OCK seen as beneficiary of 5G deployment

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OCK Group Bhd
(Jan 28, 58 sen)
Maintain buy with an unchanged target price of 75 sen: Management is confident of sealing the tower company divestment deal soon. A deal is crucial so as not to scuttle its regional expansion plans while removing the overhang of the stock. We maintain our earnings forecasts ahead of a seasonally strong fourth quarter of financial year 2019 (4QFY19) showing (results due at end-February). Key risks are the planned divestment falling through and weaker-than-expected results/margins.

A positive outcome (formal deal inked) should remove the overhang of the stock. The delays in executing an agreement (since 3Q of calender year 2019 [3Q19]) have impacted stock sentiment given that the entry of a strategic investor is seen as crucial to expand the group's regional tower leasing business. More importantly, a deal would partially monetise and unlock the value of its tower company, ahead of a potential initial public offering in 2021 or 2022.

We gather that the acquisition of another 500 sites in Vietnam is in the bag (part of the 1,000 brownfield sites previously identified for purchase with due diligence ongoing for the remaining sites), in addition to brownfield sites in a new market. All in, the acquisitions (including the new built-to-suit sites in Myanmar) should bump up the number of tower sites owned to more than 5,000.

We see OCK Group Bhd as a strong beneficiary of fifth-generation (5G) deployment in Malaysia given the group's good execution track record in rolling out 3G sites under the universal service provisioning projects initiated by the Malaysian Communications and Multimedia Commission and ongoing network deployment for telecommunications companies.

This should translate into incrementally higher industry capital expenditure (capex), with 5G services set to be launched in 3Q20. The regulator recently awarded 150 sites under Phase 1 of the National Fiberisation and Connectivity Plan (NFCP) with the next round of awards scheduled for 2Q20 (NFCP 2) involving more than 500 locations.

OCK has recently proposed to acquire four solar farms for RM31.6 million. The first generation solar farms in Sabah have a combined capacity of 3.3mw with blended feed-in-tariff of RM1.11/KW (annual generation revenue RM4 million). The purchase will be partly funded by the recent share placement with deal completion slated by end 1Q20.

We previously estimated the deal would be earnings-neutral based on a 70:30 debt/equity funding. While revenue contribution from solar farms remains small (approximately 5%), it should further strengthen overall recurring revenues (nine months of FY19: 49%). Management is targeting revenue contribution of 10-15% from the solar business in the longer term. — RHB Research Institute, Jan 28

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