



# OKP Holdings Ltd

## (OKP SP/OKPH.SI)

### HOLD - Downgraded

Price as of 17 Jul 2017	0.360
12M target price (S\$)	0.390
Previous target price (S\$)	0.520
Upside, incl div (%)	9.8

### Trading data

Mkt Cap (S\$m) / (US\$m)	111 / 81
Issued Shares (m)	308
Ave Daily Traded (3-Month) Vol / Val	0.2m / \$0.1m
52 week lo / hi	\$0.24 / \$0.49
Free Float	30.6%

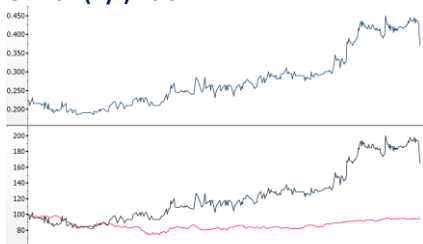
### Major Shareholders

Or Kim Peow Investments	54.7%
China Sonagol Int S Pte L	14.0%

### Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
23-Jun-17	BUY	0.430	0.520

### OKP SP (1yr) VS STI



Source: Bloomberg

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See the last page for important disclosures.

## Viaduct collapse disaster likely to hurt earnings

### Event

An uncompleted viaduct being built near Pan-Island Expressway had collapsed in the wee hours of Friday (14 July), which resulted in one worker's death and several others injured at the worksite. OKP is the main contractor working on the viaduct. Construction works at the work site has been suspended as a full investigation on the cause of accident is currently underway. Preliminary investigations indicated the support structure for one portion of the uncompleted viaduct collapsed during concrete works by OKP.

### Impact

**No impact on existing order book, but could affect future order wins prospects.** Though the actual cause of the accident is still being investigated, it is unlikely that OKP will be absolved of any blame. OKP was previously penalised for a safety lapse that had led to another worker's death in 2015, and was debarred from employing new workers for a period of 3 months (5-Jan to 4-Apr 2017). Coupled with the pending investigation of this latest workplace safety breach, this could affect OKP's chances of winning major upcoming public road construction projects as safety records could be taken into consideration in the tender process.

**Collapse of viaduct likely to hurt earnings and dividends.** Ongoing works on the project has been put on hold and this has dampened our expectations of topline growth this year. A possible impairment charge due to the viaduct collapse is likely to further hurt FY17F earnings and dividends.

### Valuation & Action

It is unfortunate that an unforeseen disaster which would impact OKP had happened and this could likely derail the earlier investment thesis we had on the company. We lower our TP and forecasts and downgraded our recommendation to HOLD, factoring in numerous risks that include possible impairment and fines arising from the collapse of the viaduct as well as temporary debarment of employing new workers that would hamper OKP's topline growth.

### Risks

Cyclical nature of the local construction industry; rise in labour cost due to shortage of foreign workers or changes in foreign workers' levy; price fluctuations in construction materials.

### Financials & Key Operating Statistics

YE Dec SGD mn	2015	2016	2017F	2018F	2019F
Revenue	103.3	111.1	100.4	95.4	100.1
Gross Profit	13.8	21.9	16.8	16.4	17.8
PATMI	7.0	14.3	4.7	7.7	7.4
Core PATMI	6.1	10.1	6.6	5.7	6.2
Core EPS (SG cents)	2.0	3.3	2.1	1.9	2.0
Core EPSgrth (%)	142.0	63.9	(34.9)	(12.9)	8.1
P/E (x)	15.9	7.7	23.5	14.5	15.0
DPS (SG cents)	1.1	2.0	0.5	1.1	1.1
Div Yield (%)	3.1	5.6	1.5	3.1	3.0
Gross Margin (%)	13.3	19.7	16.7	17.2	17.7
Net Margin (%)	6.8	12.9	4.7	8.0	7.4
ROE (%)	6.9	13.1	4.1	6.5	6.1

Source: Company Data, KGI Research

## Financials

YE 31 December

INCOME STATEMENT (SGD mn)	2015A	2016A	2017F	2018F	2019F
<b>Revenue</b>	<b>103.3</b>	<b>111.1</b>	<b>100.4</b>	<b>95.4</b>	<b>100.1</b>
Cost of Sales	(89.5)	(89.2)	(83.6)	(78.9)	(82.4)
<b>Gross Profit</b>	<b>13.8</b>	<b>21.9</b>	<b>16.8</b>	<b>16.4</b>	<b>17.8</b>
Operating Profit	7.5	13.5	2.2	8.4	9.0
Finance Income/(Expenses)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Share of JV/Associates' Results	0.1	3.0	2.9	0.7	0.0
<b>Profit Before Tax</b>	<b>7.6</b>	<b>16.5</b>	<b>5.0</b>	<b>9.1</b>	<b>8.9</b>
Income Tax Expenses	(0.6)	(2.2)	(0.3)	(1.4)	(1.5)
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>PATMI</b>	<b>7.0</b>	<b>14.3</b>	<b>4.7</b>	<b>7.7</b>	<b>7.4</b>
PATMI Normalised	6.1	10.1	6.6	5.7	6.2
BALANCE SHEET (SGD mn)	2015A	2016A	2017F	2018F	2019F
Cash and Cash Equivalents	54.7	74.7	64.4	69.2	74.3
Trade and Other Receivables	24.5	30.2	27.5	26.1	27.4
Inventory	0.0	0.0	0.0	0.0	0.0
Other Current Assets	4.2	1.5	3.9	3.9	3.9
<b>Total Current Assets</b>	<b>83.4</b>	<b>106.4</b>	<b>95.8</b>	<b>99.2</b>	<b>105.6</b>
Property, Plant and Equipment	18.2	19.4	18.5	17.7	16.8
Other Non-Current Assets	36.2	38.4	41.3	42.0	41.9
<b>Total Non-Current Assets</b>	<b>54.4</b>	<b>57.8</b>	<b>59.8</b>	<b>59.6</b>	<b>58.7</b>
<b>Total Assets</b>	<b>137.8</b>	<b>164.2</b>	<b>155.6</b>	<b>158.9</b>	<b>164.3</b>
Trade and Other Payables	29.3	43.7	34.4	32.4	33.9
Other Current Liabilities	1.5	3.1	3.1	3.1	3.1
<b>Total Current Liabilities</b>	<b>30.8</b>	<b>46.8</b>	<b>37.4</b>	<b>35.5</b>	<b>36.9</b>
Other Non-Current Liabilities	2.3	3.0	3.0	3.0	3.0
<b>Total Non-Current Liabilities</b>	<b>2.3</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
Shareholders' Equity	104.7	114.4	115.2	120.4	124.4
Total Equity	104.7	114.4	115.2	120.4	124.4
<b>Total Liabilities and Equity</b>	<b>137.8</b>	<b>164.2</b>	<b>155.6</b>	<b>158.9</b>	<b>164.3</b>
CASH FLOW STATEMENT (SGD mn)	2015A	2016A	2017F	2018F	2019F
Net Profit Before Tax	7.6	16.5	5.0	9.1	8.9
Depreciation	3.1	2.8	2.9	2.8	2.9
Other Non-Cash Adjustments	(0.3)	(2.8)	(2.9)	(0.6)	0.1
Changes in Working Capital	10.0	12.2	(9.1)	(0.5)	0.1
Taxes Paid	(0.2)	(0.4)	(0.3)	(1.4)	(1.5)
<b>Net Cash from Operations</b>	<b>20.3</b>	<b>28.3</b>	<b>(4.3)</b>	<b>9.2</b>	<b>10.5</b>
Capex	(1.5)	(2.0)	(2.0)	(1.9)	(2.0)
Other Cash in Investing	3.6	(0.0)	(0.0)	(0.0)	(0.0)
<b>Net Cash in Investing</b>	<b>2.1</b>	<b>(2.0)</b>	<b>(2.0)</b>	<b>(1.9)</b>	<b>(2.0)</b>
Dividends Paid	(0.6)	(4.6)	(3.9)	(2.6)	(3.4)
Other Cash from Financing	(1.1)	(1.0)	0.0	0.0	0.0
<b>Net Cash from Financing</b>	<b>(1.7)</b>	<b>(5.6)</b>	<b>(3.9)</b>	<b>(2.6)</b>	<b>(3.4)</b>
FX Effects, Others	22.4	26.2	(6.3)	7.3	8.5
<b>Net Increase in Cash and Cash Equiv.</b>	<b>20.7</b>	<b>20.6</b>	<b>(10.2)</b>	<b>4.8</b>	<b>5.1</b>
Beginning Cash	28.9	49.5	70.1	59.9	64.6
<b>Ending Cash</b>	<b>49.6</b>	<b>70.1</b>	<b>59.9</b>	<b>64.6</b>	<b>69.7</b>
KEY RATIOS	2015A	2016A	2017F	2018F	2019F
Core EPS (SGD cents)	2.0	3.3	2.1	1.9	2.0
Core EPS Growth (%)	142.0	63.9	(34.9)	(12.9)	8.1
DPS (SGD Cents)	1.1	2.0	0.5	1.1	1.1
Dividend Yield (%)	3.1	5.6	1.5	3.1	3.0
<b>Profitability (%)</b>					
Gross Margin	13.3	19.7	16.7	17.2	17.7
EBITDA Margin	10.4	14.8	5.1	11.8	12.0
Net Margin	6.8	12.9	4.7	8.0	7.4
ROE	6.9	13.1	4.1	6.5	6.1
ROA	5.2	9.5	3.0	4.9	4.6
<b>Leverage (x)</b>					
Interest Coverage	121.7	187.7	30.3	117.2	124.9
Net Cash/Equity	0.5	0.7	0.6	0.6	0.6

Source: KGI Research

**KGI's Ratings**

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
<b>BUY</b>	>10% total return over the next 12 months
<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

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