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Kenanga Research & Investment

Author: [kiasutrader](#) | Latest post: Fri, 28 Feb 2020, 9:37 AM

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OCK Group - FY19 Missed But Better FY20

Author: [kiasutrader](#) | Publish date: Thu, 27 Feb 2020, 9:36 AM

FY19 PATAMI of RM28.1m (+16%) missed expectations, which could be due to delays in tower deployments. Anticipating a spillover to FY20, we hike earnings forecast by 2%. The green energy segment is looking to gain traction from earnings accretive acquisitions, albeit still a minor contributor to the group. Maintain MP but raise our DCF-driven TP to RM0.630 (from RM0.585) as we adjust our WACC and gearing assumptions, post-model updates.

FY19 missed, possibly due to delays. FY19 PATAMI of RM28.1m is slightly below our/consensus estimates, making up 93%/94% of respective numbers. The negative deviation could likely be due to a backlog in the deployment of towers, which we believe would spill over to FY20. No dividends were declared, as expected.

YoY, FY19 revenue grew by 4% to RM473.7m on the back of more active M&E engineering works. That being said, the key telecommunication network services (TNS) segment was flattish (+1%) as the usual greater ramping of tower deployment in 4Qs was absent this time around. PBT declined by 10% as lower running costs was met with greater depreciation and interest charges. However, thanks to a more normalised tax rate of 22.4% (-10.1ppt) and minority interests, FY19 PATAMI registered at RM28.1m (+16%).

QoQ, 4QFY19 sales dipped by 6% as TNS activities were softer, possibly in its regional business (i.e. Myanmar, Vietnam). Owing to the lower top-line, PATAMI declined by 15% to RM7.2m.

More under its belt. The group has now grown a portfolio of more than 4,200 towers (between Malaysia, Myanmar and Vietnam) with tenancy ratios expected to only improve regionally as the need for connectivity saturates. Locally, the group looks to gain from the rolling out of the NFCP to meet MCMC's agenda to amplify nationwide connectivity. Recent placement-funded acquisitions of solar farms have added 5.3MW to a total capacity of 11.2MW. The move to boost its green energy earnings was to diversify from the main TNS business with the group seeking to potentially spin off its towerco unit. At the meantime, the green energy segment contributes less than 10% of top-line and bottom-line. Though we do not discount further acquisitions in the future, in line with management's direction to grow this segment.

Post-results, we raise our FY20E earnings by 2% in anticipation of the clearing of FY19 TNS backlog within the year. At the meantime, we introduce our FY21E numbers.

Maintain MARKET PERFORM but with a higher DCF-driven TP of RM0.630 (from RM0.585). Overall, we are assuming a slightly lower WACC of 9.4% (-0.1ppt) as we tweak our risk-free rate assumptions with the decline in bond yields. Additionally, model updates showed a better-than-expected net gearing landscape (at 0.7x vs previous expected 0.9x). While upside could be limited as we believe the stock's current fundamentals could already been priced in, the eventual materialisation of the group's towerco spin-off could be a positive re-rating.

Risks to our call include: (i) faster/slower-than-expected expansion of tower portfolios, (ii) higher/lower-than-expected operating margins

Source: [Kenanga Research](#) - 27 Feb 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
AIRASIA	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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Chart	Stock Name	Last	Change	Volume
	OCK	0.55	-0.02 (3.51%)	1,487,700

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