News

OCK To Gain From Second 5G Network Rollout

By **Editor** - February 5, 2024

Kenanga believes OCK does not intend to slow down the expansion of its tower portfolio after having achieved its target of owning 5,300 towers across Malaysia, Myanmar and Vietnam. Moving forward, the house notes in the near-to-medium term, the group targets to secure additional telco towers in the following markets, Malaysia: 150-200, and Vietnam: 500. It said the group is on track to attain the latter, after having secured approval to acquire an additional 120 towers in Vietnam recently.

The group is also eyeing 5G in Indonesia as well, looking at 15%-20% topline growth in Indonesia, largely driven by higher scope of works for network-managed services (NMS). Additionally, to a smaller extent, the group expects growth to be boosted by new fiberisation contracts. To recap, in 3QCY23, OCK's market share of NMS in Indonesia dwindled QoQ to circa 29%, based on coverage of 32,125 sites (2QFY23: 45%; 49,200 sites). This was partly due to consolidation and rationalisation of tower sites by Indosat to avoid duplication. This was after the latter's merger with Hutchison 3 to form the second largest telco operator in Indonesia.

On the bright side, NMS contract values have increased due to wider job scopes that include enhanced 'comprehensive and active" components. As such, this translates to margin expansion and hence higher profitability. Moving forward, OCK expects the award of higher value job orders to sustain, particularly if Indonesia ramps up the roll- out of 5G. At this juncture, according to OpenSignal, Indonesia's 5G network availability is 1%, which implies significant room for expansion.

Bottom Line Boost

OCK is aggressively bidding for new projects to replenish its order book, which amounts to circa RM278m as at end-Sept 2023. Amongst others, this includes: (i) a large scale solar power plant in East Malaysia, and (ii) contracts to provide 5G solutions in Malaysia (e.g. installation of systems that apply artificial intelligence such as smart CCTV networks). Hence, these new contracts are expected to boost FY24 bottomline, alongside expected interest cost savings. To recap, in end Nov 2023, OCK issued the first tranche (RM400m) for its RM700m Sukuk Murabahah program (MARC rating: AA-). In Jan 2024, OCK utilized the sukuk proceeds to refinance or pare down the bulk of its USD-denominated debt. As a result, the group expects to recognize quarterly interest savings of RM1.5m-2.0m.

In spite of the ongoing political upheaval at Myanmar, it is business-as-usual for OCK's operations at Myanmar. Moreover, lease payments for its towers billed to local mobile network operators (e.g. MyTel) remain timely. As such, this dispels concerns that OCK may need to recognize impairments on its assets in Myanmar, which has estimated book value of USD100m. Nevertheless, OCK does not intend to increase its investments in Myanmar until the political situation stabilizes. Whilst there are some restrictions on the repatriation of funds from Myanmar, the group remains unperturbed, as it intends to plough back its profits into the market.

Consistent dividends in future? The group alluded to the possibility that it may formulate a new dividend policy in
the near term. In addition, moving forward, OCK targets to declare dividends once every year. This is underpinned by:
(i) robust operating cash flows, (ii) a firm balance sheet, and (iii) enhanced liquidity from its new sukuk program. For
the same reasons, OCK does not plan to secure equity funding for expansion in the near-to-medium term. To recap,
in recent years, OCK paid dividends sporadically, including in FY17 (0.9 sen) and FY21 (0.5 sen).