

OCK Group Bhd (“OCK”) – Little Dark Horse in Telco Servicing Universe Recommendation: **BUY**

Share Price: **RM0.72**

FINANCIAL SUMMARY

FYE 31 Dec (RM mil)	2012	2013	2014F	2015F
Revenue	138.6	152.0	180.2	268.0
EBITDA	21.0	24.0	28.0	42.0
EBITDA Margin (%)	15.2	15.8	15.5	15.6
Pre-tax Profit	19.0	21.0	23.4	37.5
Net Profit	13.1	13.6	18.0	29.5
Core EPS (sen)	2.0	3.0	3.4	5.6
Net DPS (sen)	0.0	0.0	0.0	0.0
PER (x)	32.9	31.9	21.2	12.9
Dividend Yield (%)	0.0	0.0	0.0	0.0

OTHER KEY DATA

Listing	Main Market
Issued Cap. (mil, RM0.10 par)	528
Market Cap. (RM mil)	380
52 Week Low/High (RM)	0.49/1.07
Net Gearing (%)	Net Cash
ROE (%)	14.3
P/BV (x)	1.8
BV/share (RM)	0.39

Major Shareholders

	(%)
Aliran Armada Sdn. Bhd.	41.0
LTAT	14.5
Low Hock Keong	2.1

Source: Company, Bloomberg and PCM estimates

OCK has always been one of our darling stocks since its IPO. Led by dynamic management team, we are sanguine with OCK's emphasizing on recurring incomes which have earnings visibility, particularly from its TNS and solar energy segments.

Recently, selling spree across the board has caused many stocks being bashed down badly especially commodities-related and mid-and-small cap stocks. OCK has also seen its share price battered and lost by more than 30% from its peak before its price recovery last 2 days. Nonetheless, we viewed this as a golden opportunity for investors who have missed the boat earlier to grab a pie now as it is currently trading at FY15 PER of 12.9x (historically >20x). Hence, we re-initiate **Buy**.

Price Chart of OCK (Dec' 13 – Dec' 14)

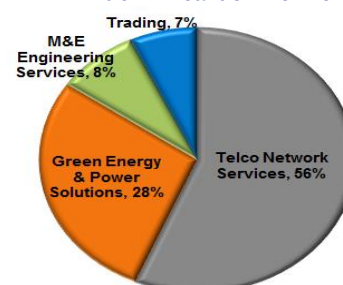


Source: Bloomberg

Highlights:

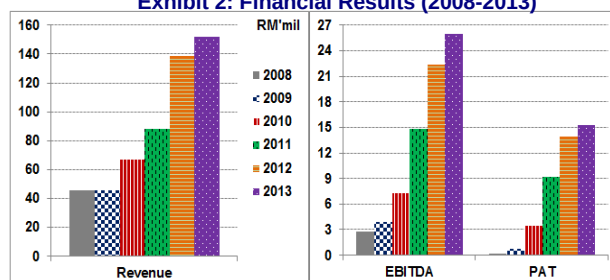
Background – OCK started as a provider of mechanical and electrical (M&E) engineering services in 1999 before making a great stride in becoming today's largest telco service provider in Malaysia in terms of revenue. OCK is principally involved in the provision of turnkey solutions which comprises network planning, network deployment and network operations & maintenance for cellcos and telco technology providers. Recognizing the importance of recurring income, OCK ventured into green energy and power solutions in 2010 (see **Exhibit 1**). Since 2008, OCK's revenue, EBITDA and profit-after-tax (PAT) has been on uptrend (see **Exhibit 2**). Led by Sam Ooi Chin Khoo, its founder, Managing Director and also the largest shareholder via his vehicle, Aliran Armada, OCK has moved to Tier-1 telco service provider league locally with strong track records. Its success story coupled with dynamic management has certainly made this little dark house gained further spotlights following the entry of Lembaga Tenaga Angkatan Tentera (LTAT) since Aug 2013 which currently has a strategic stake of 14.5% in OCK which managed to migrate to Main Market end-Nov this year.

Exhibit 1: Breakdown of Revenue



Source: Company, PCM (chart)

Exhibit 2: Financial Results (2008-2013)



Source: Company, PCM (chart)

Steady recurring income is the gist – With the Network Facility Provider (NFP) licence, OCK is able to build or acquire, own and lease telco sites to cellcos. Currently, OCK owns and leases about 240 telco sites to P1, U-Mobile and Celcom. While these contracts are generally long term with period of 10+5 years, this bodes well for OCK to build a strong recurring income base. With government calling for infrastructure sharing, cellcos collaborated to minimize their cost on infrastructure which is capital intensive. Note that, each tenant (cellco) of telco site would have to pay about RM4,500 per month as rental to OCK. However, if the telco site is shared between two tenants, each tenant would only needs to pay RM3,000 per month, meaning a 33% savings to cellcos, but additional 33% of rental payment received by OCK. Thus, this is a win-win game for both cellcos and service provider. Moreover, currently there are about 23,000 telco sites nationwide, hence, there is latent potential for OCK to acquire a portion of them and lease them back to cellcos and create solid cash flow. Recently, OCK also managed to grab a pie of the T3 Extension project, clinching 30 out of 400 sites for tower construction. Although small, we see the winning to potentially open up more opportunities for OCK to secure more government projects in future, namely Phase 2 & 3 of T3 Extension. It also expanded into telco managed services where it helps Maxis and Digi in maintaining 4,000 and 400 sites respectively, for 2+1 years (**see Exhibit 3**)

Riding on 4G LTE expansion – Cellcos appeared to be more aggressive in their LTE rollout with cellcos pairing up to share spectrum, eg. Maxis-REDtone and Altel-Celcom. Even Telekom Malaysia (TM), a fixed line/broadband player is moving into wireless/mobile space via recent acquisition of P1 and they plan to spend over RM1bn of capex for LTE rollout. Additionally, Celcom and Digi plan to have more than 2,000 and 1,500 4G sites, respectively, while U-Mobile to rollout 1,000 sites. This definitely offers huge plate for OCK, not only building the telco sites, but also maintaining them.

Going BIG into regional – OCK did not stay within its comfort zone. Instead, it expanded its footsteps into regional markets like Cambodia, China, Indonesia and Myanmar. Its appetite has gone bigger after it acquired 85% stake in PT Mulia, an Indonesian tower maintenance company. The company is currently maintaining about 7,500 sites and is targeting to increase to 20,000 sites within the next 3 years. This alone may potentially raise earnings by 15% on top of enjoying recurring cash flow. Meanwhile, OCK also made a big move into Myanmar with a new contract secured to build 3,000 telco towers progressively over the next 5 years in Myanmar for Telenor and KDDI. OCK will then lease back the towers to them for 15 years. Earnings are expected to flow in 2QFY15, therefore we expect to see a strong earnings growth in FY15.

Exhibit 3: OCK's Current Key Developments

1. Telco Turnkey Service	- Own and lease cumulative of 240 sites to U-Mobile, P1 and Celcom - Awarded EPC of 30 sites from MCMC T3 Extension - Awarded about RM100mil worth of installation of 1,000 LTE sites nationwide for local telco - Telco site maintenance contract from Maxis with total number of sites about 4,000 sites - Awarded additional RM8mil fiber trenching purchase orders from Digi - Awarded full turnkey contract from EdotCo
2. Solar Farm	- Constructed 3MW solar roof top farms with total contract value of RM8mil - Negotiating with FIT owners to acquire more solar farms
3. M&E Engineering	- Awarded RM11mil Kelantan Palace contract - Awarded RM43mil Sabah International Convention Contract
4. Regional	- Awarded US\$6.3mil fiber outside plant contract from Alcatel Shanghai Bell, China. The scope is to lay 800km fiber for Telecom Cambodia. - Awarded EPC of 3,000 towers over 5 years for Telenor and KDDI in Myanmar

Source: Company, PCM (table)

Green energy to power up earnings visibility – With recurring income the focal point of its business model, OCK ventured into green energy segment which it aims at selling solar energy via FiT (Feed-In-Tariff) scheme in Malaysia. The solar business will provide recurring cash flow for the next 21 years. It is currently running its maiden 1MW of solar farm in Kelantan and is looking to acquire the 3MW solar roof top farms that it constructed. Therefore, we do not rule out any possibility of another cash calls to fund more solar project as the RM150mil Sukuk facility is mainly for tower acquisitions.

Encouraging response from fund raising – There were a few tranches of private placements done by OCK at fairly attractive prices to fund its business expansion locally and regionally. We gathered that the interest was very encouraging. Hence, we expect the response for future fund raising would remain supportive given its better growth story.

Recommendation – We have been investing in OCK since its IPO in 2012 and we are still impressed with its strong earnings delivery and solid business model that focus on recurring income and earnings visibility. This is proven with its share price soared by 148% to its record high since we first recommended. However, OCK was inevitably bashed down during the selling spree. It is currently trading at FY15 PER of 12.9x which is way below its historical PER of above 20x. We deem this is a golden opportunity to buy or accumulate OCK. Hence, we re-initiate **Buy** on OCK.

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For Phillip Capital Management Sdn Bhd



Nona Salleh
Executive Chairperson

APPENDIX

LIST OF STOCKS RECOMMENDED SINCE 2012

Our Picks – 2012/13/14							
No	Stock	Sy#	Date	Price*	Price@ 24/12/14	% Change	Comments
1	Padini	Sy	21 Mar 12	RM1.29	RM1.49	15.5	Buy. Brand outlets will continue to support earnings growth.
2	Magnum (formerly MPH)	Non-Sy	27 April 12	RM1.275	RM2.75	115.7	Hold. Launched new game 4D Jackpot Gold but earnings risk from GST implementation remains a major concern.
3	Genting	Non-Sy	30 May 12	RM9.955	RM8.91	-10.5	Buy. 9MFY2014 results below expectations due to soft performances from Genting Spore and Genting Msia.
4	Airport	Non-Sy	8 June 12	RM5.482	RM6.71	22.4	Hold. Losses from 100% stake in ISG will drag down earnings before breaking even potentially in FY2017
5	RHB Cap	Non-Sy	31 July 12	RM7.15	RM7.46	4.3	Buy. Bursa rejected EPF's appeal to vote in the merger but the deal will still be proceeded.
6	OCK	Sy	6 Aug 12	RM0.29	RM0.72	148.3	Buy. Currently trading at compelling valuation of FY15 PER of 12.9x
7	Pantech	Non-Sy	18 Aug 12	RM0.586	RM0.745	27.1	Hold. Slow job flows from RAPID.
8	POS	Sy	19 Oct 12	RM2.934	RM4.52	54.1	Buy. For 1HFY2015 results, courier segment continued to register positive performance.
9	DRB	Sy	30 Nov 12	RM2.25	RM1.70	-24.4	Medium-Term Buy. Continued to embark on group restructuring exercises (Isuzu JVs) and M&A exercises (Gading Sari and Oriental Summits) as well as asset disposals (Uni.Asia) in order to extract group synergies.
10	MBSB	Non-Sy	24 Jan 13	RM1.98	RM2.42	22.2	Hold. In negotiation with CIMB on merger.
11	REDtone	Sy	20 Mar 13	RM0.395	RM0.73	84.8	Buy/Hold. Won MCMC's RAN's T3 Phase 3 project worth RM88.6mil.
12	Daya	Sy	22 Mar 13	RM0.208	RM0.17	-18.3	Avoid. Fundamental remains shaky with little recurring income.
13	TUNE Ins	Non-Sy	12 April 13	RM1.39	RM1.65	18.7	Buy. New CEO has over 20 years' experience in the financial services and consulting industries in Asia and USA.
14	BIMB	Sy	28 Aug 13	RM4.013	RM4.06	1.2	Buy. 9MFY2014 earnings was in-line and lifted by higher NIM. Loans growth remained strong at 23% y-o-y led by mortgage loans.
15	Maybank	Non-Sy	2 Oct 13	RM9.25	RM9.01	-2.6	Buy. Operating environment remains challenging but management expects to achieve above industry growth.
16	SCable	Sy	31 Dec 13	RM1.555	RM1.38	-11.3	Hold. Earnings from 500kv transmission line started to kick in, expecting higher recognition in 4QFY2014.

17	Hovid	Sy	28 Feb 14	RM0.325	RM0.365	12.3	Long-Term Buy. Sales volume growth may be tepid due to capacity constraints.
18	Coastal	Sy	26 Mar 14	RM4.826	RM2.88	-40.3	Sell. First JU rig has yet to secure contract.
19	CARiNG	Sy	4 Apr 14	RM1.955	RM1.18	-39.6	Hold. 1QFY2015 results were below expectations.
20	Jaya Tiasa	Sy	22 Apr 14	RM2.715	RM1.89	-30.4	Long-term Buy. Px fell due to earnings below estimation and lower CPO price.
21	Westports	Sy	25 Apr 14	RM2.408	RM3.31	37.5	Buy/Hold. Beneficiary of low oil prices.
22	Allianz	Non-Sy	30 May 14	RM11.235	RM11.60	3.2	Buy. For 9MFY2014 results, general insurance gross premium growth (+8%) was above industry (+5.1%).
23	Sapura Ken	Sy	09 Jun 14	RM3.967	RM2.38	-40.0	Hold. Technically remains weak but fundamentals supported by huge order book in hand that can last them for the next 3 years.
24	Gamuda	Sy	20 Jun 14	RM4.45	RM5.01	12.6	Buy. Strong orderbook and earnings visibility, propelled largely by KVMRT project as well as recurring income from various highways.
25	Gadang	Sy	23 July 14	RM1.83	RM1.37	-25.1	Buy. Expects exponential earnings growth from its property development division and improved margin for its construction division.
26	Bumi Armada	Non-Sy	1 Aug 14	RM2.018	RM1.17	-42.0	Long Term Buy. Huge order book of RM22bn that provides them cash flow up to year 2041.
27	Sasbadi	Non-Sy	8 Sep 14	RM1.45	RM1.42	-2.1	Buy/Hold. FY2014 results were in-line. FY2015 would be better.
28	Deleum	Sy	22 Sep 14	RM2.20	RM1.76	-20.0	Buy/Hold. Recurring income from 10-Year turbomachinery contract and 5-Year slickline services.
29	Daibochi	Sy	21 Nov 14	RM4.26	RM4.28	0.5	Buy. Lower raw material prices on the back of declining crude oil prices will fuel margins expansion.

Sy- Syariah-compliant

* Price adjusted for dividend, bonus and rights