

OCK Group Bhd

In-line

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1Q16 PATAMI of RM3.7m came in within expectation and accounted for 12.7% of our, and 12.3% of consensus', full-year estimates. Moving forward, we expect the group's business to grow progressively, in tandem with the telecom operators, who tends to ramp up its capex towards 2H/4Q of each financial year. Post-result review, we made no changes to our FY16/FY17 earnings forecast as the results came in within expectation. We maintain our **OUTPERFORM** call with an unchanged TP of RM0.95 based on DCF valuation (WACC: 9.1%, TG: 1.5%). We continued to like OCK for: (i) its healthy cash flow on the back of escalating recurring income trend, (ii) spreading its wings in Myanmar and across Southeast Asia, (iii) its ability to ride with the passive infrastructure sharing trend, (iv) its EBITDA margin expanding trend, and (iv) potential growth through M&A activity.

Within-expectation. 1Q16 PATAMI of RM3.7m (+21% YoY, -68% QoQ) came in within expectations at 12.7%/12.3% of our/market consensus' full-year estimates. The latest quarterly results are well within the historical 1Q contribution of 12%-20% range of full-year results for the past three years.

No dividend was declared, as expected. For the full financial year, we expect the group to reward shareholders with 0.61 sen DPS, translating into a dividend yield of 0.8%.

YoY, 1Q16 revenue improved to RM78.4m (+40%) on the back of a higher telecommunication network services contribution (+64% to RM61m), mainly underpinned by its regional business in Indonesia, Cambodia and Myanmar as well as higher contribution from contracting works in Malaysia. The green energy and power segment, meanwhile, suffered a dip of 16% to RM10.4m due to a drop in delivery of power solution equipment as a result of the uncertainty of the currency costs as well as slower business conditions. PBT improved 11% to RM5.7m, thanks to higher turnover but partially offset by higher depreciation expenses and finance costs as a result of larger tower portfolio.

QoQ, 1Q16 revenue fell by 28%, largely due to lower telecommunications network service revenue (-39%) as telecom operators generally award more works to complete their networks rollout plans in the last quarter of the year. On top of that, 4Q15 had also set a high base where the group completed extensive projects in Indonesia, Cambodia and China. The lower telecommunications network services segment contribution was partially mitigated by higher revenue of M&E (46% to RM5.3m) as it speeded up the delivery of engineering works to the existing projects. EBIT, meanwhile, dipped by 57% to RM9.8m with margin lowered to 12.6% (vs. 21% in the preceding quarter) as a result of lower turnover coupled with higher operating expenses.

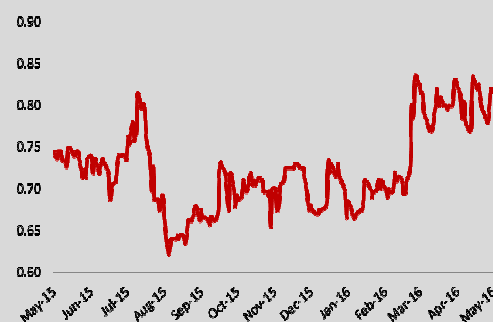
Outlook. The group is set to complete the first batch of c.400 telco towers to Telenor Myanmar in mid-2016 and is on-track to deliver 920 towers by end-CY16. The Myanmar project is expected to contribute c.RM60m revenue per annum with a lucrative targeted EBITDA margin of c.60%, significantly higher than the group's FY15 EBITDA margin of 16.5%. Apart from focusing on the telecommunication business, we understand that the group is also sourcing for more business and/or investment opportunities in the sustainable energy sector that is rapidly growing in demand.

OUTPERFORM ↔

Price: **RM0.81**

Target Price: **RM0.95** ↔

Share Price Performance



KLCI	1,630.96
YTD KLCI chg	-3.6%
YTD stock price chg	20.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OCK MK Equity
Market Cap (RM m)	641.7
Issued shares	792.2
52-week range (H)	0.84
52-week range (L)	0.59
3-mth avg daily vol:	2,262,341
Free Float	58%
Beta	1.2

Major Shareholders

ALIRAN ARMADA SDN BH	26.6%
LEMBAGA TABUNG ANGKA	13.6%
HE SWEE HONG	2.1%

Summary Earnings Table

FYE Dec (RM'm)	2015A	2016E	2017E
Turnover	315.9	397.0	483.0
EBIT	43.1	55.8	65.4
Pretax profit	37.3	40.0	44.4
Net Profit	24.8	29.2	29.5
Core Net Profit	24.8	29.2	29.5
Consensus (NP)		30.1	29.8
Earning Revision		-	-
EBITDA margin	16.3%	16.2%	19.8%
Core EPS (sen)	4.6	3.4	3.2
EPS growth (%)	39.4	-26.5	-4.7
DPS (sen)	0.6	0.6	0.6
BV/Share (RM)	0.6	0.5	0.5
Core PER	17.8	24.1	25.3
Reported PER	17.8	24.1	25.3
Price/BV (x)	1.3	1.7	1.5
Net Gearing (x)	(0.2)	0.4	0.3
Dividend Yield (%)	0.7	0.8	0.8

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Result Highlight

Y/E : Dec (RM'm)	1Q16	4Q15	QoQ Chg	1Q15	YoY Chg	3M16	3M15	YoY Chg
Turnover	78.4	108.4	-27.7%	56.2	39.7%	78.4	56.2	39.7%
EBITDA	12.5	24.9	-49.7%	12.3	2.0%	12.5	12.3	2.0%
EBIT	9.8	22.7	-56.7%	8.0	22.6%	9.8	8.0	22.6%
PBT	5.7	17.4	-67.0%	5.2	10.9%	5.7	5.2	10.9%
Taxation	(1.2)	(5.1)	-76.6%	(1.1)	5.3%	(1.2)	(1.1)	5.3%
Net Profit (NP)	4.5	12.3	-63.0%	4.0	12.5%	4.5	4.0	12.5%
Minority Interest	0.8	0.8	7.7%	1.0	-14.8%	0.8	1.0	-14.8%
PATAMI	3.7	11.5	-67.7%	3.1	21.2%	3.7	3.1	21.2%
Core EPS (sen)	0.4	2.0	-82.2%	0.6	-39.4%	0.4	0.6	-39.4%
DPS (sen)	-	-		-		-	-	
EBITDA margin	16.0%	23.0%		21.9%		16.0%	21.9%	
EBIT margin	12.6%	21.0%		14.3%		12.6%	14.3%	
PBT margin	7.3%	16.0%		9.2%		7.3%	9.2%	
PATAMI margin	4.7%	10.6%		5.5%		4.7%	5.5%	
Effective tax rate	-21.0%	-29.5%		-22.1%		-21.0%	-22.1%	

Source: Company, Kenanga Research

Result Highlight – Revenue & PBT Breakdown

Y/E : Dec (RM'm)	1Q16	4Q15	QoQ Chg	1Q15	YoY Chg	3M16	3M15	YoY Chg
Telecommunications network services	61.2	100.5	-39.1%	37.3	64.2%	61.2	37.3	64.2%
Green energy and power solution	10.4	1.2	772.4%	12.4	-16.2%	10.4	12.4	-16.2%
Trading	1.5	3.1	-52.8%	1.9	-24.5%	1.5	1.9	-24.5%
M&E Engineering services	5.3	3.7	46.0%	4.5	18.3%	5.3	4.5	18.3%
Investment holding	-	-	0.0%	-	0.0%	-	-	0.0%
TOTAL Revenue	78.4	108.4	-27.7%	56.2	39.7%	78.4	56.2	39.7%
Telecommunications network services	5.1	16.9	-69.7%	4.0	28.0%	5.1	4.0	28.0%
Green energy and power solution	0.5	0.4	26.0%	0.7	-26.2%	0.5	0.7	-26.2%
Trading	0.4	1.1	-60.9%	0.1	211.0%	0.4	0.1	211.0%
M&E Engineering services	0.2	0.6	-71.8%	0.3	-49.1%	0.2	0.3	-49.1%
Investment holding	(0.5)	(1.5)	-68.1%	-	0.0%	(0.5)	-	0.0%
TOTAL PBT	5.7	17.4	-67.0%	5.2	10.9%	5.7	5.2	10.9%

Source: Company, Kenanga Research

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Income Statement					
FYE Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	152.0	185.9	315.9	397.0	483.0
EBITDA	26.9	32.8	51.4	64.4	95.5
Depreciation	2.0	5.0	8.3	8.6	30.1
Operating Profit	24.9	27.8	43.1	55.8	65.4
Other Income	0.0	0.0	0.0	0.0	0.0
Interest Exp	3.4	4.0	5.7	15.8	20.9
Associate	0.0	0.0	0.0	0.0	0.0
Exceptional Items	4.0	5.0	6.0	7.0	8.0
PBT	21.5	23.8	37.3	40.0	44.4
Taxation	5.3	6.7	10.2	10.4	11.6
Minority Interest	(1.5)	(1.5)	(2.4)	(0.4)	(3.3)
Net Profit	14.7	15.6	24.8	29.2	29.5
Core Net Profit	14.7	15.6	24.8	29.2	29.5

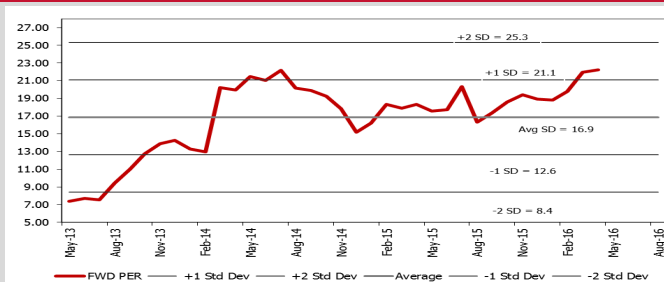
Balance Sheet					
FYE Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Fixed Assets	68.2	74.6	102.5	415.4	436.8
Intangible Assets	-	19.4	19.2	17.7	16.2
Other FA	-	-	31.4	31.4	31.4
Inventories	18.2	23.9	30.9	38.2	45.6
Receivables	71.7	110.4	190.6	195.2	205.1
Other CA	0.3	0.7	0.5	0.5	0.5
Cash	26.2	73.8	163.8	93.5	142.9
Total Assets	184.7	302.7	539.0	792.0	878.5
Payables	35.4	44.5	63.2	78.1	93.2
ST Borrowings	42.7	33.5	49.9	49.9	49.9
Other ST Liability	2.4	2.4	3.2	3.2	3.6
LT Borrowings	19.5	32.3	41.0	211.8	211.8
Other LT Liability	0.9	3.0	38.4	38.6	39.4
Minorities Int.	3.9	8.2	10.4	10.7	14.1
Net Assets	79.7	178.8	332.9	399.6	466.6
Share Capital	28.5	52.8	79.2	116.7	154.2
Reserves	51.2	126.0	253.7	282.8	312.3
Equity	79.7	178.8	332.9	399.6	466.6

Cashflow Statement					
FYE Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Operating CF	16.5	(4.8)	(29.9)	41.4	62.0
Investing CF	(34.4)	(4.5)	(23.5)	(320.0)	(50.0)
Financing CF	23.9	56.5	137.0	208.2	37.4
Change In Cash	5.9	47.2	53.6	(70.3)	49.4
Free CF	7.2	(41.0)	(66.2)	(278.6)	12.0

Financial Data & Ratios					
FYE Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Growth					
Turnover (%)	9.7	22.3	69.9	25.7	21.7
EBITDA (%)	18.5	21.8	56.8	25.4	48.2
Operating Profit (%)	16.8	11.6	55.2	29.6	17.1
PBT (%)	12.7	10.7	57.1	7.2	11.1
Core Net Profit (%)	11.7	6.1	58.8	18.1	1.1
Profitability (%)					
EBITDA Margin	17.7	17.6	16.3	16.2	19.8
Operating Margin	16.4	14.9	13.6	14.1	13.5
PBT Margin	14.1	12.8	11.8	10.1	9.2
Core Net Margin	9.7	8.4	7.8	7.4	6.1
Effective Tax Rate	24.5	28.2	27.3	26.0	26.0
ROA	8.0	5.1	4.6	3.7	3.4
ROE	18.4	8.7	7.4	7.3	6.3
DuPont Analysis					
Net Margin (%)	9.7%	8.4%	7.8%	7.4%	6.1%
Assets Turnover (x)	0.8x	0.6x	0.6x	0.5x	0.5x
Leverage Factor (x)	2.2x	1.6x	1.6x	1.9x	1.8x
ROE (%)	18.4	8.7	7.4	7.3	6.3
Leverage					
Debt/Asset (x)	0.4	0.4	0.4	0.4	0.4
Debt/Equity (x)	1.0	1.1	1.1	1.1	1.1
Net Cash/(Debt)	(36.0)	8.0	72.9	(168.2)	(118.8)
Net Debt/Equity (x)	0.5	0.0	-0.2	0.4	0.3
Valuations					
EPS (sen)	5.1	3.3	4.6	3.4	3.2
GDPS (sen)	0.0	0.0	0.0	0.1	0.1
NTA (RM)	0.3	0.4	0.6	0.5	0.5
PER (x)	16.0	24.7	17.8	24.1	25.3
Gross Div. Yield (%)	0.4	0.0	0.7	0.8	0.8
P/NTA (x)	2.9	2.2	1.3	1.7	1.5
EV/EBITDA (x)	7.3	12.0	9.8	7.7	6.1

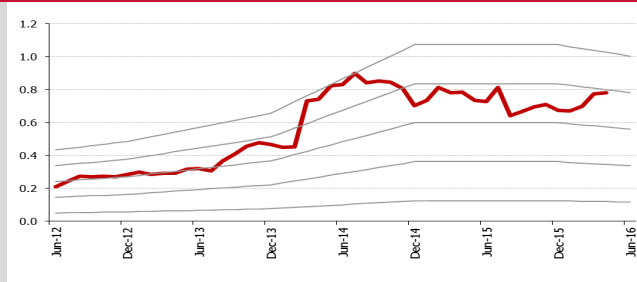
Source: Kenanga Research

Forward PER band (Standard Deviation)



Source: Bloomberg, Kenanga Research

Forward P/BV Band



26 May 2016

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 sector'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 sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector'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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