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OCK Group riding telecoms sector's tailwind

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GIVEN the surge in internet and mobile phone usage as people are confined to their homes, the telecommunication sector has been significantly less hit by the Covid-19 fallout than many other industries and is holding up well in the face of a recession. Riding the industry tailwinds is OCK Group Bhd.

While the Movement Control Order (MCO) has led to lower efficiency of its operations, works such as maintenance, resource outsourcing and increasing its telecommunication tower portfolio are still ongoing, says OCK group managing director Sam Ooi Chin Khoon.

“It is business as usual for the telecommunication sector. Our employees have been working from home on a rotation basis, [only] coming into the office for necessary work processes. Solar farms owned by the group continue to generate energy to the grid with a healthy uptime,” he tells The Edge in an email interview.

The telecommunication network solutions provider is not expecting Covid-19 to have any significant impact on its earnings for the first quarter ended March 31, the results of which are slated to be released at the end of May.

“However, we may expect certain delays in projects,” Ooi says. The 51-year-old businessman is the largest shareholder of OCK, with a 34.08% stake through his private investment vehicle, Aliran Armada Sdn Bhd, as at April 8.

OCK posted a 16% increase in net profit to RM28.05 million on the back of a 4% rise in revenue to RM473.71 million for the financial year ended Dec 31, 2019 (FY2019). The telecommunication network services segment was the

largest contributor, accounting for 82.8% of total revenue, followed by the maintenance and engineering segment at 7.8%, green energy and power solutions at 6.8% and trading at 2.6%.

Ooi declined to provide the group's revenue and profit projection for FY2020 but says OCK remains optimistic about the outlook for the telecommunication industry. However, this is based on the assumption that telecommunication companies (telcos) will maintain their capital and operating expenditure and not make any cuts.

“There will be continuous work to cater for the demand of data and speed in all the countries that we operate in. Prospects for the tower business segment also remain positive as we continue to roll out strategic plans to continue to increase our telecommunication tower portfolio in Malaysia, Myanmar and Vietnam,” he adds.

To date, OCK owns a tower portfolio of more than 4,200 towers in the three countries.

It also helps that the group has been growing the businesses that contribute to its recurring revenue. Tower revenue, tower rental, solar revenue and managed services collectively contributed half of the group's revenue in FY2019.

“We intend to grow these recurring business segments in addition to one-off revenue streams from our telecommunication network services,” says Ooi.

Meanwhile, the group's tower deployment plans for 2020 remain intact with the objective being to continue to build, own and lease new telecommunication towers (greenfield) in Myanmar, as well as to acquire, own and lease telecommunication towers (brownfield) in Vietnam.

“We will also seize both greenfield and brownfield opportunities in Malaysia,” Ooi says.

As for the Philippines, he says it is a market that the group has been studying for a while now. “We are keen to proceed on expanding into this big market as soon as its government has formalised and finalised its

tower rationalisation policy paper.”

Regional businesses account for 40% of the group’s total revenue while Malaysia contributes 60%.

OCK will also continue to acquire solar farms in line with the group’s objective to increase its solar farm business segment as its second revenue stream. The group is acquiring Green Leadership Sdn Bhd, which is in the business of renewable power generation, for RM31.65 million, while it recently acquired Solar System & Power Sdn Bhd, a solar photovoltaic system provider, for RM12.5 million.

The bulk or 90% of the RM52.3 million raised by OCK through a private placement last October will be utilised for the development and acquisition of green energy assets. The company currently owns 17 solar farms, generating 11.2MW of energy.

The group is also seen as a beneficiary of the government’s RM21.6 billion National Fiberisation and Connectivity Plan (NFCP).

“The current Malaysian government has also announced the continuity of the NFCP project. As a turnkey telecommunication network services provider, the group is well positioned to benefit directly and indirectly from the NFCP roll-out,” says Ooi.

Already, OCK has received some work for the NFCP, which “will contribute to the group as we complete the projects phase by phase”, says Ooi.

Communications and Multimedia Minister Datuk Saifuddin Abdullah said on March 13 that the NFCP will proceed as planned, and that 5G will likely be rolled out in the third quarter of the year.

“In addition to the NFCP, OCK is actively involved in 5G trials in the country. We will be ready to support large-scale roll-out of 5G due to our technical competencies in this area. Currently, OCK also has a proven smart pole design that will support the large scale roll-out of 5G,” says Ooi.

OCK's cash balance stood at RM121.55 million as at Dec 31, 2019, while total borrowings amounted to RM480 million. Ooi says this is not a concern as towerco and solar farm owners have a naturally higher leverage. "Towerco and solar renewable energy provide long-term, stable recurring income from telcos and power companies."

To unlock value for OCK, it had earlier indicated that it was looking at a spin-off listing of its tower business. Ooi says the spin-off is still in the pipeline but it will be increasing its tower portfolio to a sizeable number before doing so.

On talks of the entry of a strategic investor into OCK, he says: "We are always on the lookout for options. We will be assessing all options in detail before finalising and announcing them to the public."

Bloomberg data shows that all the five analysts covering OCK have a "buy" call on the counter, with an average target price of 68 sen.

The stock closed at 44 sen last Wednesday, giving the company a market capitalisation of RM421.77 million. Year to date, its share price has fallen 25%.

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