

## OCK Group Bhd

### Initiating Coverage

# TRADING BUY

Current Price	<b>RM 0.825</b>
Consensus Price	<b>RM 1.02</b>
Target Price	<b>RM 0.93</b>

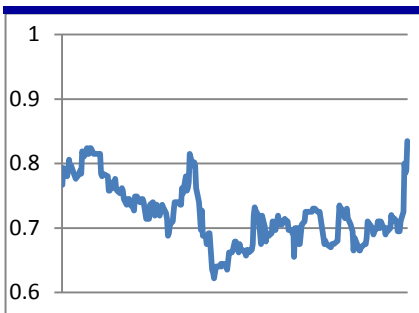
#### Key Statistics

Bloomberg Ticker	OCK MK
Masa Ticker / Stock Code	0172
Shares Issued (m)	792.2
Market Capitalisation (RM'm)	653.6
52 Week Hi/Lo Price (RM)	0.84/0.592
Avg Trading Volume (3-mth)	1,906,576
Est Free Float (m)	427.1
YTD Returns (%)	22.2
Beta (x)	1.28

#### Major Shareholders (%)

Aliran Armada Sdn Bhd	39.82
Lembaga Tabung Angkatan Tentera	13.65
He Swee Hong	3.14

#### 1-Year Share Price Performance



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## Tower Quest

We are initiating coverage on OCK Group Bhd with a TRADING BUY recommendation with a target price of RM0.93 based on a 25x PER pegged to a diluted EPS of 3.7 sen. We expect the share price to react to the strong 25% forecast jump growth in earnings in FY16. This will allow its share price to reach RM0.93 in the near term but earnings will need some time need to catch up following that. As a significant part of earnings are based on the telco towers that it erects, and there is no assurance contracts for building will involve as many telco towers as it is embarking on in 2016, this near term surge may be followed by a pause. Accordingly, our recommendation is a TRADING BUY for now.

OCK group is one of the largest Telecommunications Service Provider in Malaysia. We like OCK Group for: 1) its proven track record for financial growth 2) the company being a one-stop solutions provider for telecommunications network service 3) its experienced management team 4) Boosting recurring income 5) Good ties with technology providers

OCK Group Berhad is the largest telco service provider locally in revenue terms. Since its establishment, OCK has enlarged its scope of business to 4 major segments namely 1) Telecommunication Network Services, 2) Green Energy and Power Solutions 3) Trading of Telco and Network Products and 4) M&E Engineering Services. The main division is Telecommunication Network Services. Over the years, the group expanded operations regionally to Myanmar, Cambodia, China, Indonesia and Singapore. OCK Group aims to be a leader in telecommunication service and a green renewable energy provider.

**Table 1 : Earnings Forecasts**

FYE Dec	2014	2015	2016 (F)	2017 (F)	2018 (F)
Revenue (m)	185.9	318.6	392.7	481.6	548.3
Pretax Profit (m)	23.8	38.1	45.6	55.5	61.4
Profit After Tax (m)	17.1	27.09	33.51	41.63	49.17
EPS (sen)	2.15	3.42	4.23	5.25	6.21
Pretax Margin (%)	12.8	11.9	11.6	11.5	11.2
PAT Margin (%)	9.2	8.5	8.6	8.9	8.5
PER (x)	36.7	23.1	18.7	15.0	12.7
DPS (sen)	N/A	N/A	0.6	0.6	0.6
Dividend Yield (%)	N/A	N/A	0.83	0.83	0.83
ROE (%)	7.8	10.7	11.3	11.4	7.8
ROA (%)	5.0	6.2	7.0	7.4	5.0
Net Gearing Ratio (%)	Net Cash	Net Cash	15.7	13.7	9.7
BV/Share	0.24	0.44	0.39	0.46	0.54
Price/Book Ratio (x)	3.1	1.7	1.9	1.6	1.3
Diluted EPS (sen)	2.15	*2.6	*3.7	*4.5	*5.2
Diluted PER (x)	51.71	32.56	25.96	20.90	17.70

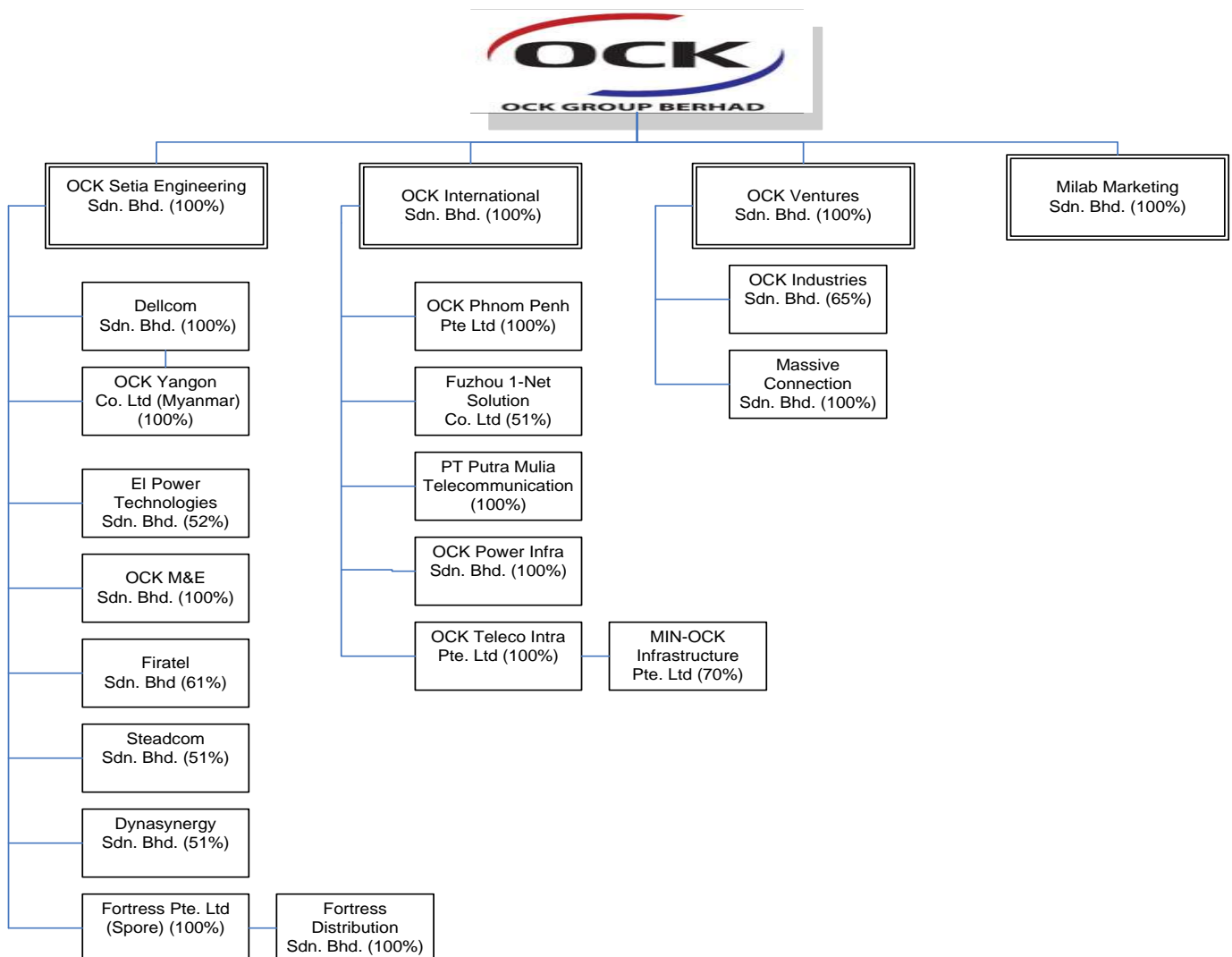
\*assumes full conversion of warrants and a yield of 4% on the conversion proceeds

**Company Background**

OCK Group Berhad is primarily involved in the provision of telecommunication services where the group obtained a Network Facility Provider (NFP) and Network Service Provider (NSP) License from government since its establishment in year 2000. The license allows the group to build, lease and own telecommunication sites and fiber optic network that provides steady recurring income to the group. Besides building and renting telecommunication sites, OCK Group’s trading of telecommunication products segment acts to support the main business division as they supply materials/parts needed internally as well as to other service providers/operators. OCK first started off with the M&A Engineering Services and that led them to venture into Telecommunication Services, Trading and finally the Green Energy and Power Solutions segment.

OCK Group first listed on the ACE Market in 2012. In year 2014, it successfully transferred its listing to the Main Market. The group is expanding its operations to the regional market with the acquisition of 85% equity interest in PT Putra Mulia Telecommunication (PMT), a company that provides managed services in Indonesia. In the long run, OCK Group plans to focus on their expertise which is the telecommunications network services and to enlarge the current pool of recurring income.

**Illustration 1: Corporate Structure**



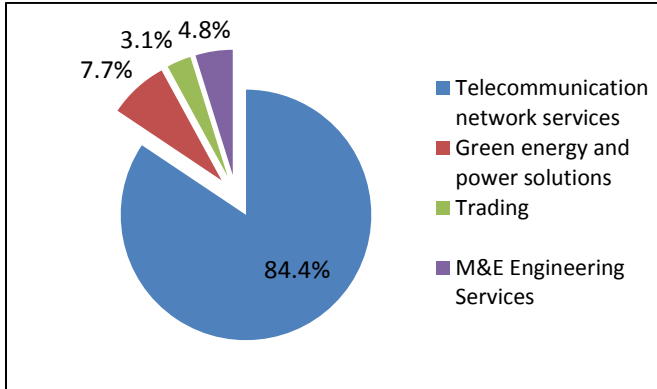
Source: Company

**Geographical and Segment Information**

OCK group segregates their business into 4 major segments with Telecommunication Network Services as the core contributor to the group’s revenue as 84% of the group’s revenue originates from this segment. As the group expands their business locally and regionally, they managed to lock-in major contracts from their clients. In Malaysia, OCK is one of the key contractors appointed by P1/TM for the LTE rollout. OCK also partners ZTE to manage U-Mobile’s east coast sites and also operate a pilot program for Digi. Besides that, the company is also working closely with JPJ to deploy 1,000 pilot sites for AES and will maintain these sites, increasing the group’s recurring income.

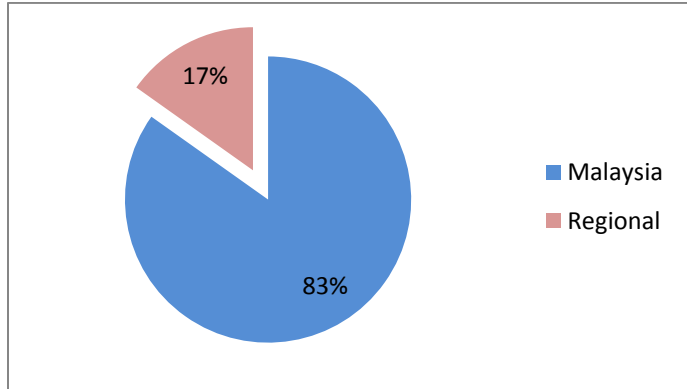
The group continues to expand regionally especially in Indonesia and Myanmar. Regional business increased more than 4-fold from RM12mil in FY2014 to RM53mil in FY15, contributing a total of 17% in terms of revenue. The Myanmar government recently issued a Network Facilities Services Class (NFSC) license to OCK, thus allowing them to operate as a towerco in Myanmar.

**Graph 1: Revenue Breakdown by Segments**



Source: Company and Inter-Pacific

**Graph 2: Revenue Breakdown by Country**



Source: Company and Inter-Pacific

**Telecommunication Network Service**

The group provides comprehensive services which covers all 6 segments of the telecommunication network services market namely, network planning, design and optimization, network deployment, network operations and maintenance, energy management, infrastructure management and other professional services. The Telecommunication Service segment enjoys the highest profit margins as compared to other divisions.

**Illustration 2: Segments for Telecommunication Network Services**



*Source: Company*

OCK’s subsidiary PMT is the market leader in Indonesia in maintenance services with approximately 25% market share. PMT had doubled sites it maintains from 10,000 to 20,000 within a year, resulting in a significant growth in regional revenue. The group recently signed an agreement with Telenor Myanmar to build 920 towers by end of 2016 for lease to Telenor Myanmar for 12 years. A Rights Issue exercise was completed in Dec 2015 raising proceeds of RM132mil, the bulk of which will be utilized to expand their tower asset portfolio in Myanmar.

**Green Energy and Power Solutions**

OCK is equipped as an Engineering, Procurement, Construction (EPC) contractor that provides full-turnkey solutions for solar farms. The group is the EPC contractor for the largest single solar farm in Malaysia situated in Sepang along with several smaller solar farms across Peninsular Malaysia. The renewable energy segment will provide long term recurring income and offers a projected IRR of 15%.

As for the power solutions division, the group supplies, install, commission and testing services for power generation equipment that are used as back up electricity generators for commercial , retail and factory buildings. They recently signed an agreement with Empire Damansara to embark on in-building coverage business.

**Trading of Telecommunication and Network Products**

OCK group trades telecommunication hardware installation material that complements and supports the telecommunication network segment. Hardware products being traded include antennas, feeder cables, connectors and water-proofing tapes.

**M&E Engineering Services**

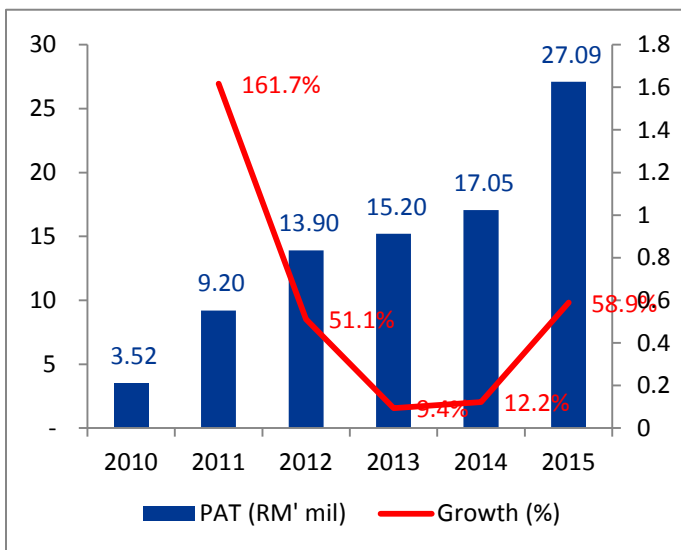
OCK provides M&E contracting and maintenance services which involves supplying and installation. This segment complements the telecommunications network service segment in preparing sites for the implementation and integration of telecommunications network equipment. M&E works includes, electrical wiring, low-voltage components, elevators and CCTV. This division has an order book of RM80mil of which 30% will be delivered this year.

**Key Investment Themes**

**Proven Track Record for Financial Growth**

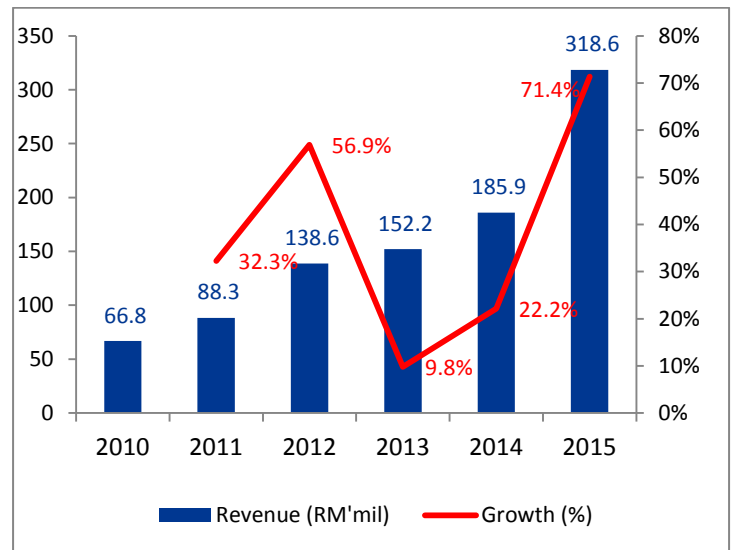
Based on historical data, OCK group recorded a compounded annual growth rate (CAGR) of 36.6% for revenue from FY10 to FY15. As for the PAT, the group reported a 50.4% CAGR from FY10 to FY15. Moving forward, we believe that the revenue will continue to grow as the group aims to increase in their recurring income. In addition, the management is also positive in obtaining more contracts from locally and regionally.

**Graph 3: Profit After Tax and Growth**



Source: Company and Inter-Pacific

**Graph 4: Revenue and Growth**



Source: Company and Inter-Pacific

**One-Stop Solutions Provider for Telecommunications Network Service**

OCK group provides one-stop solutions for Telecommunications Network Service to their client where it could be divided into 3 main stages which include designing, building and maintaining those telecommunication sites. The designing phase is the most vital part to establish a effective network. As for the building stage, the group will

commence once the network plans are ready for deployment that includes the acquisition of raw materials and resources for the construction of the network site. OCK's technical team constantly equip themselves with the latest equipment knowledge. Besides, the group also provides consultation on sites. The group has a team of engineers that are outsourced to China Mobile that consults on optimisation and network planning that brings in steady recurring revenue of about RM2mil/month. The group has also completed the Part 1 USP program and is expected to receive the remaining billings of RM26mil revenue from phase 1 in FY2016.

#### **Targeting more Recurring Income**

The group aims to focus on building streams of recurring income. The contract for maintaining telecommunication sites are normally signed every 2 years where the company will be paid monthly based on the number of sites. In FY15, the group's subsidiary PMT, had a 100% increment in the number of sites being maintained from 10,000 to 20,000 sites. This leads to a RM20mil jump in regional revenue. Besides, the group also targets an approximate of 30% growth in the number of telecommunication sites being maintained in Indonesia for FY16.

In FY15 OCK entered into a Masters Service Agreement (MSA) with Telenor Myanmar Limited (Telenor) to build 920 tower infrastructure to Telenor. The 920 towers will be ready by the end of 2016 and the duration of the lease with Telenor will be 12 years. OCK group also reserves the right to lease the towers to other telecommunications operators in Myanmar. This project provides an IRR of 15%. The group is also positive to obtain new contracts from Telenor to build more towers after the delivery of the initial 920 towers. As the industry is just starting to boom in Myanmar, the demand for telecommunication towers is high.

As for the Renewable energy segment, the group owns solar farms that are already energized that provides a total of 2.15Megawatts and a 21 year contract with the government. As an EPC, OCK constructed the largest single solar farm in Malaysia. The 10Megawatts farm in Sepang was completed within 6 months. The group plans to bid and acquire more solar farm projects near term as they provide an IRR of around 15%.

#### **Good Ties with Technology Providers**

Established since year 2000, OCK has managed to establish a reputation by providing quality and timely services to their clients. This had helped them to have a long and close working relationships with their clients which includes Ericsson, Huawei, Digi,

Maxis, Alcatel-Lucent, Axiata and many more. OCK maintains approximately 4,300 sites for Maxis throughout Malaysia. Such relationships are beneficial to the group as their clients will refer to them as their turnkey partners.

#### **Experienced Management Team**

With a management team that has many years of experience in the industry definitely serves as an added bonus to the group. Mr. Ooi Chin Khoon, the Managing Director for the OCK group is an electrical engineer and he also founded OCK Setia Engineering Services in 1999. Mr. Ooi has been in the industry for more than 10 years. He is responsible for formulating and executing the business strategies for OCK group hence leading the group to grow in a strategic direction. Apart from Mr Ooi, most of the key personnel from OCK graduated from university with degrees related to electrical engineering and have vast experience in the telecommunications industry.

#### **Investment Risks**

##### **Political, Economic and Regulatory Risks**

Telecommunications infrastructure needs are dependent on ongoing economic conditions. A slowdown in the local or global economy will affect the supply and demand for telecommunication infrastructure.

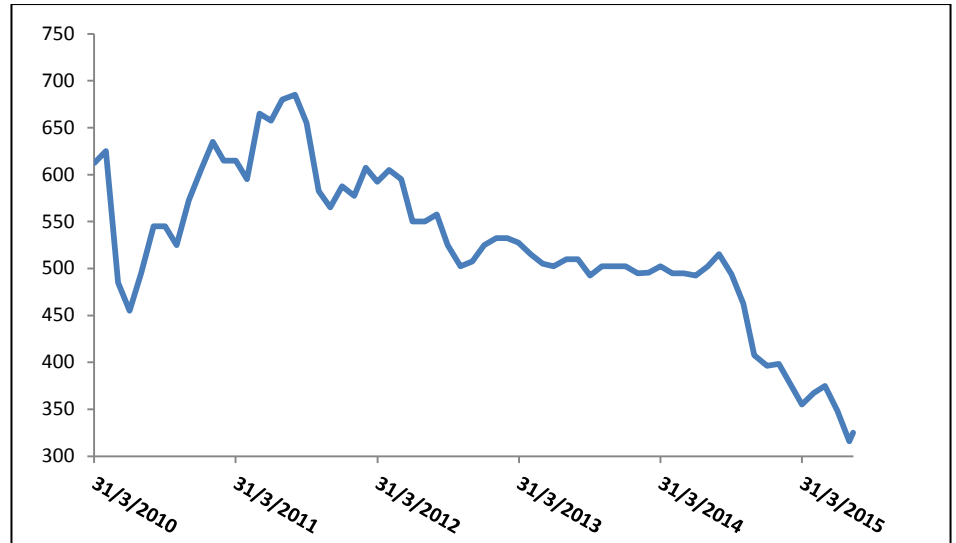
##### **Network Sharing**

Recently, the Government has been encouraging telecommunications operators to share tower sites among themselves to reduce negative effects on the environment due to the erection of multiple towers. Approval for new tower sites will be reduced and telecommunications operators face the risk of not obtaining the required approvals to install base stations or infrastructure which are suitable or required for their operations. The reduction in new tower sites will also benefit OCK in a way as there can then be more tenants for each tower site, thus increasing rental income from any given site.

##### **Fluctuation in the Price of Supplies**

Steel is the main raw material that is required by OCK to build telecommunication towers and used in their trading of telco and network products segment. Steel cost represents around 30% of the material costs. As steel prices have been generally lower in the recent years, the raw material cost for OCK will rise when steel prices rebound.

**Graph 5: Steel Billet Price (CIS Black Sea) (USD/mt)**



Source: Bloomberg

### **Operating in Foreign Countries**

Operating overseas may be promising as it shows a decent growth for the group. However, OCK is aware that this can be a double edged sword as different countries have different regulatory frameworks that might impact them.

### **High CAPEX that might Lead to Higher Gearing**

The telecommunications service industry features higher CAPEX needs than the other industries. We forecast the net gearing ratio for OCK will increase, swinging from net cash to 15.7% net gearing in FY16 as the group may need more funds for future projects. There is a possibility that the group will undertake another corporate exercise to raise funds.

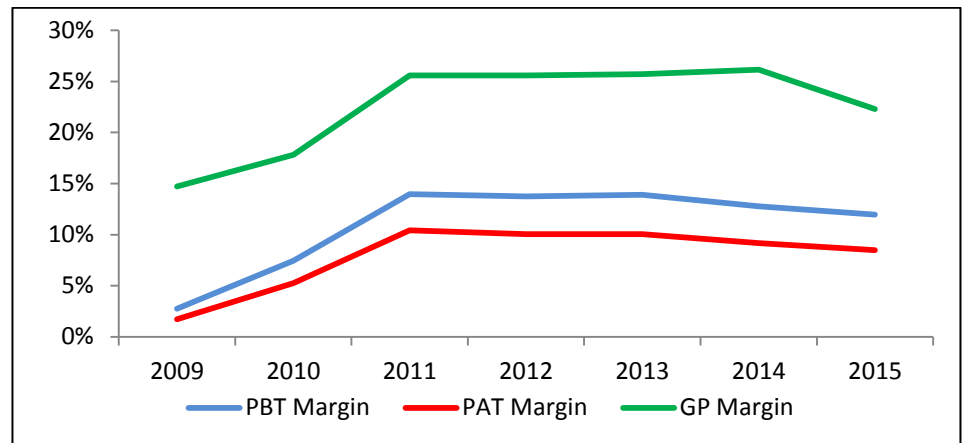
### **Financials**

The Telecommunications Network segment contributes the highest gross profit margin to the group as it contributes more than 25% followed by the M&E Engineering Services with an approximate 15% gross profit margin. Green energy and power solutions segment and Trading of telecommunication and network products segment both provide a gross profit margin between 10%-15%.



The margins for OCK group grew in FY09 and FY10 and was maintained at this level between FY11 until FY14. However, there was a slight decrease in FY15 especially in the GP Margin. GP margin fell from 26.1% to 22.3% in FY15 due to the increase in revenue contribution from the distribution segment where segment profit margins are by nature lower.

**Graph 6: PBT Margin, PAT Margin, GP Margin (%)**



**Corporate Exercise**

In Dec 2015, the OCK group completed a cash call consisting of a renounceable rights issue of up to 264 mil new ordinary shares of RM0.10 each on the basis of one rights share with free detachable warrants for every rights share subscribed, thus expanding the total share base to 792.2mil.

**Dividend Payout**

The group has not set any formal dividend policy. However, OCK did distribute 0.5sen dividend in each of FY12 and FY13. The group recently declared a 0.6sen interim dividend with the ex-date set on 28 March 2016.

**Valuation**

OCK ranks among major Telecommunication Service Providers. As it is the largest Telecommunications Service Provider in Malaysia and there are not many companies locally in the same business line as OCK, benchmark valuations for OCK are obtained from a comparison with several Telecommunication Network Service companies overseas namely, Tower Bersama, Sarana Menara and Bharti Infratel.

We note OCK's valuations are lower compared to its peers as its forward basic PER is only 12x compared to its peers, which trade at forward PERs of more than 20x.

We are placing a target price of RM0.93 based on PER of 25x pegged to OCK's fully diluted EPS of 3.7 sen for FY16. The use of a diluted EPS is warranted as the Warrants are currently in-the-money. We fully expect that the share price will move up to RM0.93 in the near future.

We believe that our valuations are well-supported for the following reasons:

- 1) stable earnings growth
- 2) limited coverage from research houses that have kept valuations lower
- 3) an experienced and resourceful management team
- 4) OCK enjoys a good relationship with their clients and technology providers
- 5) the group is plotting a clear path towards an enlarged pool of recurring income

**Table 2: Peer Comparison Table as at 21/3/2016**

Company	Country	Price (Local Currency)	Market Cap (RM mil)	P/E	Forward P/E	P/B	ROE (%)	Div Yield (%)
Tower Bersama Infrastructure Tbk PT	Indonesia	6200	9,117	30.50	25.24	10.69	27.4	N/A
Sarana Menara Nusantara PT	Indonesia	4100	12,908	95.30	29.83	8.13	9.0	N/A
Bharti Infratel Ltd	India	386.05	44,558	36.63	31.95	4.3	11.4	1.7
<b>OCK Group Bhd</b>	<b>Malaysia</b>	<b>0.825</b>	<b>653.6</b>	<b>17.93</b>	<b>27.50</b>	<b>2.78</b>	<b>12.1</b>	<b>0.73</b>

Source: Bloomberg

**Illustration 3: Appendix**



Panel Antenna



## Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

## Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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