



“OCK Group Berhad started as a telecommunication (“Telco”) tower contractor, and today, we own more than 2,800 Telco towers across the region. Being a full-fledged network service provider to regional Telco tower companies and one of the most recognised technology partner, OCK is on track to achieve our vision to be a regional leader as telecommunication service provider.”

OOI CHIN KHOON  
Group Managing Director

# MANAGEMENT'S DISCUSSION & ANALYSIS

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## INTRODUCTION

The Group sailed through a challenging year of surprising economic development and anemic global economic growth. Nevertheless, we still managed to once again deliver an all-time high financial performance to remain as the country's leader in the Telco network service industry. The Group had also made new waves in the regional Telco tower scene, most notably in Myanmar and Vietnam.

Despite uncertainties in the global micro and macroeconomics, the Telco industry continues to grow. The Mobile Economy Report 2017 indicates that world mobile subscription is expected to reach 5 billion subscribers in mid-2017. By the end of the decade, Asia Pacific is set to account for two thirds of the expected 860 million new subscribers and the deployment of Internet of Things (IoT). There is great opportunity for OCK to be the leading Telco network service provider in this region.

## BUSINESS OPERATIONS & PLANS

OCK remains focused on our long-term business goals and will continue to play an important role in telecommunication network services as well as green energy businesses. As mentioned in the 2015 Annual Report, we will continue with our strategic plans to extend our track record of expedient and sustained growth in our area of expertise.

As the leading telecommunication network services provider, we will continue to work together with both mobile network operators ("MNO") and mobile technology vendors to ensure the mobile operators are provided with the wide extension and advanced network to serve its customers.

The Group has overcome various challenges over the years, and emerged stronger through continuous improvement. Our strategic focus, combined with determination and experience, have enabled us to grow to become a well-known independent Telco Tower Company ("towerco") player in Malaysia and has spurred our overseas rapid business expansion in Indonesia, Myanmar and Vietnam.

## TELECOMMUNICATION NETWORK SERVICES PROVIDER

### CONTRACT BUSINESS

The Group's contracting business provides end-to-end Telco network solutions which ranges from planning, building to maintenance for most Malaysian MNOs.

For the financial year ended 2016, the contracting business remained as the biggest contributor to the Telco business division recognising RM334.6 million in revenue and RM24.3 million in profit after tax. The contracting business continues to grow by 30% compared to FYE2015.

Riding on the wave of demand for faster speed connection, it is estimated that Malaysia's MNOs will deploy a total of RM3.2 billion for overall capital expenditure ("CAPEX") for the year 2017 to cater for the growing demand of data which will greatly benefit the Group.

Now that the Group has established our footprints in the region, we are looking into extending our contracting expertise to those countries.

### TOWERCO BUSINESS

Towerco is a business that brings about efficiency to MNOs through the sharing of Telco towers as well as optimising operations and maintenance. With tower sharing, MNOs will be able to reduce operational cost as well as achieve efficient population and area coverage.

Due to margin erosion, more MNOs are looking into the option of partnering with towercos for network cost efficiency. OCK is well-positioned to seize this opportunity. To date, we have secured a total of 2,767 Telco towers in the region in countries such as:

#### Myanmar

Since the signing of the Master Services Agreement for a long term build and lease model of telecommunication towers to Telenor Myanmar, the Group has to date handed over 608 Telco towers to Telenor.

We were awarded with the Network Facilities Service License (Class) (the "NFS-C License") by the Myanmar government for us to operate a tower business in the country.

For the financial year ended 2016, the towers which has been delivered in stages have contributed RM6.5 million in revenue.

OCK will seek for more opportunities in Myanmar, as the country is one of the rare growing greenfield Telco space in the region. OCK will also be working on increasing the tenancy ratio for the built towers.



# MANAGEMENT'S DISCUSSION & ANALYSIS

## Vietnam

OCK completed the 100% equity interest acquisition of Southeast Asia Telecommunications Holdings Pte. Ltd. ("SEATH") for USD50 million on 13 January 2017. SEATH is the largest independent tower company in Vietnam which currently owns 1,983 Telco towers backed by long term lease rentals from MNOs.

Moving forward, we will focus on operations and cost efficiency initiatives and continue to improve the tenancy ratio for the towers, and secure more new towers from Vietnam's MNOs.

## **MANAGED SERVICES/OPERATIONS BUSINESS**

The Group provides routine preventive and corrective maintenance services on a 24/7 basis, to ensure smooth running for MNOs Telco networks.

For the financial year ended 2016, this business delivered a recurring revenue of RM60 million.

OCK currently manages a combination of more than 25,000 Telco sites in both Malaysia and Indonesia.

## **GREEN ENERGY AND POWER SOLUTIONS**

The Group owns a total of 9 solar farms (5.3 Megawatts) under the Sustainable Energy Development Authority (SEDA) Malaysia's initiatives, together with our business partners

We are excited with our business venture in the renewable solar energy, we strive to continue to add more solar farms to our portfolio.

## **CLIENTS' BEST PARTNER**

OCK's motto has always been to be our client's best and most reliable partner. For the year under review, it is OCK's honour to receive the "Collaboration & Development Prize" by Huawei. This symbolises the trust and appreciation as best partner from a leading global information and communications technology (ICT) solutions provider.

## **FINANCIAL PERFORMANCE**

For the financial year under review ("FYE2016"), the Group delivered its consecutive 8th Year-on-Year ("Y-o-Y") financial growth with revenue of RM401.5 million; a reported growth of 27.1% compared to RM315.9 million in FYE2015. The growth in revenue was mainly contributed by strong performance in the Malaysia operations.

The Group reported a profit after tax ("PAT") of RM30.4 million which translates into a 11.8% increase compared to FYE2015. The lower growth in PAT was hampered by the cost of acquisition of SEATH, which amounted to RM2.9 million. Despite the decrease in PAT margins Y-o-Y, the Group had set in place various cost rationalising and tax efficiency methods which helped improve PAT margins throughout year 2016.

The Group's two main businesses continue to dominate under segmental financial results. Telco network services, being the core contributor, contributed 83.3% of the total revenue. This was followed by green energy and power solutions at 9.3%.

The Group's regional business continues on an upward trend, with an increase contribution of 20% over the total revenue, compared to 17% in FYE2015. This increase resulted from the growth in Myanmar and Indonesia counterparts. For FYE2017, we expect more contributions from Myanmar and Vietnam in FYE2017.

In order to meet the required capital in its regional ventures, the Group completed a private placement exercise on the 17th August 2016. The total gross proceeds raised were RM64.2 million, increasing total issued and paid up share capital to 871,465,462 Ordinary Shares.

## **DIVIDEND**

The Group declared and paid an interim dividend of 0.6 sen for FYE2016.

# MANAGEMENT'S DISCUSSION & ANALYSIS

## CAPEX

Total capital expenditure in 2016 amounted to RM192 million, primarily for site roll-out in Myanmar and new solar farms built in 2016.

## RISK

While it has been a fruitful journey, operating across many markets has its common range of risk being exposed to government, financial, regulatory, operational, industry and reputational risks that may have an unpleasant effect on the business.

To date, the foreign investment regulations has been highly conducive for foreign investors in the countries we invested in. Internally, we will ensure business operations are well run through the implementation of strict corporate governance to adhere to all regulations set by each country.

## OUTLOOK

For the year 2017, the International Monetary Fund ("IMF") forecasted a global economic growth of 3.4%. This was based on uncertainties resulting from changes in policy from the US as well as Brexit, although growth prospects from China are expected to balance this.

The Organisation for Economic Co-operation and Development (OECD) forecasted a real GDP growth at an average of 6.2% p.a. over 2017-2021 in the ten ASEAN member countries of Emerging Asia. Vietnam is expected to be the highest among the ASEAN-5 countries followed by Malaysia, Indonesia, and Thailand. In the medium term, countries such as Cambodia and Myanmar are expected to have a stable and moderate growth. As for Myanmar, it is expected to catch up annually over the next five years and reach an 8.5% growth on average.

We are optimistic towards the general outlook for the year 2017 due to the increase in smart phone users, Telco coverage in the region, as well as advancement in technology - 2G/3G/4G LTE.

For FYE2017, OCK will continue to assist the MNOS on the implementation of LTE, fibre networks, and continuous upgrades in existing networks. We will continue to increase our market share by providing quality expertise across the region.

Operationally, OCK is in the midst of unfolding our plans for the year ahead and we are making progress in all our key focus area. Amongst the plans are the implementation and enhancement of our operations efficiency across multiples countries. With our regional ventures, one of the Group's key strategies is to ensure that each business venture is self-sustainable and adds value to the Group.

The Group is also looking ahead for the next wave of wireless development and Telco technology.

## OOI CHIN KHOON

*Group Managing Director*