

OCK to rebound on regional towerco growth in 2Q

► **Recommendation: Buy**
TARGET Price: RM0.94
by RHB Investment Bank
Bhd (Aug 14)

Highlights

WE EXPECT OCK Group Bhd to report a stronger sequential quarter on 1Q18's low base and robust growth of its Vietnam and Myanmar towerco assets. Ebitda margin is projected to be incrementally higher on stronger lease rental of sites from additional tenancies, inorganic expansion, and — to a certain extent — cost-down initiatives.

However, notwithstanding the strong operating performance, its headline PAT is likely to be crimped by unrealised foreign-exchange (forex) loss from a US\$30m (RM123m)

► OCK GROUP BHD				
FORECAST AND VALUATIONS	DEC-17	DEC-18F	DEC-19F	DEC-20F
TOTAL TURNOVER (RM mil)	485	556	626	705
RECURRING NET PROFIT (RM mil)	25.7	28.5	31.3	35.3
RECURRING EPS (sen)	0.02	0.03	0.03	0.03
RECURRING PE (x)	28.6	25.7	23.4	20.8

debt taken earlier to finance its towerco acquisition in Vietnam (consolidated from 1Q17).

Our forecast is unchanged, pending the results release at month's end. The share price has declined 28% YTD to a new 52-week low on broader market weakness and external macroeconomic concerns. We see the price weakness as a good opportunity to accumulate.

A decent 2Q expected. OCK is slated to announce its 2Q18/1H18 results on Aug 28. We expect overall revenue to show a strong sequential rebound, as 1Q is typically the weakest (1Q18: -27% QoQ) on slower project billings and shorter working days due to the festive holidays. Growth should continue to be underpinned by the telecommunications network services seg-

ment (>85% of revenue) on the robust growth for its regional towerco/leasing businesses (43% of 1Q18 revenue).

Group Ebitda margin should widen further (1Q18: 22.1%) from additional site co-locations and new builds in Myanmar, inorganic expansion in Vietnam (60%-owned Southeast Asia Telecommunication Holdings Pte Ltd [SEATH]) and, to a certain



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extent, cost-down initiatives.

PAT likely marred by forex losses. Despite the positive operating momentum, we believe headline PAT for 2Q18 is likely to be hit by an estimated RM7m unrealised forex loss booked from a US\$30m debt taken for the SEATH acquisition. This follows the 4% QoQ depreciation of the ringgit against the US dollar to RM4.03 at end-June.

Our house view is continued weakness in the ringgit in the near term due to the prolonged fallout from the US-China trade war and domestic policy uncertainties, with the ringgit potentially overshooting our end-2018 target of RM4.10 against the US dollar on the downside.

Additional co-locations and

inorganic expansion. We gather from management that OCK recently completed the acquisition of another batch of 281 towers in Vietnam. This brings the overall tower count at SEATH to about 2,200. There remains good opportunities for inorganic expansion with ongoing discussions to consolidate another 500-600 more sites.

In Myanmar, the group has also secured a new built-to-suit agreement from Ooredoo Myanmar Ltd for 296 sites. This is on top of co-locations clinched earlier for Mytel and Myanmar Post & Telecommunications.

Valuation. Maintain 'Buy' based on an unchanged SOP-based RM0.94 target price, 45% upside.



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SUMMARIES

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