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Home > OCK to reap fruits of investments this year

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HAVING focused on expanding its operations in 2015 and 2016, OCK Group Bhd expects its investments to bear fruit this year.

"We expect regional contribution to grow from 17% [of revenue] as of financial year ended Dec 31, 2015 (FY2015) to 20% in FY2016 and more than 40% in FY2017 as full contribution from Myanmar and Vietnam kicks in," founder and group managing director Sam Ooi Chin Khoon tells The Edge.

It has been a busy two years for the telecommunications network service provider, which has gained a foothold in four Asean countries — Myanmar, Cambodia, Indonesia and most recently, Vietnam.

"We expect Myanmar to contribute between 10% and 15% to the group's revenue this year while between 10% and 12% will come from Vietnam," says Ooi.

In December 2015, OCK announced that it would invest US$75 million in building 920 telecoms towers in Myanmar for Norwegian-owned Telenor Myanmar Ltd.

"To date, we have delivered 600 sites to Telenor and we are on track to complete the rest by the first quarter of this year (1Q2017). However, if there is a variation to Telenor Myanmar's plan, like them taking back some of the sites and giving us new locations [to build the towers], then probably we cannot finish them (920) by 1Q2017," observes Ooi.

"If that happens, we will still hit 750 towers. But this will affect our forecast slightly," he adds. The group had already started to recognise revenue from Myanmar in 2016 but it expects the full earnings to come in by this year.

According to Kenanga Research, the Myanmar project is expected to contribute about RM60 million a year to OCK's revenue. It targets an earnings before interest, tax, depreciation and amortisation (Ebitda) margin of 60%, which is significantly higher than the group's FY2015 Ebitda margin of 16.5%.

OCK, through its indirect 60%-owned subsidiary Vietnam Towers Pte Ltd, had on Jan 13 also completed the acquisition of Southeast Asia Telecommunications Holdings Pte Ltd (SEATH) for US$50 million, transforming it into the largest independent base transceiver station (BTS) owner in Vietnam with 1,972 telecoms towers.

“[This year], we will spend a little bit of time focusing on [improving our] internal processes and margins. We won’t stop exploring [new markets] but over the past two years, we have been doing a lot of acquisitions. It is time for us to start looking at our backyard. Our shareholders also want to see the group delivering returns, having invested so much money,” says Ooi.

According to group CEO Dr Yap Wai Khee, OCK has started generating earnings from its investments in Myanmar and Vietnam and will “continue to explore opportunities in Asean”. “We don’t know in which countries we will land this year but we are looking at a few of them,” he comments.

After the acquisition of SEATH, OCK’s gearing stands at 0.94 times. By comparison, the gearing of telecommunications companies (telcos) is about 2.5 times.

“We are comfortable with a gearing of not more than 1.5 times,” says Yap, suggesting that the group is unlikely to embark on any capital-raising in the near term as future mergers and acquisitions will likely be fuelled by bank borrowings.

OCK is expecting to report another record year of net profit and revenue in FY2016, mainly driven by the domestic market. “We also grew our businesses in Indonesia and Cambodia last year,” says Ooi.

However, it is not expected to repeat its FY2015 performance, when it posted a 58.3% year-on-year rise in net profit to RM24.68 million while revenue climbed 71.4% to RM318.57 million.

“We can’t be expected to grow by 58% [in net profit] every year. We will still enjoy good growth [in FY2016] but we won’t achieve the percentage growth seen in FY2015,” says Ooi.

The group’s net profit rose 11.8% to RM14.62 million in the nine months to Sept 30, 2016 (9MFY2016), while revenue grew 40% to RM294.37 million. It is due to release its full-year and fourth-quarter results next month.

Ooi says the fourth quarter is traditionally the company’s strongest.

Meanwhile, OCK is expecting FY2017 net profit and revenue to reach another high. It is forecasting revenue growth of between 20% and 25% this year.

Nevertheless, Yap cautions against setting profit and revenue targets that are too aggressive, given the uncertainty brought about by US President Donald Trump’s administration.

“We don’t dare to have targets that are too aggressive for FY2017. As long as we can grow slightly better than in 2016, that is good enough,” he says.

Ooi notes that Indonesia — where OCK provides the local telcos with tower-management services — will continue to give recurring income this year.

However, the group’s project in Cambodia, involving dredging and laying works for 800km of fibre for Telecom Cambodia, is at the tail end. “We are getting ready to hand over the project in Cambodia and so, we don’t expect the country to make a huge contribution to the group’s revenue this year,” says Yap.

Unlike in Vietnam and Myanmar, the group has no plans to become a BTS owner in Cambodia as the market is already “highly saturated” in terms of the number of telecoms towers, Yap points out.

“We don’t see much opportunity in Cambodia to be a tower company. And while the Indonesian market is attractive, it has large tower entities, like PT Tower Bersama Infrastructure Tbk, PT Profesional Telekomunikasi Indonesia and Solusi Tunas Pratama, which have market capitalisation amounting to billions of US dollars. [At our current size], we won’t be able to flex our muscles there. So, we won’t touch Indonesia [tower market] at this moment,” explains Yap.

Ooi points out that instead of owning its own telecoms towers and competing head-on with the giant tower companies in Indonesia, it will participate in the local market by providing the telcos there tower-management services.

“Today, we are the largest telecoms-managed services company in Indonesia, commanding 23% of the market by number of towers. There is still room for growth because not all telcos there outsource the management of their networks to a third party. There are still two to three small telecoms players yet to outsource their towers,” he says.

According to Yap, telcos in developed countries are more open to sharing their infrastructure. “But developing countries that haven’t been exposed to international telecoms operators will think coverage is key, which is why they don’t share. That’s like Malaysia 15 years ago.

“Since eight years ago, I think they [Indonesia] have started opening up because they see the coverage is more or less the same. If they can get another operator to ride their infrastructure, it is revenue for them.

“As for Myanmar, although its towerco market is new, because of international operators like Telenor, they have mature thinking. From day one, they have wanted to share their infrastructure rather than build their own towers.”

OCK now owns 173 telecoms sites in Malaysia.

“In Malaysia, it is not easy to build telecoms towers because the speed is slowed down by applications, approvals and state policy. In some of the states, you can’t even own a tower. Even though we are a Malaysian company, we own more towers outside Malaysia,” says Ooi, adding that group-wide, OCK owns a total of 2,800 sites to date.

Still, he notes that a way for OCK to own a huge number of towers in Malaysia fast is to buy the towers and related assets from mobile network operators and lease them back. “We are open to discussion. But we always tell them we are an independent towerco and we must be allowed to sign on a second/third tenant.”

Ooi remains upbeat on OCK’s prospects going forward, supported by high-yield contracting work in Malaysia, such as fibre works, and optimising and upgrading from 3G to 4G networks, which will continue for the next two to three years.

“There is still a lot of capital expenditure [capex] for telecoms operators to improve their coverage and capacity. They have two types of spending: one is capex to upgrade their technology and the other is operating expenditure to maintain their network quality. We see this activity continuing.

“While we still continue to enjoy our strong contracting orders from year to year, we don’t stop there. At the same time, we have our solar business in Malaysia, which will provide us with good long-term recurring income.

“Returns-wise, they are much lower in this business (solar) than in our telecommunications segment, but we will continue to focus on these two business segments,” he says.

OCK currently has 2.15mw of solar power, which is contributed by one ground solar farm in Kelantan and three rooftop solar farms elsewhere in Peninsular Malaysia.

The stock has risen 13.4% over the past year to close at 76 sen on Wednesday, giving the company a market capitalisation of RM662.31 million. It has also more than doubled from its initial public offering price of 36 sen per share.

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