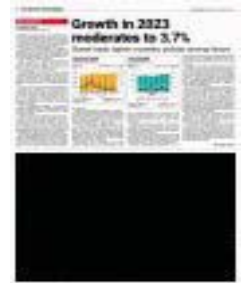


Headline	OSK attracts interest on consistent robust showing		
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CORPORATE

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OSK Holdings Bhd has attracted some buying interest in its shares in recent months, thanks in part to the company's ability to consistently deliver strong financial performance, particularly over the last three quarters.

The company's shares have been climbing steadily, up by almost 60%, since the end of May 2023 following the revelation of its robust results for the first quarter (1Q) ended March 31, 2023.

At its close of RM1.54 yesterday, the counter has gained around 24% year-to-date alone.

As a well-diversified conglomerate, it operates across five core business segments, namely, property (property development and property investment), construction, financial services (capital financing and shareholdings in RHB), industries (cables and industrialised building systems or IBS) and hospitality (hotels, resorts and vacation clubs).

The general outlook for the group remains positive over the medium term, underpinned by higher demand from local and export markets, even as it continues to seek out new market opportunities for its cables and IBS division on top of implementing strategic measures to bolster its profit margins.

Under the industries division, OSK manufactures high-quality cables in Malaysia via Olympic Cable Company (OCC), where the plant is based in Melaka.

The group largely supplies its cable products to local companies and projects such as Tenaga Nasional Bhd, Kuala Lumpur International Airport, Westports Holdings Bhd, Mass Rapid Transit and the Intermark Mall, while about 5% are exported to foreign jobs in countries like Singapore,

OSK attracts interest on consistent robust showing

“The jewels in OSK include the firm’s stake in RHB Bank and its strong management team.”

Vincent Lau

Vietnam and Cambodia.

Speaking to *StarBizWeek*, the management of OSK says the group's cable business benefited from steady demand from the renewable energy sector and data centres, as these segments have helped to buffer the slowdown in demand from the housing sector in recent years.

“Looking ahead, while we do not foresee a rapid expansion in the domestic cable market, we do think that the market demand for cables will remain stable in the medium term.

“Under OCC, we will continue to focus on supplying power cables to the domestic market while we try to break into export markets around the Asean region. We are also expanding into fibre optic cables, and hope to begin supplying them in financial year 2024 (FY24),” it says.

On the other hand, OSK manufactures and sells IBS hollow core precast wall panels through Acotec Sdn Bhd, with three factories located in Nilai in Negri Sembilan, Taiping in Perak and Bandar Tenggara in Johor.

With regards to the group's Acotec IBS business, OSK says the performance in 2023 was supported by a recovery in demand from the Singapore market, and from increased interest among Malaysian developers for a cost-efficient and proven IBS solution.

“Over the past two decades, we have been able to create a high-quality product that meets the cost expectations of develop-

ers and the quality expectations of home buyers, but adoption by the local market has been a slow process.

“We foresee that Acotec's business can grow in the coming years if more developers start to realise that there is a locally produced IBS solution that is both cost effective and proven to work in the local market,” the company says.

The management adds that Acotec's focus for the next few years is to develop lightweight concrete products and to further improve the company's Acobuilt home building system, which the company believes is one of very few turnkey IBS solutions that really works from a quality and cost perspective in Malaysia.

Analysts say property and capital financing segments as well as OSK's strong management team along with its stake in RHB Bank Bhd are expected to remain as key catalysts to the company's earnings going forward.

Notably, OSK has a 10.24% stake in RHB Bank providing the group with recurring dividend income.

Tradeview Capital Sdn Bhd portfolio manager Ng Tzyy Loon says OSK's share price is severely undervalued and this can be reflected through the company's stake in RHB Bank.

“OSK is trading at a discount of around 10% to 20% relative to its stake in RHB Bank. With OSK's market capitalisation currently at around RM3.1bil and its stake in RHB Bank valued at around RM2.5bil,

investors are essentially buying OSK's other business portfolios at a discounted value, at just over RM600mil.

“As such, it is actually a very cheap deal,” he says.

Ng adds that should RHB Bank's future earnings become more consistent and deliver a better-than-expected performance, this would benefit OSK and contribute to its rerating catalysts leading the share price to potentially go up further.

“However, this may not happen in the next one or two quarters due to the expected stability of the overnight policy rate this year. Hence, RHB Bank's net interest margin expansion is unlikely.

“Nevertheless, it has been providing lesser provisions for its book in recent quarters which could lead to better-than-expected earnings if it continues to do so this year.

“In terms of valuation, be it price-to-earnings (PE) ratio or price-to-book ratio, OSK remains quite undervalued.

“OSK's share price has been buoyed by its property side, and developments like the PJ Development Holdings merger, as well as its capital financing business.

“Regarding the cable business, although it has garnered attention due to the increasing demand for low-wattage cables and data centres, the profit margin is not as impressive compared to other segments,” he says.

Moreover, Rakuten Trade head of equity sales Vincent Lau says the jewels in OSK include the firm's stake in RHB Bank, its property arm that has substantial landbank, and its strong management team.

“In terms of the property business, there are quite a fair bit of companies that have exposure in Malaysia as well as overseas.

“Hence, what sets OSK apart is the management team that they have.

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Real estate sector OSK's key revenue contributor

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"The company's executive chairman, Tan Sri Ong Leong Huat is a very shrewd businessman with a keen eye in identifying growth sectors," he says.

Lau expects the share price to reach as high as RM1.80 by the end of this year with a support of RM1.20.

OSK executive chairman Tan Sri Ong Leong Huat is the majority shareholder of the company, with a combined direct and indirect deemed interest of 55.45% of OSK shares as reported in the group's FY22 annual report.

He is supported by his children, Ong Ju Yan, who serves as the group managing director, Ong Ju Xing, the deputy group managing director and Ong Yee Ching, CEO of OSK Foundation.

Hong Leong Investment Bank (HLIB) Research says in its recent report that it views OSK as a laggard to its peers as the current share price has yet to fully reflect the value of the group's capital financing and cables businesses.

The research house has maintained a "buy" call on OSK with a higher target price of RM2.04 from RM1.77 previously and says the group's industries and capital financing segment already make up nearly

half of the counter's current share price.

"The bright prospects of capital financing and cables are reflected in the valuation and share price of OSK's listed peers, namely, RCE Capital Bhd for capital financing and Southern Cable Group Bhd for cables.

"For instance, RCE Capital's share price surged 92.3% in 2023 and is currently trading at a trailing PE ratio of 15.8 times.

"On the other hand, Southern Cable's share price surged 46.3% in 2023 and is currently trading at a trailing PE of around 16.3 times.

"By applying the same PE multiple as these peers on OSK's estimated trailing earnings per share, we derived a value of 23.2 sen per share for its industries segment and 45.6 sen per share for its capital financing," the research house said.

OSK saw an increase of 9% year-on-year (y-o-y) in its 3Q23 net profit to RM123.03mil, or 5.97 sen per share, while its revenue expanded by 25% to RM433.64mil.

For the nine months to September 2023, the group's net profit rose to RM369.16mil from RM303.04mil from the corresponding period a year ago, while revenue increased to RM1.16bil from RM988.19mil.

HLIB Research said the cables segment is currently operating at around 85% utilisation

rate which is close to its practical limit while the IBS segment is currently operating at 67% utilisation rate, which has more than doubled from 30% at the end of 2022.

Onto its property segment, which remains as OSK's key revenue contributor, the group's flagship integrated development, Melbourne Square officially launched Phase 2, also known as BLVD, in October 2023 with a take-up rate of about 50%.

The management says OSK Property's domestic launches should pick up again in 2024 as the group views the market conditions to be more favourable.

As at Sept 30, 2023, OSK's property development division had effective unbilled sales of RM1.2bil with minimal unsold completed stocks.

Moreover, the group's total land bank of 1,994 acres garners an estimated effective gross development value of RM15.5bil with land parcels located in the Klang Valley, Sungai Petani, Butterworth, Kuantan, Seremban and Melbourne in Australia.

Going forward, the management says the group aims to grow steadily over the long term through executing carefully planned strategies and ensuring that it delivers healthy risk-adjusted returns that benefit all its stakeholders.