

OSK Holdings Bhd

In-line with expectations

Summary

- Within expectations.** In 3QFY23, OSK Holdings Berhad (OSK) registered core earnings at RM123.0m (-6.1% QoQ, +8.5% YoY), bringing the sum of the core net profit for 9M23 to RM369.2m (+20.7% YoY). The core earnings came in within expectations, accounting to 76.3% and 80.6% of ours (RM484.1m) and consensus (RM458.0m) estimates. No dividend was announced for the quarter.
- QoQ.** Core earnings contracted 6.1% QoQ, despite the improvements across all the business segments with the exception of Financial Services & Investment Holdings Segment due to the decline in share of profit from RHB Group. The Property segment noticed a growth in the rental revenue as well as increase in occupancy rates, while the Industries segment was underpinned by strong sales and higher factory utilization rate and production efficiency through enhanced control over wastage and machine downtime. Also, the Hospitality segment achieved solid improvement due to continuous strong demand from local holiday makers and corporate meetings and events activities.
- YoY.** The core earnings rose 8.5% YoY as all the business segments generated higher revenue and profits. Meanwhile, the Property segment recorded a decline in earnings where (i) YouCity III was at final stage, thus lower profit contribution as compared to 3Q22 and (ii) expenses incurred on sales and marketing for Phase 2, BLVD in MSQ. Besides, the Construction segment had a softer performance due to lower realization of profit from internal projects.
- YTD.** All the business segments gained momentum with the core earnings stood at RM369.2m (+20.7% YoY), supported by the Industries and Financial Services & Investment Holding, with the pre-tax profit gained more than 100% and 24%, respectively.
- Outlook.** Going forward, the Property Development Division will continue to launch new phases in its townships. Over in Melbourne, Australia, MSQ has officially launched Phase 2, namely BLVD in Oct-23, with encouraging take-up rate of about 40%. For the Group's effective unbilled sales stood at RM1.2bn with minimal unsold completed stocks. The group has a total land bank measured at 1,994 acres with estimated effective GDV segment of RM15.5bn. Meanwhile, the construction segment has current outstanding order book which stood at RM319.m as at Sep-2023. Also, the Industries segment is expected to perform well for the remaining FY23 with its strong order book. Besides, the Hospitality segment is likely to benefit from the year-end holiday seasons.

| Quarterly performance | | | | | | | | |
|-----------------------|--------|--------|--------|---------|---------|--------|---------|---------|
| FYE Dec (RM m) | 3QFY22 | 2QFY23 | 3QFY23 | QoQ (%) | YoY (%) | 9MFY22 | 9MFY23 | YoY (%) |
| Revenue | 347.1 | 397.4 | 433.6 | 9.1 | 24.9 | 988.2 | 1,164.3 | 17.8 |
| PBT | 131.4 | 145.8 | 142.8 | (2.1) | 8.7 | 353.3 | 414.6 | 17.4 |
| PAT | 114.2 | 131.8 | 124.2 | (5.8) | 8.7 | 307.7 | 371.8 | 20.8 |
| Core PATMI | 113.4 | 131.0 | 123.0 | (6.1) | 8.5 | 305.9 | 369.2 | 20.7 |
| Reported PATMI | 114.2 | 131.8 | 124.2 | (5.8) | 8.7 | 307.7 | 371.8 | 20.8 |
| Core EPS (sen) | 5.5 | 6.4 | 6.0 | (6.1) | 8.5 | 14.8 | 17.9 | 20.7 |
| PBT margin (%) | 37.9 | 36.7 | 32.9 | | | 35.8 | 35.6 | |
| Core PATMI margin (%) | 32.7 | 33.0 | 28.4 | | | 31.0 | 31.7 | |

Results Note – 3QFY23

Loui Low
louilow@msec.com.my
 (603) 2201 2100

BUY

| | |
|-----------------|--------|
| Share price | RM1.22 |
| Target price | RM1.41 |
| Previous TP | RM1.41 |
| Capital upside | 15.6% |
| Dividend return | 5.2% |
| Total return | 20.8% |

Company profile

Principally involved in the capital financing, property development, construction, industries and hospitality business.

Stock information

| | |
|----------------------|------------|
| Bursa Code | 5053 |
| Bloomberg ticker | OSK MK |
| Listing market | MAIN |
| Share issued (m) | 2062.1 |
| Market Cap (m) | 2515.8 |
| 52W High/Low | 1.3 / 0.91 |
| Est. Free float (%) | 33.4 |
| Beta (x) | 0.6 |
| 3-mth avg vol ('000) | 1571.0 |
| Shariah compliant | No |

Major shareholders

| | |
|----------------|------|
| Yellow Rock | 50.1 |
| EPF | 2.5 |
| Ong Leong Huat | 2.0 |

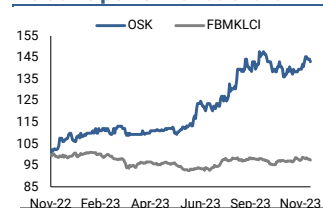
Share price vs. KLCI (%)

| | | | |
|--------------|-----|------|------|
| Hist. return | 1M | 3M | 12M |
| Absolute | 1.7 | -3.2 | 34.1 |
| Relative | 1.2 | -3.4 | 37.6 |

Earnings snapshot

| FYE (Dec) | FY22 | FY23f | FY24f |
|-----------|-------|-------|-------|
| PATMI (m) | 427.2 | 484.1 | 525.8 |
| EPS (sen) | 20.7 | 23.5 | 25.5 |
| P/E (x) | 6.1 | 5.4 | 4.9 |

Relative performance chart



JOIN OUR OFFICIAL TELEGRAM
TO GET THE LATEST MARKET UPDATES

M+Online
Equipping Traders For The Win

Global
Winning The World

Valuation & Recommendation

- **Forecast unchanged.** Given that the core earnings came in within expectations, we have maintained the core earnings forecast at RM484.1-525.8m for FY23-24f.
- **Maintained BUY with TP at RM1.41.** We maintained BUY on OSK with a TP of RM1.41 (15.6% upside). We adopted a sum-of-parts valuation by pegging 0.8x to its financial services and property development book value, while the construction, industries & hospitality segments are valued through P/E multiple of 9.0x based on their earnings potential in FY23f. The discount to its book value in both the capital financing and property development is to reflect the OSK smaller scale business against pure-play property and financial services players.
- **Investment risks include** weaker-than-expected property sales which may put a brake onto the progress of future launches. Potential default by their borrowers may result in slower contribution from the capital financing business segment.

Financial Highlights

All items in (RM m) unless otherwise stated

| Balance Sheet | | | | | | Income Statement | | | | | |
|-------------------------------|--------------|--------------|---------------|---------------|---------------|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| FYE Dec (RM m) | FY21 | FY22 | FY23f | FY24f | FY25f | FYE Dec (RM m) | FY21 | FY22 | FY23f | FY24f | FY25f |
| Cash | 831.7 | 712.7 | 872.8 | 896.5 | 961.3 | Revenue | 1,126.1 | 1,320.9 | 1,345.6 | 1,432.1 | 1,504.9 |
| Receivables | 213 | 223 | 258 | 275 | 289 | EBITDA | 253 | 277 | 311 | 334 | 360 |
| Inventories | 323 | 342 | 348 | 371 | 390 | EBIT | 212 | 243 | 278 | 299 | 323 |
| PPE | 564 | 571 | 593 | 609 | 632 | Net finance income/ (co) | (43) | (39) | (41) | (44) | (44) |
| Others | 7,284 | 7,831 | 8,147 | 8,480 | 8,828 | Associates & JV | 295 | 284 | 308 | 324 | 324 |
| Assets | 9,216 | 9,680 | 10,220 | 10,630 | 11,100 | Profit before tax | 465 | 488 | 545 | 579 | 603 |
| Debits | 2,751 | 3,027 | 3,179 | 3,190 | 3,251 | Tax | (63) | (58) | (57) | (50) | (60) |
| Payables | 76 | 98 | 80 | 85 | 89 | Net profit | 402 | 430 | 488 | 529 | 543 |
| Others | 849 | 800 | 800 | 800 | 800 | Minority interest | (4) | (3) | (4) | (3) | (3) |
| Liabilities | 3,676 | 3,925 | 4,059 | 4,075 | 4,140 | Core earnings | 398 | 427 | 484 | 526 | 540 |
| Shareholder's equity | 5,468 | 5,680 | 6,086 | 6,480 | 6,885 | Exceptional items | - | - | - | - | - |
| Minority interest | 72 | 75 | 75 | 75 | 75 | Reported earnings | 398 | 427 | 484 | 526 | 540 |
| Equity | 5,540 | 5,755 | 6,161 | 6,555 | 6,960 | | | | | | |
| | | | | | | Valuation & Ratios | | | | | |
| | | | | | | FYE Dec (RM m) | FY21 | FY22 | FY23f | FY24f | FY25f |
| Cash Flow Statement | | | | | | Core EPS (sen) | 19.3 | 20.7 | 23.5 | 25.5 | 26.2 |
| FYE Dec (RM m) | FY21 | FY22 | FY23f | FY24f | FY25f | P/E (x) | 6.5 | 6.1 | 5.4 | 4.9 | 4.8 |
| Profit before taxation | 464.6 | 488.0 | 544.8 | 579.2 | 602.9 | EV/EBITDA (x) | (4.8) | (4.4) | (3.9) | (3.7) | (3.4) |
| Depreciation & amortis | 41 | 34 | 33 | 34 | 36 | DPS (sen) | 6.0 | 1.4 | 5.9 | 6.4 | 6.5 |
| Changes in working ca | (79) | (8) | (60) | (34) | (29) | Dividend yield | 4.8% | 1.1% | 4.7% | 5.1% | 5.2% |
| Share of JV profits | (295) | (284) | (308) | (324) | (324) | BVPS (RM) | 2.65 | 2.75 | 2.95 | 3.14 | 3.34 |
| Taxation | (63) | (58) | (57) | (50) | (60) | P/B (x) | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| Others | 16 | (461) | (461) | (461) | (461) | EBITDA margin | 22.5% | 21.0% | 23.1% | 23.3% | 23.9% |
| Operating cash flow | 85 | (289) | (308) | (255) | (233) | EBIT margin | 18.8% | 18.4% | 20.7% | 20.9% | 21.5% |
| Net capex | (28) | (50) | (20) | (20) | (20) | PBT margin | 41.3% | 36.9% | 40.5% | 40.4% | 40.1% |
| Others | (92) | 137 | 137 | 137 | 137 | Net margin | 35.4% | 32.3% | 36.0% | 36.7% | 35.9% |
| Investing cash flow | (121) | 87 | 117 | 117 | 117 | ROE | 7.4% | 7.7% | 8.2% | 8.4% | 8.1% |
| Changes in borrowings | 354 | 276 | 152 | 11 | 61 | ROA | 4.5% | 4.5% | 4.9% | 5.0% | 5.0% |
| Issuance of shares | - | - | - | - | - | Net gearing | 35% | 41% | 38% | 35% | 33% |
| Dividends paid | (124) | (29) | (121) | (131) | (135) | | | | | | |
| Others | (25) | (164) | (164) | (164) | (164) | | | | | | |
| Financing cash flow | 205 | 82 | (133) | (285) | (238) | | | | | | |
| Net cash flow | 169 | (120) | 160 | 24 | 65 | | | | | | |
| Forex | (0) | 0 | 0 | 0 | 0 | | | | | | |
| Others | - | - | - | - | - | | | | | | |
| Beginning cash | 663 | 832 | 713 | 873 | 896 | | | | | | |
| Ending cash | 832 | 713 | 873 | 896 | 961 | | | | | | |



Disclaimer

Research analyst(s) of MSSB whom produced this report hereby certifies that the views expressed in this report accurately reflect his/her personal opinions about all of the subject corporation(s) and securities in this report. He/She does not carry out, whether for himself/herself or on behalf of MSSB or any other persons did not receive and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. As of the report date, the analyst whom prepared this report does not have any interest in the following securities covered in this report, unless otherwise stated.

As of **Tuesday, 28 Nov, 2023**, the analyst(s), Loui Low Ley Yee, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

| | |
|---------------------|--|
| BUY | The share price is expected to appreciate more than 10% over the next 12 months |
| HOLD | The stock price is expected to range between -10% and +10% over the next 12 months |
| SELL | The share price is expected to fall more than 10% over the next 12 months |
| TRADING BUY | The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months |
| TRADING SELL | The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months |
| NOT RATED | No recommendation is assigned |

