

OSK Holdings Bhd (“OSK”) – “Undervalue yet Growing”
Recommendation: BUY

Share Price: RM1.43

FINANCIAL SUMMARY

FYE 31 Dec (RM' m)	2021	2022	2023	2024F
Revenue	1,126	1,321	1,588	1,629
EBITDA	267	256	310	346
EBITDA margin (%)	24	19	20	21
Pre-tax profit	465	485	555	554
Core net profit	396	425	464	490
EPS (sen)	19.3	20.6	22.6	23.8
DPS (sen)	5.0	6.0	7.0	7.0
PER (x)	7.4	7.0	6.3	6.0
Dividend yield (%)	5.7	6.2	5.6	4.7

OTHER KEY DATA

Listing	Main Market
Issued Cap. (m)	2,062
Market Cap. (RM m)	2,949
52 Week Low/High (RM)	0.955/1.57
ROE (%)	7.77
P/BV (x)	0.48
BV/share (RM)	3.00

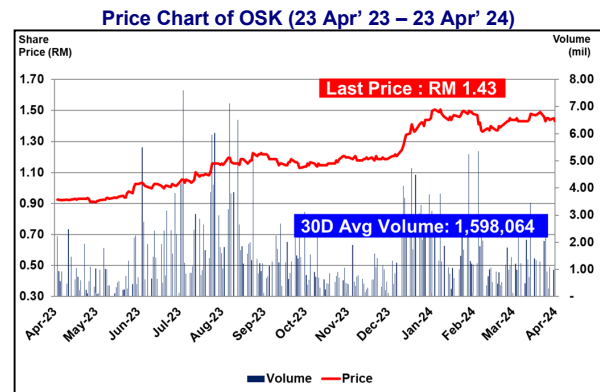
Major Shareholders (%)

Yellow Rock (L) Foundation	50.1
Toh Ean Hai	2.04
Tan Sri Ong Leong Huat @ Wong Joo Hwa	2.03

Source: Bloomberg & PCM estimates

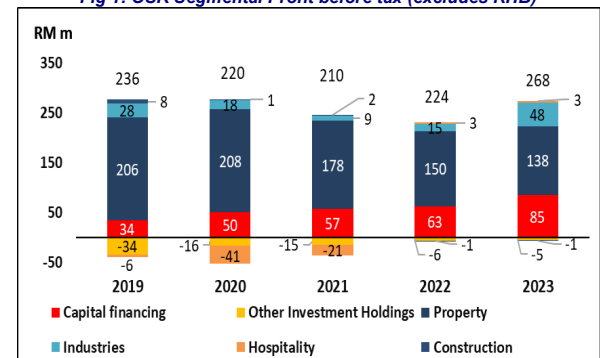
OSK is a good proxy to benefit from the growth in capital market as it has built a strong base of business in capital financing market. It is also one of the key players in the property sector.

We like OSK for its i) resilient growth in the capital finance segment which is expected to continue to grow, ii) sizeable outstanding GDV in property segment iii) recurring income and strong cash flow from its investment in RHB and iv) manageable gearing ratio. We believe OSK growth prospects are good and yet it is trading at 6.0x 2024 PE, we recommend OSK as a BUY.



Source: Bloomberg (Apr 24)

Fig 1: OSK Segmental Profit before tax (excludes RHB)



Source: Company, PCM (Apr 24)

Highlights:

Background – OSK is a mini conglomerate with five core businesses, namely financial services (capital financing and RHB stakeholder), property (development and investment), construction, industries (power cable and industrial building producer or IBS) and hospitality (hotels). Property (54%) and capital financing (11%) segments are the group main revenue contributors (excludes RHB) and these two segments contribute more than 80% of the group PBT (Fig 1), with the margin of 50% and 16% respectively. Worth to mention, the PBT contribution from capital financing has an outsized growth with CAGR of 20.1% over past five years, it is becoming a major growth engine for OSK.

Fast-growing capital financing

– OSK capital financing segment mainly provides conventional capital financing to companies and individuals in Malaysia and Australia. The capital financing is backed by collateral values that is 2.6 times higher than the amounts due from capital financing clients (Fig 2), thus a non-performing loan (NPL) of 3% in FY2023 remained manageable. OSK also provides Islamic personal financing mainly for civil servants since 2021, in partnership with Petronesa (subsidiary of Yayasan Sarawak). The civil servants financing is backed by payment collection through monthly deduction via ANGKASA, thus a lower NPL of 0.6% in FY2023. As at Dec 2023, OSK’s civil servants financing has 11k accounts amounting to RM209m. We expect the civil servants financing will grow substantially as OSK has

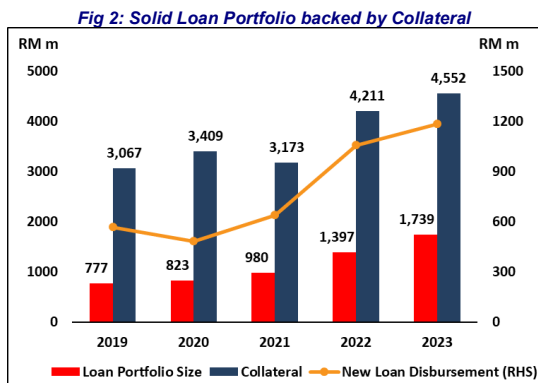
secured its own ANGKASA code for salary deduction which allows the group to be more aggressive in this segment with target of RM10m disbursement per month. Over the past five years OSK's capital financing segment grew from RM777m to RM1,739m (CAGR: 17.5%) by end of 2023, capital financing and civil servants financing accounted for 87% and 12% respectively, and the remainder from freelance financing (mainly property agents). While management has targeted to grow its loan portfolio to RM2bn in 2024, we believe this is achievable given its contribution from its solid customer base and growth from civil servant financing. Another plus point is OSK ability to replenish 70% of its loan portfolio with new loans annually, which maintain a healthy loan portfolio.

Property segment has sizeable outstanding GDV – OSK focuses on development of townships and high-rise projects in Klang Valley (39%), Kedah (9%), Penang (8%), Negeri Sembilan (21%), and Melbourne Australia (21%), with remaining estimated total GDV of RM15.1bn. Additionally, there will be a number of projects launching this year, with total estimated GDV of RM1.5bn (Tab 1). Up to March 2024, OSK has been eyeing for residential land acquisitions totalling RM250m, with estimated GDV of RM2bn, translating to a low land cost to GDV ratio of 12.5%. Its property development is well-supported by its construction and IBS (industrial building system) segment, thus having able to deliver projects up to 8.5 months ahead of schedule that could speed up the Housing Development Account (HDA) clearance for the benefit of OSK cash flow and also interest savings for the benefit of customers. OSK aims to shorten its delivery time further to improve its competitiveness and allow for faster project turnover rate. OSK property projects usually have take-up rate of above 80% within 1 year from launch date. The synergy with its internal construction segment also enables OSK to have a better-quality control evidenced by high QLASSIC scores in the range of 75%-86%.

Recurring income from RHB and property investment – OSK's 10.24% equity stake in RHB has a market value of RM2.4bn (82% of OSK market cap) and carrying value of RM3.6bn as at 31 Dec 2023, representing 35% of the group total assets. The investment in RHB provides the group with steady dividend income (FY23: 40sen per share, translating to 8.5sen per OSK share), generating stable and long-term cash flow to support OSK dividend payments (Fig 3); and allows the group to pledge RHB shares to secure loans to fund its capital financing and property development businesses that are capital intensive. OSK also have investments in properties such as Plaza OSK (NLA: 236.3k sqft), Faber Towers (NLA: 478.5k sqft), and Atria Shopping Gallery (NLA: 446.7k sqft), with occupancy rates of above 80%, generating another source of recurring income for OSK.

Financial highlight – Despite being capital intensive for property and capital financing segment, the group net gearing is still reasonable and manageable at 42%. Even with recent price recovery, OSK is still trading 48% below its book value of RM3.00. Over the past 5 years, OSK has been distributing dividend per share of around 4-7 sen with payout ratio ranging from 20.5%-30.7% (Tab 2). Its FY2023 dividend yield of 5.7% is also attractive.

Recommendation – OSK is a well-managed diversified group with segments that perform in both good and bad times and yet delivered steady growth over the years. The capital financing will continue to grow, supported by its strong base of business. In addition, we also anticipate its property segment to remain intact supported by projects in the pipeline launching in FY24. OSK is currently trading at undemanding 6.0x FY24 PE, we recommend OSK as a BUY.

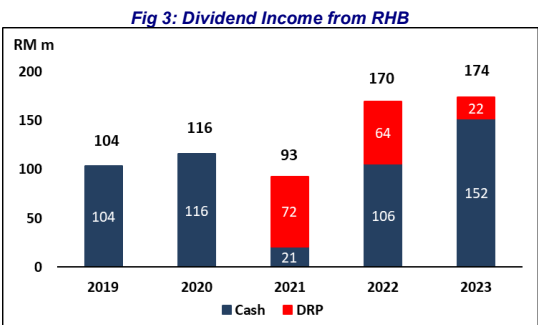


Source: Company, PCM (Apr 24)

Tab 1: Pipeline launches in 2024

Projects	Location	GDV (RM m)	Launch date
Shorea Park	Puchong	149.9	Apr-24
LEA by the Hills 2	Melawati	156.7	Aug-24
Nuria (RSKU)	Melawati	63.0	Mar-24
Mori Park	Bangsar South	354.5	May-24
Rumah Mampu Milik	Butterworth	138.0	Jul-24
Iringan Bayu (Phase 1A, 15A, 15B, 16)	Negeri Sembilan	212.2	Mar 24 & Jul 24
Bandar Puteri Jaya (Commercial Z1, Phase 5 Parcel 2, Phase 5 Parcel 4 Phase 1)	Sungai Petani	314.0	Mar 2024 & Oct 2024
Aman Jaya (Phase 1)	Sungai Petani	107.9	Dec-24
Total		1496.20	

Source: Company, PCM (Apr 24)



Source: Company, PCM (Apr 24)

Tab 2: OSK DPS and Dividend payout ratio

FY	2019	2020	2021	2022	2023
Dividends per share (sen)	5.0	4.0	5.0	6.0	7.0
Payout Ratio (%)	24.8	23.8	20.5	28.8	30.7

Source: Company, PCM (Apr 24)

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For Phillip Capital Management Sdn Bhd

Nona Salleh
Executive Chairperson

APPENDIX

LIST OF STOCKS RECOMMENDED SINCE 2022

Our Picks – 2021/22/23							
No	Stock	Sy#	Date	Price*	Price @23/04/24 (RM)	% Change	Comments
1	MFCB	Sy	25-Feb-22	3.41	4.79	40.55%	Hold. We anticipate a slight growth from the higher Don Sahong Hydropower stake and the completion of 5 th turbine.
2	CTOS	Sy	30-Mar-22	1.51	1.39	-7.90%	Hold. Fundamentally intact, price recovered.
3	TGuan	Sy	31-Mar-22	2.22	1.92	-13.42%	Buy. Expect a less favourable demand outlook but earnings stability will be underpinned by a more diversified product portfolio.
4	Armada	Non-Sy	29-Apr-22	0.430	0.590	37.21%	Sell. Incurred one-off impairment of RM514m due to replacement of Kraken transformer & write-off of Caspian subsea segment.
5	OPTIMAX	Sy	13-May-22	0.544	0.645	18.57%	Buy/Hold. Upbeat on sustained surgery volume growth and opening of new clinics.
6	Vitrox	Sy	26-Aug-22	7.24	7.57	4.51%	Buy/Hold. 1:1 bonus issued delayed slightly.
7	MPI	Sy	30-Sep-22	28.29	29.98	5.97%	Buy. Consumer segment picking up especially in China but slightly offset by the slowdown in EV.
8	Lagenda	Sy	28-Oct-22	1.09	1.45	33.03%	Buy. Share price fallen to RM1.45 support level.
9	Yinson	Non-Sy	07-Dec-22	2.42	2.38	-1.65%	Buy. Yinson remain steadfast in delivering 2 FPSOs in 2024.
10	Kelington	Sy	20-Dec-22	1.42	2.54	79.51%	Buy. Margin expansion on improved revenue mix and outstanding order book remains strong at RM1.3bn.
11	Focus Point	Sy	30-Dec-22	0.590	0.710	20.34%	Buy. Optical segment continues to see resilient growth with record high revenue in 4Q23.
12	HLInd	Sy	27-Feb-23	7.92	10.58	33.59%	LT Buy. Stronger margins on improved sales mix, Vietnam recovery and huge net cash position.
13	Carlsberg	Non-Sy	19-Apr-23	21.49	18.40	-14.38%	Buy. Margin is set to improve with ASP hike in April'24.
14	T7	Sy	19-Apr-23	0.405	0.515	27.16%	Buy/Hold. Expect sequentially earnings contribution from mobilisation of Bayan & Nong Yao MOPU and baggage handling system.
15	Bjfood	Sy	21-Jun-23	0.600	0.685	14.17%	Hold. News of taking BjFood private support the price.
16	Sunway	Sy	22-Jun-23	1.56	3.33	114.15%	Still a Buy. Beneficiary of Johore Play & supported by a strong order book of construction &

							property segments
17	DXN	Sy	27-Aug-23	0.713	0.620	-13.04%	Buy. Strong set of 4Q results, revenue +16% yoy.
18	Synergy	Sy	28-Aug-23	0.369	1.23	233.33%	Still a Buy. Growth strategy to capitalising on platform expansion both vertically & horizontally.
19	Genetec	Sy	22-Sep-23	2.37	1.88	-20.68%	Buy/Hold. Slow down in Tesla business is a concern.
20	Kitacon	Sy	27-Nov-23	0.645	0.685	6.20%	Buy. Supported by its robust order book of RM1.24bn, providing a 1.6x cover ratio of FY23 revenue.
21	InfoTec	Non-Sy	27-Nov-23	0.800	0.770	-3.75%	Buy. Trading at undemanding valuation of 11x with earnings growth of 30% CAGR for FY23-25.
22	EMCC	Non-Sy	28-Dec-23	0.415	0.480	15.66%	Buy. New revenue stream to kick in in 2Q24 onward from new expansion into Islamic pawnbroking business (Al-Rahnu).
23	UliCorp	Sy	31-Jan-24	1.45	1.49	2.76%	Buy/Hold. Share price hit RM1.50 resistance.

**Price adjusted for dividend, bonus and rights*