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Author: [MalaccaSecurities](#) | **Latest post:** Wed, 26 Feb 2020, 10:19 AM

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MQ Trader

Perform Technical & Fundamental Analysis on Stocks

OCK Group Bhd - Gearing Up

Author: [MalaccaSecurities](#) | **Publish date:** Thu, 27 Feb 2020, 9:37 AM

Results Highlights

- OCK's 4Q2019 net profit improved marginally by 1.4% Y.o.Y to RM7.2 mln, mainly boosted by lower effective tax rate that offset the slowdown in topline. Revenue for the quarter fell 8.3% Y.o.Y to RM123.3 mln, dragged down by the Telecommunication Network Services (TNS) and trading segment. For 2019, cumulative net profit expanded 15.6% Y.o.Y to RM28.1 mln. Revenue for the year grew 3.6% Y.o.Y to RM473.7 mln.
- The reported earnings came within expectations, amounting to 98.3% of our net profit forecast of RM28.5 mln for 2019. The reported revenue amounted to 94.9% of our estimated 2019 revenue of RM499.2 mln. The mild variance in the topline is due to the slower contribution from the TNS segment.
- In 4Q2019, the TNS segment's pretax profit sank 75.8% Y.o.Y to RM6.4 mln due to lower topline contribution. Both the trading and mechanical & electrical engineering segment pretax profit fell 53.6% Y.o.Y and 17.1% Y.o.Y to RM602,000 and RM764,000 respectively on the decline of topline contribution. On a brighter note, the green energy & power solution pretax profit stood at RM531,000 vs. a pre-tax loss of RM717,000 due to undertaking of additional solar farms.
- Meanwhile, 4Q2019 net gearing was stable at to 0.8x (unchanged from 0.8x in 3Q2019) and remain within the group's target of staying below the 1.0x level.

Prospects

To-date, OCK has built over 4,000 towers across the ASEAN region. OCK owns and manages over 400 telco sites in Malaysia that will provide stream of recurring income over the long term. Overseas, the group's long-term recurring income will be boosted by the roll-out its outstanding built-to-suit telecommunication sites in Myanmar. Already, OCK has delivered close to 1,000 telecommunication sites.

Elsewhere, the group plans to undertake brownfield acquisitions, targeting additional 1,000 telecommunication sites in Vietnam (already approximately 500 sites have been identified). Apart from ramping up the number of telecommunication sites, OCK targets to improve the tenancy ratio to 1.6x, from 1.4x and 1.3x in Myanmar and Vietnam respectively by increasing the number of co-location contracts with the respective telecommunication operators.

As of end-2019, OCK operates eleven solar farms with a combined capacity of 5.9 MW in West Malaysia. In the meantime, OCK is in the midst of acquisition of 100% equity stake in Green Leadership Sdn Bhd for cash consideration of RM31.7 mln. The aforementioned acquisition will be funded via a private placement exercise completed in early-November 2019. The move is in line with OCK's target to bump the energy segment's contribution, targeting 10%-15% to the group's overall revenue over the long term (contribution only amounted to 6.8% of total revenue in 2019)

We continue to think that OCK is well positioned to capitalise on the five-year National Fibreisation and Connectivity Plan (NFCP) and the transition into the fifth generation (5G) network in Malaysia, equipped with telco towers and fibre optic networks. Moving forward, the monetisation of the group's tower business will see the group charting new heights on regional expansion.

We also note that OCK was removed under the shariah-compliant list in the latest semiannual review during end-November 2019. The move came after OCK's gearing that includes interest-bearing debt stood at 48.8% against total assets in 3Q2019 exceeded the 33.0% threshold.

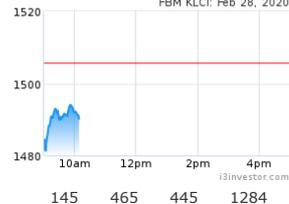
Valuation And Recommendation

With the reported earnings came within our estimates, we made no changes to our earnings forecast. Hence, we maintain our **BUY** recommendation on OCK, but with a lower **target price** of **RM0.65** (from RM0.75) after taking into account of the recent shares dilution from the private placement took place in November 2019. We continue to like OCK for its position as one of the leading telecommunication network services provider in the ASEAN region, where its business model would provide a stream of recurring earnings over the next decade.

Source: [Mplus Research](#) - 27 Feb 2020

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FBM KLCI: Feb 28, 2020



Active Gainers Losers

Top 10 Active Counters

Name	Last	Change
SAPNRG	0.185	-0.015
HSI-H8W	0.205	+0.06
XOX	0.05	-0.005
ARMADA	0.30	-0.035
HSI-C7V	0.195	-0.045
AIKASIA	1.05	-0.06
AVI	0.155	-0.005
PWRWELL	0.325	-0.03
KNM	0.225	-0.02
EDEN	0.20	+0.02

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