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OCK gaining from regional expansion

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June 05, 2017 10:00 am MYT

This article first appeared in The Edge Financial Daily, on June 5, 2017.

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OCK Group Bhd (June 2, 93.5 sen)

Revise to neutral with an unchanged target price (TP) of 94 sen: For the first financial quarter ended March 31, 2017 (1QFY17), OCK Group Bhd recorded its best first-quarter results with a revenue of RM106.5 million, up 36.8% year-on-year due to a higher contribution from the telecommunication network service (TNS) segment. The jump in revenue came from recently acquired Southeast Asia Telecommunications Holdings Pte Ltd and the recurring income from the construction of telecommunication towers in Myanmar to serve its telco partners. OCK's Indonesian subsidiary PT Putra Mulia Telecommunications also managed to record a jump in revenue for maintenance services.

OCK's 1QFY17 revenue and profit after tax fell by 5.5% and 39.6% respectively compared with 4QFY16 due to a lower contribution from the TNS segment. Historically, the last quarter has always been the best quarter for the group. The mechanical and electrical engineering service segment suffered losses but this was due purely to inter-company consolidation. OCK Setia Engineering Sdn Bhd has secured contracts where the profits will be recorded as being accrued to OCK's TNS segment where normalised figures will in fact be the same as the previous quarters.

A portfolio total of 610 towers in Myanmar is already steadily contributing revenue to the group. The group is still awaiting the installation of the remaining 300 towers' coordinates from Telenor Myanmar Ltd. Telenor Myanmar is looking to have more dense coverage of populated areas instead of just wide geographical coverage. This is expected to benefit OCK as the locations of telecommunication towers in densely populated areas lead to a higher tenancy ratio and with that, higher recurring income. A longer-term objective is to double the number of towers operated to 5,000 across the region from 2,800 currently.

We revise our call to "neutral" with an unchanged TP of 94 sen based on a fully diluted FY17 earnings per share of 3.6 pegged at a price-earnings ratio of 26 times. We still remain optimistic about OCK as we believe the group is finally beginning to reap the profits from the expansion of its regional business. — *Inter-Pacific Research*, June 1

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