

OSK Holdings Bhd

Steady Earnings Momentum To End FY23

Summary

- Within expectations.** In 4QFY23, OSK Holdings Berhad (OSK) recorded core PATMI of RM97.8m (-20.5% QoQ, -19.4% YoY), bringing the sum of the core PATMI for FY23 to RM467.0m (+9.3% YoY). The core PATMI came in within expectations, accounting to 96.5% and 97.1% of ours and consensus estimates. OSK announced 4.0 sen dividend for the quarter, translating to 7.0 sen (FY22: 6.0 sen) for FY23.
- QoQ.** Core PATMI declined 20.5% QoQ as improvements in the Property, Construction, Capital Financing Division segments were offset by softer performance in the Industries, Hospitality and Investment Holding segments amid (i) lower production overhead absorption rate and factory utilization rate, (ii) additional depreciation charged on completion of the first phase renovation at Swiss Garden Beach Resort Kuantan and (iii) lower profit recorded by RHB group, respectively. Also, the tax expense was higher at RM42.0m as compared to RM18.6m in 3Q23 due to the non-deductibility of certain expenses and losses in certain subsidiaries that are not available to offset against taxable profits in other subsidiaries within the Group.
- YoY.** The core PATMI fell 19.4% YoY as all the business segments generated higher revenue and profits except for the Financial Services & Investment Holdings segments, no thanks to lower share of profit of RHB Group.
- YTD.** On the full year basis, all the business segments gained strength with the core PATMI stood at RM467.0m (+9.3% YoY).
- Outlook.** Going forward, the Property segment will roll out more launches and the Group's unbilled sales stood at RM1.2bn with minimal unsold completed stocks. Total land bank measured at 1,977 acres with GDV of RM15.1bn will remain as one of the key contributors to the Group's performance. Meanwhile, the Construction segment has an outstanding order book of RM389.6m as at FY23 and the Industries segment is expected to perform well into FY24 with its strong order book. Also, the Hospitality segment should benefit from the visa-free entry to Malaysia granted to passport holders of China and India since Dec-2023.

Valuation & Recommendation

- Forecast.** Despite the core PATMI came in within expectations, we revise the FY24-25f earnings forecast lower at RM474-503m, factor in lower profits from RHB.
- Downgrade to HOLD with revised TP of RM1.49.** We downgrade OSK to HOLD (from BUY) as they have rallied since last quarter, but the TP is raised higher to RM1.49 (2.9% upside) as we roll over to FY24f. We adopt 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 FY24f. 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.

Results Note – 4QFY23

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HOLD (from BUY)

Share price	RM1.45
Target price	1.49
Previous TP	1.41
Capital upside	2.9%
Dividend return	4.0%
Total return	6.9%

Company profile

Principally involved in manufacturing of cables and wires for automotive and medical industries as well as medical devices

Stock information

Bursa Code	5053
Bloomberg ticker	OSK MK
Listing market	MAIN
Share issued (m)	2062.1
Market Cap (m)	2990.1
52W High/Low	1.57 / 0.955
Est. Free float (%)	33.1
Beta (x)	0.74
3-mth avg vol ('000)	1720.0
Shariah compliant	No

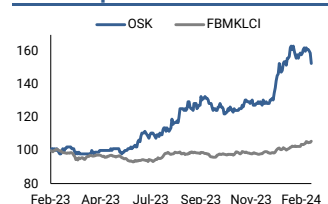
Major shareholders

	%
Yellow Rock	50.1
EPF	2.5
Tan Sri Ong Leong Huat	2.0

Earnings snapshot

FYE (Dec)	FY23	FY24f	FY25f
PATMI (m)	467.0	474.3	503.1
EPS (sen)	22.6	23.0	24.4
P/E (x)	6.2	6.3	5.9

Relative performance chart



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Quarterly performance

FYE Dec (RM m)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Revenue	332.7	433.6	423.5	(2.3)	27.3	1,320.9	1,587.8	20.2
PBT	134.8	142.8	140.5	(1.6)	4.2	488.0	555.1	13.7
PAT	122.1	124.2	98.5	(20.7)	(19.4)	429.8	470.2	9.4
Core PATMI	121.3	123.0	97.8	(20.5)	(19.4)	427.2	467.0	9.3
Reported PATMI	122.1	124.2	98.5	(20.7)	(19.4)	429.8	470.2	9.4
Core EPS (sen)	5.9	6.0	4.7	(20.5)	(19.4)	20.7	22.6	9.3
PBT margin (%)	40.5	32.9	33.2			36.9	35.0	
Core PATMI margin (%)	36.5	28.4	23.1			32.3	29.4	

Source: Malacca Securities

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As of **Wednesday, 28 Feb, 2024**, 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



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