledge the high earnings growth profile of the stock, we believe a cashflow valuation better captures the: i) longer-term potential of its towerco business (steady cashflows), and ii) capex needs. We estimate the leaseback deal with Telenor Myanmar would add MYR0.21 to our DCF value over the next 10 years based on the completion of 920 sites in FY17. At our valuation, OCK trades on 10.5x FY17 EV/EBITDA, at a discount to its much larger Indonesian peers. Key risks are execution, funding capability and weaker-than-expected margins.

In execution mode. The build and leaseback agreement inked with Telenor Myanmar for 920 sites in Dec 2015 marks OCK Group's (OCK) first towerco venture overseas. We view the deal positively, given Myanmar's sprawling towerco market where 10,000 new towers (est. 7,000 sites currently) are needed over the next two years to fulfil the population coverage targets set by the government. In addition to more tower contracts, OCK is set to benefit from recurring lease rentals over the next 12 years with higher co-locations flowing directly to its bottomline. We project a maiden lease rental contribution of USD2.5m (MYR11m) in FY16 assuming signal turn on for 150 sites in 1H16.

P1 and LTE deployments to fuel telco network services (TNS) growth. OCK is the principal tower contractor for P1, (72.9% owned by Malaysia's fixed line incumbent) which is set to rollout its LTE service in 2H16. We expect P1 to be disruptive, potentially embarking on a land grab strategy to gain mobile data share, which implies an aggressive network rollout to ensure unparalleled mobile data connectivity and experience. In addition to P1's deployment, the strong revenue momentum from site maintenance jobs (locally and in Indonesia) and on-going mobile backhaul fiberisation by the mobile operators will keep the group busy over the next 12-18 months.

Looking at more. We do not rule out further towerco related M&As as management seeks to further strengthen the group's base of recurring revenues (towerco, site maintenance and solar businesses). Based on the additional debt raised to fund its Myanmar venture, we expect the company's gearing to rise to 1.1x by end-2016 from 0.8x in FY15.

Forecasts and Valuations	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover (MYRm)	186	319	458	509	570
Reported net profit (MYRm)	15.6	23.1	31.2	29.9	37.7
Recurring net profit (MYRm)	15.6	23.1	31.2	29.9	37.7
Recurring net profit growth (%)	14.8	48.0	35.4	(4.1)	25.8
Recurring EPS (MYR)	0.01	0.02	0.03	0.03	0.04
DPS (MYR)	0.000	0.000	0.006	0.006	0.006
Recurring P/E (x)	48.1	32.5	24.0	25.0	19.9
P/B (x)	4.19	2.23	2.06	1.93	1.78
P/CF (x)	na	na	16.3	17.4	13.8
Dividend Yield (%)	0.0	0.0	0.8	0.8	0.8
EV/EBITDA (x)	23.2	13.0	10.7	9.2	8.0
Return on average equity (%)	12.1	9.0	8.9	8.0	9.3
Net debt to equity (%)	net cash	net cash	15.9	26.5	32.4
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Source: Company data, RHB

Share Data

Avg Daily Turnover (MYR/USD)	0.82m/0.19
52-wk Price low/high (MYR)	0.62 - 0.82
Free Float (%)	41
Shares outstanding (m)	792
Estimated Return	44%

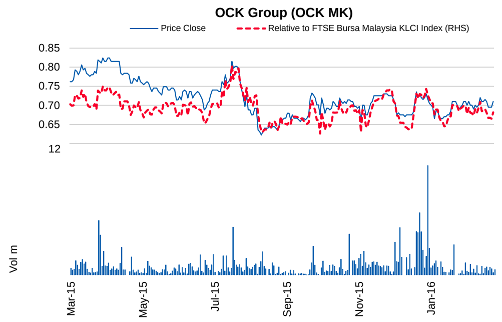
Shareholders (%)

Aliran Armada Sdn BhdB	39.8
Lembaga Tabung Angkatan Tentera	13.8
Low Hock Keong	2.0

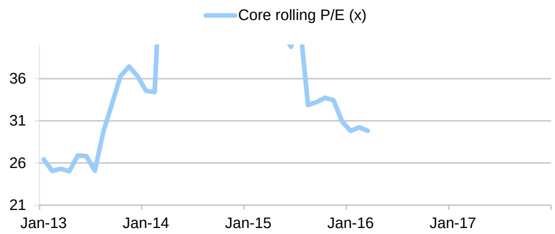
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.2	2.9	(2.7)	7.3	(7.9)
Relative	4.7	(0.5)	(6.4)	1.3	(3.5)

Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Profit & Loss (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover	**186**	**319**	**458**	**509**	**570**
Cost of sales	(137)	(247)	(349)	(389)	(421)
Gross profit	**49**	**71**	**109**	**120**	**149**
Gen & admin expenses	(17)	(25)	(37)	(36)	(46)
Other operating costs	(4)	(3)	(14)	(21)	(26)
Operating profit	**28**	**43**	**58**	**64**	**78**
EBITDA	32	53	77	95	115
Depreciation of fixed assets	(5)	(8)	(16)	(29)	(35)
Amortisation of intangible assets	-	(2)	(2)	(2)	(2)
Operating profit	**28**	**43**	**58**	**64**	**78**
Interest expense	(4)	(6)	(12)	(20)	(22)
Pre-tax profit	**24**	**37**	**46**	**44**	**56**
Taxation	(7)	(11)	(12)	(11)	(14)
Minority interests	(1)	(3)	(3)	(3)	(3)
Reported net profit	**16**	**23**	**31**	**30**	**38**
Recurring net profit	**16**	**23**	**31**	**30**	**38**

Source: Company data, RHB

Key Ratios	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Revenue growth (%)	22.2	71.4	43.8	11.1	11.9
Operating profit growth (%)	14.6	54.3	36.3	9.4	21.4
Recurring net profit growth (%)	14.8	48.0	35.4	(4.1)	25.8
Recurrent EPS growth (%)	14.8	48.0	35.4	(4.1)	25.8
Gross margin (%)	26.1	22.3	23.7	23.6	26.1
Operating EBITDA margin (%)	17.4	16.5	16.7	18.6	20.1
Operating margin (%)	14.9	13.4	12.7	12.5	13.6
Recurring net profit margin (%)	8.4	7.2	6.8	5.9	6.6
Return on average assets (%)	6.4	5.4	4.3	3.1	3.6
Return on average equity (%)	12.1	9.0	8.9	8.0	9.3
Net debt to equity (%)	(5.0)	(21.7)	15.9	26.5	32.4
Interest cover (x)	6.93	6.81	4.74	3.24	3.52
Capex/Free cash flow (%)	(48.7)	(124.5)	694.0	232.5	183.4
BVPS (MYR)	0.17	0.32	0.34	0.37	0.40
DPS (MYR)	0.000	0.000	0.006	0.006	0.006
Dividend payout ratio (%)	0.0	0.0	15.2	15.9	12.6
Free cash flow per share (MYR)	(0.01)	(0.06)	(0.26)	(0.05)	(0.04)

Source: Company data, RHB

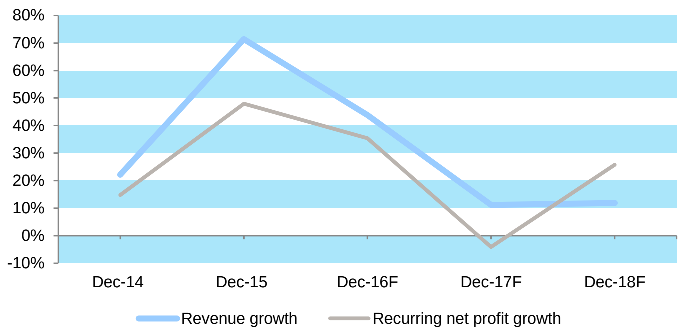
Cash flow (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Operating profit	**28**	**43**	**58**	**64**	**78**
Depreciation & amortisation	5	10	18	31	37
Change in working capital	(36)	(73)	(6)	(21)	(24)
Operating cash flow	**(4)**	**(21)**	**70**	**74**	**91**
Interest received	0	1	-	-	-
Interest paid	(0)	-	(12)	(20)	(22)
Tax paid	(6)	(9)	(12)	(11)	(14)
Cash flow from operations	**(10)**	**(29)**	**46**	**43**	**55**
Capex	(5)	(36)	(320)	(100)	(100)
Other investing cash flow	4	4	4	4	4
Cash flow from investing activities	**(0)**	**(33)**	**(316)**	**(96)**	**(96)**
Dividends paid	-	-	5	5	5
Shares repurchased	-	(2)	-	-	-
Proceeds from issue of shares	74	-	-	-	-
Increase in debt	(10)	24	176	35	32
Other financing cash flow	(4)	(1)	5	5	5
Cash flow from financing activities	**60**	**21**	**186**	**44**	**41**
Cash at beginning of period	18	74	163	204	191
Total cash generated	**50**	**(41)**	**(84)**	**(9)**	**(1)**
Forex effects	(0)	2	2	2	2
Implied cash at end of period	**68**	**34**	**80**	**196**	**192**

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total cash and equivalents	74	163	204	191	187
Inventories	24	31	48	53	60
Accounts receivable	99	164	183	203	228
Other current assets	12	19	19	19	19
Total current assets	**209**	**377**	**454**	**467**	**494**
Tangible fixed assets	75	102	399	470	535
Intangible assets	19	18	16	14	12
Total other assets	0	49	49	49	49
Total non-current assets	94	168	463	532	595
Total assets	**303**	**545**	**917**	**999**	**1,089**
Short-term debt	32	52	106	134	165
Accounts payable	45	56	91	101	113
Other current liabilities	4	2	2	2	2
Total current liabilities	**80**	**110**	**199**	**238**	**280**
Total long-term debt	32	36	158	164	165
Other liabilities	3	53	182	192	201
Total non-current liabilities	**35**	**89**	**341**	**356**	**367**
Total liabilities	**116**	**199**	**540**	**594**	**647**
Share capital	53	79	79	79	79
Retained earnings reserve	54	79	105	130	163
Other reserves	72	178	180	180	180
Shareholders' equity	**179**	**336**	**364**	**389**	**422**
Minority interests	8	11	14	16	20
Other equity	-	(0)	(0)	-	-
Total equity	**187**	**347**	**377**	**405**	**442**
Total liabilities & equity	**303**	**545**	**917**	**999**	**1,089**

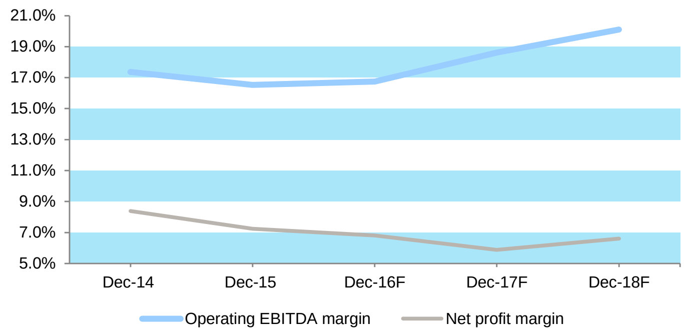
Source: Company data, RHB

Revenue growth vs Recurring net profit growth



Source: Company data, RHB

EBITDA margin vs Net profit margin



Source: Company data, RHB

Key Highlights

Recent corporate developments

- **USD31m cash call was completed in Dec 2015.** OCK's paid-up capital has expanded to 792.2m shares from 528.2m following its rights issue. The rights shares came attached with 264.1m free warrants, which upon exercise would further enlarge its share base to 1.06bn. The proceeds from the 1-for-2 rights issue totalling MYR132.4m would be utilised for business expansion including potential M&As. Our forecast has assumed a fully diluted share base. Following the cash call, OCK's major shareholder and founder/group MD, Mr Sam Ooi Chin Khoon's stake has been diluted to 36.6% from 40.2% (assuming full dilution of warrants) while its second largest shareholder, Lembaga Tabung Angkatan Tentera (LTAT) has fallen to 12.4% (13.6% prior to the rights issue)

Figure 1: OCK's rights and warrants issue was completed in Dec 2015

(m shares)	
Cum rights share capital	528.2
Rights issue	264.1
Enlarged share base	792.2
Exercise of warrants	264.1
Fullly diluted (FD) share capital	1,056.3
% inc in share base	100%
Rights price (MYR)	0.50
Proceeds from rights issue (MYRm)	132.0

Source: RHB

- **Landmark deal in Myanmar jumpstarts its regional towerco ambitions.** In Dec 2015, OCK together with its 30% joint venture (JV) partner, King Royal Technologies (KRT) inked a master services agreement (MSA) with Telenor Myanmar for the construction of 920 sites under a build and lease model. The agreement represents a significant milestone for the group's regional aspirations being the first tower deployment contract with a Tier-1 telco outside of Malaysia. Despite the steep upfront capex commitment (Figure. 2), we view the deal positively as: i) it would elevate OCK's profile in Myanmar/Indo-China, the fastest growing tower market in Indo-China/South Asia, and ii) boost recurring revenues via long-term lease rentals. The agreement with Telenor Myanmar offers significant revenue scalability as OCK is committed to deploy a further 1,000 sites over a three year period. Additionally, the underlying demand for new towers in Myanmar remains strong as both Telenor Myanmar and Ooredoo (previously Qatar Telecom) are racing to meet the 85% population coverage mandated by the government by 2017. This would imply that the tower industry is in need of an additional 10,000 towers over the next 2-3 years.

Figure 2: Key details of the MSA with Telenor Myanmar

No. of towers (to be constructed by OCK)	920
Delivery	2016
Lease tenure	12 years (option for 3 lease renewal terms of 5 years each)
Est. capex for site rollouts (USDm)	74 (assuming USD80,000 per site)
Funding (MYRm)	316
Proceeds from the right issue (40%)	127
Borrowings (60%)	190

Source: RHB

Figure 3: Independent Tower Companies (ITC) in Myanmar

Company	Major customer (s)	Est. no. of sites*
Myanmar Tower Company (MTC)	Ooredoo	1250 (Phase 1+2)
Apollo Towers	Telenor	1100 (Phase 1+2)/700 (Phase 3- new orders from Telenor)
Irrawaddy Green Towers (IGT)	Telenor/Ooredoo	1438 (Phase 1+2)/1000 (Phase 3- new orders from Ooredoo)
Pan Asia Towers (PAT)	Ooredoo	1250 (Phase 1+2)
Eco- Friendly Towers (EFT)	Telenor	700 (Phase 3 new orders)
Myanmar Infrastructure Group	Ooredoo	500 (Phase 3- new orders)
OCK- King Royal Technologies	Telenor	920 (Phase 3- new orders)

*Note: * based on various sources and may not be the updated no. of sites*
Source: RHB, Towerxchange

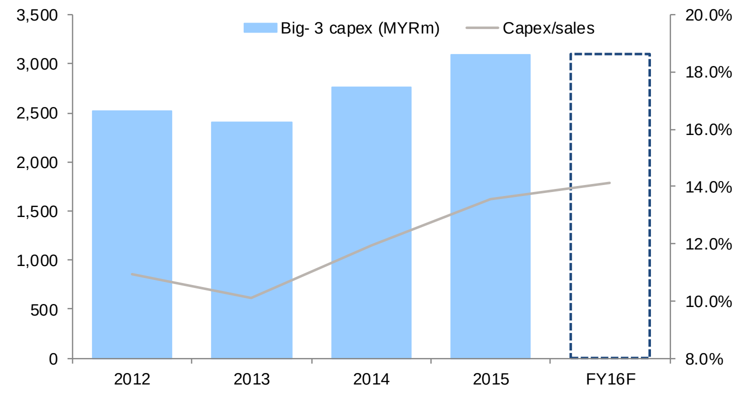
TNS segment would have posted stronger growth in FY15 if not for project delays

OCK's TNS revenue surged 138% YoY to a record MYR100.5m in 4Q15. This brought FY15 TNS revenue to MYR268.8m (82% of total revenue), a 107% YoY jump, driven mainly by: i) on-going 3G/4G site deployments for domestic telcos, mobile backhaul fiberisation projects and the maiden full year contribution from 85%-owned PT Putra Mulia Telecommunications (PMT), its Indonesian site maintenance outfit acquired in 4Q14. We understand from management the TNS segment would have posted stronger growth in FY15 if not for the delays in the Phase I Universal Service Provisioning (USP) contract for the construction of towers in rural areas (awarded in late 2014) and the fiber laying project with Telecom Cambodia where some MYR40m in collective billings were deferred into FY16. The delay in the USP project was due to a review on frequency allocations by the Malaysian Communications and Multimedia Commission (MCMC) while the Cambodian contract suffered from the late handover of sites.

We are positive on the outlook of OCK's TNS segment and project revenue to grow by a FY16-FY18 CAGR of 12%, driven mainly by :

- **Strong pipeline of LTE deployments.** We expect capex intensity among the local telcos to remain high in 2016 due to the rapid expansion of LTE sites and the on-going network modernisation/upgrades by Celcom and Maxis. The Big-3 telcos have spent no less than MYR3bn in capex in 2015 and guided for a similar level of spending for 2016 as they look to sustain the strong momentum and demand for mobile data via an unparalleled network experience. OCK is also benefitting from mobile backhaul fiberisation projects and counts DiGi.Com (Digi) (DIGI MK, NEUTRAL, TP: MYR4.70) as a key customer. A recent meeting with Digi highlights the telco's continued focus on site fiberisation after increasing its fiber footprint by 38% in 2015.

Figure 4: Capex trend of the Big-3 telcos in Malaysia



Source: RHB

- **Recurring lease rentals from Myanmar**. The build and leaseback contract for Telenor Myanmar would see revenue contributions in the form of recurring lease rentals over the next 12 years. We see a steady growth in lease revenues over time from the improvement in co-locations and on the back of the rapid expansion of 3G coverage by the Indonesian mobile operators. Based on the assumption of single tenancy and signal turn on for 150 sites in 1H16, we estimate maiden lease rentals of c.USD2.5m (MYR10.5m) for FY16. We project lease rental revenues to grow at a FY16-18 CAGR of 148%, backed by the progressive commissioning of new sites.
- **USP and other projects**. Despite the stiff competition, we believe OCK is well-positioned to secure part of the Phase III USP contract due to its good execution track record. The group is vying for approximately MYR300m in new USP jobs (of the MYR600m to be awarded under Phase II & III). OCK is expected to book the remaining MYR26m in billings from Phase I (of the MYR31m contract) in FY16. Other notable contract wins that would drive the growth of the TNS segment include the Automated Enforcement System (AES) site commissioning works where a pilot rollout has started in Putrajaya. The AES contract involves OCK fiberising up to 1,000 AES sites in the country.
- **Strong prospects for Indonesia site maintenance**. OCK is the largest network maintenance services provider in Malaysia and amongst the largest in Indonesia with over 25,000 sites under management. We project a 34% YoY growth in PMT's revenue for FY16, driven by conservative average site growth of 25%. This compared to the more than doubling of sites in FY15.

TM-P1's mobile LTE rollout should keep OCK busy over the next two years

OCK recently bagged a frame contract from P1 (TM's 72.9%-owned mobile subsidiary) and has started tower deployments ahead of the latter's commercial mobile LTE launch in 3Q16. Given that the group was the principal contractor for P1's rollout in the past (for the WiMAX network) and the considerable expertise gained from the rollout of P1's ground base and rooftop sites, OCK is in a good position to secure additional site orders from P1 going forward. P1 currently has over 2,000 sites but is looking to quickly narrow the gap with its mobile peers (4,000-5,000 sites owned individually) over the next 12-15 months. In addition to P1, OCK is also a major tower contractor for two other mobile operators. The strong orderbook for site deployments, both locally and overseas should keep its tower division busy well into FY17, in our view.

Significant upside for maintenance services in Malaysia and Indonesia

As part of the group's strategy to expand its base of recurring revenues, OCK ventured into telco site maintenance in FY14. The group currently manages over 20,000 telco sites (base stations) in Indonesia under PMT for Tier-1 telcos such as XL Axiata (EXCL IJ, BUY, TP: IDR4,900) and Hutchison Indonesia including maintenance works for Tower Bersama (TBIG IJ, NEUTRAL, TP: IDR6,100) and Sarana Menara Nusantara (TOWR IJ, BUY, TP: IDR5,800). PMT recorded MYR30m in revenue in FY15, a near three- fold jump YoY, driven by the more than doubling of sites under maintenance. We project PMT's revenue to grow at a FY16-FY18 CAGR of 15%, underpinned by average site additions of c.5,000 pa

In Malaysia, OCK manages and maintains 4,300 sites for Maxis (MAXIS MK, SELL, TP: MYR4.70) under a Level 1 field services contract involving 24x7 preventive and corrective maintenance services which raked in MYR19m revenue in FY15 (+115% YoY). In addition to Maxis, OCK has partnered with ZTE on a pilot program to manage Digi's sites and manages *U-Mobile*'s sites in the East Coast.

We remain positive on the prospects for site maintenance given the over 120,000/25,000 sites in Indonesia/Malaysia that are predominantly managed by the mobile operators. The maintenance business offers significant revenue and earnings scalability for the group on the back of the growing trend among the telcos to outsource non-core assets to reduce cost. OCK sees good potential for the site maintenance model to be replicated in Myanmar and does not rule out the possibility of new contracts inked in the medium-term.

A budding ASEAN independent towerco in the making

We expect OCK to pursue further inorganic expansion within the towerco space, both locally and in Indo-China to strengthen recurring revenues in the longer-term. Management is however mindful of the constraints on its balance sheet and is likely to be selective in the type of towerco assets or ventures. OCK does not rule out equity tie-ups and/or JVs with strategic investors to minimise longer-term funding risks with the group taking on management control, which is similar to its tie-up with KRT in Myanmar. We understand OCK was also keen on Myanmar Tower Company (MTC), a brownfield towerco put up for sale by Digicel Holdings (75%-owned by Yoma Strategic Holdings) but opted to walk away from a deal on valuation grounds. MTC was subsequently acquired by edotco (a 100%-owned towerco unit of Axiata Group (AXIATA MK, NEUTRAL, TP: MYR6.32) for an enterprise value of USD221m.

We believe the potential target markets for towercos in Indo-China include Vietnam and Laos, as both have relatively attractive brownfield assets with decent tenancies. On the domestic front, OCK remains in discussions with telcos on more sale and leaseback arrangements to beef up its portfolio of 130+ towers.

Green energy/power solution business (GEPS) would ride on additional quota from the Feed-in-Tariff (FiT) scheme and new EPC jobs

The GEPS is the second largest revenue contributor to the group at 8% in FY15 (FY14: 19%). Of this, the power solution segment, which is in involved in the sale of power generators and related energy equipment for the commercial sector, contributes to the bulk of revenue (>90%) although yielding very thin gross margins of c.10%. GEPS revenue fell a sharp 31% in FY15 due mainly to the deferment of projects and slowdown in the delivery of power solutions equipment arising from the currency volatility. GEPS PBT however declined by a smaller 18%, supported by its solar business which command gross margin of over 80%. The focus going forward would be on the solar segment, which complements the group's overall strategy. OCK's experience in constructing the 10 megawatt (MW) solar farm in Sepang within a span of six months does put it in an enviable position to secure new engineering, procurement, construction (EPC) solar farm jobs that would be farmed-out by the Government, in our view.

We gather that discussions are on-going with the Government for more solar farm EPC jobs to help meet the target set for renewable energy (RE) mix to make up 11% of the country's energy generation mix by 2020 or 2,080MW. OCK is also keen on regional EPC jobs and would consider potential projects on a case-by-case basis and based on an internal hurdle (IRR) rate of 15%. In addition to EPC jobs, OCK actively participates in Malaysia's FiT scheme managed by the Sustainable Energy Development Authority (SEDA). As an approved FiT contractor, it is confident of securing additional quotas for solar photovoltaic (solar PV) generation, which are allocated yearly. The group currently owns a 1MW solar farm in Kelantan and has rights assigned for another 2.3MW of rooftop solar farms which generate a constant stream of cashflows over the next 20 years under FiT.

OCK's towerco business should get a shot in the arm from edotoco's listing and other towerco related M&As in the region

Axiata's management had previously articulated plans for the listing of its towerco to unlock the value of assets. We think the listing of edotco, Malaysia's largest telco-backed towerco would further raise the appetite and profile of towercos in the region given their attractive business models and steady cashflows. Towercos are indirect proxies to the burgeoning growth in the mobile data and capex investments by the telcos. We think the positive sentiment would run on to OCK as it remains the largest listed local independent (non- telco backed) towerco, putting it up against the ranks of listed independent towercos in Indonesia such as Tower Bersama and Sarana Menara Nusantara. While the number of towers under OCK's ownership remains a fraction that of its peers and edotco, we note that edotco's towers are mainly procured from Axiata's own regional mobile subsidiaries in Malaysia, Cambodia, Bangladesh, Pakistan and Sri Lanka while OCK started off as a contractor of build-to-suit towers in Malaysia before embarking on overseas tower ventures.

Figure 5: Towerco comparisons in Malaysia

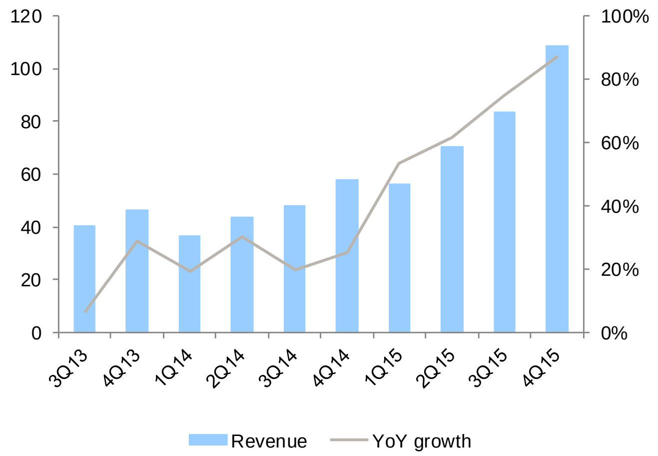
Towerco	OCK Towers	edotco
Listing	Yes (under OCK Group)	Planned
Type	Independent	Telco-backed (Axiata Group)
No. of sites owned	<200 (excluding Myanmar)	16,200
Tenancy ratio	1.1	1.5
Strategy	Build to suit, inorganic expansion, sale & leaseback model	Build to suit, inorganic expansion, sale & leaseback model
Site portfolio	Malaysia, Myanmar	Malaysia, Cambodia, Myanmar, Sri Lanka, Bangladesh, Pakistan

Source: RHB, edotco

4Q/FY15 results – a brief recap

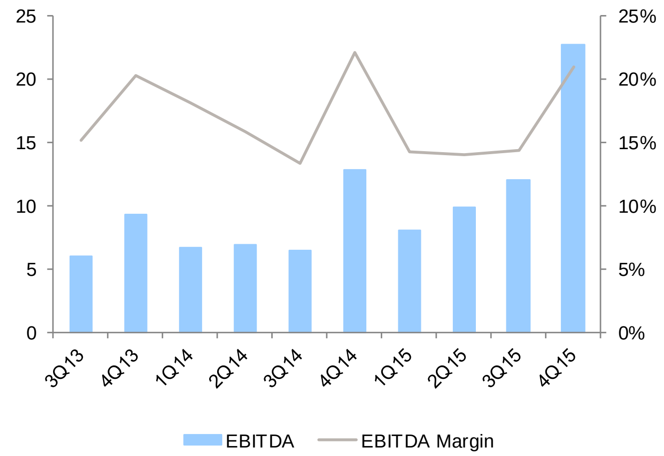
OCK's 4Q15 revenue grew a commendable 87.2% YoY (+29.6% QoQ) to a record MYR108.4m, bringing FY15 revenue to MYR318.6m (+71.4% YoY) while FY15 EBTDA surged 60.7%. This was supported mainly by: i) the more than doubling of TNS revenue as 3G/4G site deployments stayed robust, and ii) full 12 months contribution from PMT vs 2 months in FY14. The stronger TNS contributions were partially offset by weaker power solutions segment, which was crimped by the strong USD. Its 4Q15 revenue would have grown at a stronger clip if not for delays in the USP Phase I and the Cambodian fiber laying contracts. The group's core earnings (adjusted for the gain on the revaluation of property, forex losses and under provision of tax in the prior year) grew 48.9% in FY15 on the back of higher revenues albeit diluted by lower equipment distribution margin and additional resources for its regional investments.

Figure 6: Quarterly revenue (MYRm) trend



Source: RHB

Figure 7: Quarterly EBITDA (MYRm) and EBITDA margin



Source: RHB

Figure 8: OCK's results review

FYE Dec (MYR m)	4Q14	3Q15	4Q15	QoQ (%)	YoY (%)	FY14	FY15	YoY (%)	Comments
Revenue	57.9	83.7	**108.4**	29.6	87.2	**185.9**	**318.6**	71.4	Seasonally stronger 4Q. Full year contribution from PMT
EBITDA	**12.8**	**12.0**	**22.7**	89.0	77.2	**32.8**	**52.7**	60.7	
EBITDA Margin (%)	*22.1*	*14.4*	*21.0*			*17.6*	*16.5*		Lower margin from distribution of
Depreciation	(2.0)	(2.2)	(2.1)	(1.9)	8.3	(5.0)	(8.3)	65.6	In line with regional expansion
EBIT	**10.9**	**9.9**	**20.6**	109.0	89.7	**27.8**	**44.4**	59.8	
EBIT Margin (%)	*18.8*	*11.8*	*19.0*			*14.9*	*13.9*		
Finance cost	(0.6)	(1.1)	(3.2)	>100	>100	(4.0)	(6.3)	57.2	Total debt of MYR88m in 4Q15 vs. MYR64.5m in FY14
Pretax profit	**10.2**	**8.8**	**17.4**	97.7	70.3	**23.8**	**38.1**	60.2	Full year contribution from PMT
Pretax Margin (%)	*0.2*	*0.1*	*0.2*			*12.8*	*11.9*		
Tax	(3.6)	(3.0)	(5.1)	70.0	41.0	(6.7)	(11.0)	63.8	Under provision of tax in prior year
Effective tax rate (%)	*35.7*	*34.4*	*29.5*			*28.2*	*28.8*		
PATAMI	6.6	5.8	12.3			17.1	27.1		
Minority Interest	(0.1)	(0.9)	(0.8)			(1.5)	(2.5)	58.8	
Core Profit	**6.5**	**4.9**	**11.5**	135.1	77.0	**15.6**	**23.2**	48.9	
Net Margin (%)	*11.2*	*5.8*	*10.6*			*8.4*	*7.3*		

Source: Company data, RHB

Gearing set to top 1x by end-2016 from additional towerco related M&As

We estimate OCK's gross/net gearing to rise to 0.9x/0.4x by 1H16 from 0.3x/net cash respectively in FY15 from additional borrowings to fund the rollout of greenfield sites in Myanmar for Telenor. However, gross/net gearing could expand further to 1.4x/0.9x by end FY16 should the group undertakes additional towerco M&As (Figure 9). This assumes 60% debt financing and the collective value of the transactions equal to that of the Telenor deal. Despite the higher borrowings, OCK's net gearing should remain manageable and below that of the Indonesia towercos, which command net gearing in excess of 3x. We estimate a comfortable net interest coverage (EBIT/financing cost) of 3-5x for FY16-18 despite additional debt taken at the group level to fund its expansion.

Figure 9: Gearing levels set to rise with further M&As

Balance sheet profile (MYRm)	
Gross debt @ 4Q15	88.0
Total cash @ 4Q15	163.2
Net cash/(net debt)	75.2
Net cash/(debt) after	
-Telenor Myanmar	(139.8)
- Acquisition B	(199.8)
- Acquisition C	(328.8)
	(x)
Gross gearing @ 4Q15	0.3
Gross gearing -post Telenor Myanmar	0.9
Gross gearing - post Acquisition B	1.0
Gross gearing - post Acquisition C	1.4
Net gearing @ 4Q15	net cash
Net gearing - after Telenor Myanmar	0.4
Net gearing - after Acquisition B	0.6
Net gearing - after Acquisition C	0.9

Source: RHB

Forecast

We project core earnings growth of 35%, -4% and 26% for FY16-18 against revenue growth of 43.8%, 11.1% and 12% respectively. This is largely driven by the TNS segment where revenue contribution is expected to widen to 85.8% in FY18 from 84.4% and 85.2% in FY16 and FY17 respectively. We forecast revenue contribution from its regional businesses to expand from 17.7% in FY16 to 21% in FY17 and 24% in FY18, supported by the steady expansion of its site maintenance business in Indonesia (PMT) and as contributions from site rentals kick-in from Myanmar. While OCK's FY17 EBITDA is forecasted to grow by 24% in FY17 (FY16: +42% YoY), higher interest expense and depreciation from its investments in Myanmar would crimp FY17 core earnings, contributing to a marginal contraction, by our estimate. There is an upside risk to our forecast should OCK secures additional USP jobs/solar farm EPC contracts and/or undertake new towerco M&As.

Recommendation & Valuation

BUY- DCF TP of MYR1.02. We value OCK based on DCF valuation (WACC: 9.4%, TG: 1.5%) and its fully diluted share base of 1.05bn (post rights/warrants issue) (Figure 10). Although we acknowledge the high earnings growth profile of the stock, we believe a cashflow valuation better captures the: i) longer-term potential of its towerco business (steady cashflows), ii) capex needs, and iii) management's strategy to drive recurring revenues. We estimate the leaseback deal with Telenor Myanmar would add MYR0.21 to our DCF value over the next 10 years based on the completion of 920 sites in FY17. At our TP, OCK trades at a discount of 10.5x FY17 EV/EBITDA vs the average of its larger Indonesian peers of 12.3x (Figure 11), which reflects its smaller market capitalisation and stock liquidity. The TP is further supported by an attractive EV/EBITDA (EV) vs FY16-18 EBITDA (EV/E-G) of 0.7x.

Key risks

The plans to grow its base of recurring revenues via organic and regional M&As would likely come at the expense of earnings (via higher financing cost) and balance sheet in the medium-term (higher debt). Consequently, we do not rule out further cash calls. Investors should note that towercos are inherently a high capex business in the initial years with benefits accruing in the longer-term from high operating leverage. Other risks are: i) project delays impacting billing momentum, ii) regional execution, iii) weaker-than-expected margins, and iv) higher-than-expected capex.

Figure 10: DCF Valuation

FYE Dec (MYRm)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Period	1	2	3	4	5	6	7	8	9	10
EBIT	58.4	63.9	77.6	65.2	79.2	93.6	108.5	124.2	140.7	158.3
EBIT (1-t)	43.2	47.3	57.4	48.3	58.6	69.2	80.3	91.9	104.1	117.2
(+) Depreciation	16.3	29.0	35.0	38.9	40.7	42.5	44.3	46.1	48.0	49.8
(-) Capex	-320.0	-100.0	-100.0	-30.0	-30.0	-30.0	-30.0	-30.0	-30.0	-30.0
(+) Chg in working capital	-140.4	75.0	37.6	107.2	1.3	5.3	8.1	20.2	21.3	22.7
FCF	-400.9	51.3	30.0	164.4	70.6	87.0	102.7	128.2	143.4	159.6
PV of FCF	(366.5)	42.9	22.9	114.9	45.1	50.9	54.9	62.7	64.1	65.2

Terminal Value	2,059.6
PV of Terminal Value	841.3

Equity Valuation	
PV of FCF	156.9
PV of Terminal Value	841.3
Enterprise Value	998.3
Net (debt)/cash	75.2
Equity value	**1,073.5**
No. of shares	1,056.3
Equity value/share	**1.02**
% upside	43.1%
Implied forward PER (x)	26.9
Implied forward EV/EBITDA (x)	10.5

				WACC			
TG	**7.9%**	**8.4%**	**8.9%**	**9.4%**	**9.9%**	**10.4%**	**10.9%**
0.0%	1.16	1.05	0.96	0.88	0.80	0.74	0.68
0.5%	1.23	1.11	1.01	0.92	0.84	0.77	0.71
1.0%	1.30	1.17	1.06	0.96	0.88	0.80	0.74
1.5%	1.39	1.25	1.12	1.02	0.92	0.84	0.77
2.0%	1.49	1.33	1.19	1.07	0.97	0.88	0.80
2.5%	1.61	1.43	1.27	1.14	1.03	0.93	0.84
3.0%	1.76	1.54	1.37	1.22	1.09	0.98	0.89

WACC Assumptions	
Rf	5.5%
Beta	1.3
Risk premium (Rm- Rf)	5.5%
D/(D+E)	40.0%
Cost of Equity	12.7%
Cost of Debt	6.0%
Tax Rate	26.0%
Terminal Growth	1.5%
WACC	**9.4%**

Source : RHB

Figure 11: Peer comparison table

Company	**Bloomberg Ticker**	**Currency**	**Price (local* CCY)**	**Mkt Cap (USDm)**	**PER (x)**			**EV/EBITDA (x)**			**TP (local CCY)**	**% upside**
					FY1	**FY2**	**FY3**	**FY1**	**FY2**	**FY3**		
OCK Group	OCK MK	MYR	0.71	137.6	24.0	25.0	19.9	8.4	7.3	6.5	1.02	43.7
Tower Bersama	TBIG IJ	IDR	5,950	2,182.7	24.2	22.5	18.4	14.8	13.6	12.3	6,100	2.5
Sarana Menara	TOWR IJ	IDR	3,995	3,117.4	29.1	23.9	19.0	12.5	11.0	9.6	5,800	45.2
Average Indo towerco					**26.6**	**23.2**	**18.7**	**13.7**	**12.3**	**10.9**		
% disc to average Indo peers								-38.5	-40.7	-40.5		

Share prices as at 11 March 2016
Source: RHB

SWOT Analysis

- Largest telco network services provider in Malaysia and the only listed towerco with regional exposure
- Strong management team backed by major shareholder and founder

- Competition from much bigger towercos for regional assets
- Margin pressure

- Potential for further sale and leaseback of sites from local and regional telcos
- Malaysia's RE targets portend significant upside for the GEPS segment
- Strong prospects for telco site maintenance given the growing trend towards outsourcing

S O T W

- Balance sheet to undertake major M&As
- Project execution risks

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-05-28	Buy	1.06	0.75
2015-03-02	Buy	1.11	0.81
2015-02-27	Buy	1.06	0.82
2014-11-27	Buy	1.06	0.82
2014-11-19	Buy	1.59	0.83
2014-09-03	Buy	1.65	0.86
2014-07-04	Buy	1.65	0.85
2013-12-09	Not Rated	na	0.47

Source: RHB, Bloomberg

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