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Maybank KE Retail Research

Civil engineering firm, OKP's 1Q17 net profit soared 172.7% to \$5.1m, achieving 39% of the street's sole forecast, as it recognised unit sales from its 10%-owned LakeLife Executive Condominium.

Revenue grew 21% to \$29.7m on a surge in contributions from its maintenance segment to \$9.2m (+139.5%) due to higher progressive bookings from existing and new maintenance projects.

Growth was slightly eroded by a 1% dip in construction revenue to \$20.5m, largely attributable to a few projects that were nearing completion during the quarter. These projects include the widening of the Tanah Merah Coast Road (completion date: May '17) and Tuas South Ave 7/14 (completed in 1Q17).

Gross margin widened to 20% (+7.9ppts) as it benefitted from a few construction projects that commanded higher margins.

Bottom line was bolstered by its recognition of JV profit of \$1.6m (1Q16: nil) from its 10%-owned LakeLife Executive Condominium, which handed over 188 units (1Q16: nil) to buyers during the quarter.

This was pared by lower other income of \$0.2m (-83.3%) due to absence of consultancy fees (1Q16: \$0.6m) as well as a 81.3% drop in government grants to a paltry \$59,000.

In light of the stronger performance, the group generated higher operating cash flow of \$14.4m (1Q16: \$4.7m), raising its net cash hoard to \$85.1m or \$0.276/share.

As at 31 Mar, OKP's construction order stood at \$306.1m (1Q16: \$322.1m), with contracts extending till 2019.

Moving forward, management the industry continues to face headwinds from rising business costs and shortage of experienced manpower. But OKP remains optimistic that it will be able to tap onto a growing pipeline of public works that have been brought forward to 2017.

For 2017, BCA is projecting public sector construction to surge from \$15.8b in 2016 to \$20-24b this year with major public infrastructure projects, including the North-South Corridor, Circle Line 6, Jurong Regional Line and Changi Airport Terminal 5 underpinning demand.

Of particular interest to OKP would be the 21.5km North-South Expressway, which should see construction commence this year after the award of contracts. The expressway is expected to cost about \$7-8b and should be completed in 2026.

OKP's LakeLife EC has been fully sold and will likely continue to contribute to its bottom line in the quarters to come as it progressively hands over units to buyers. Separately, the group also has a 10%-associate stake in 109-unit freehold luxury property development, Amber Skye, which obtained its TOP on 27 Apr.

With its cash hoard taking up more than half of its current share price, the market could be undervaluing the counter's order book and its track record in public work projects.

OKP trades at 7.7x trailing P/E and 1.2x P/B, which compares favourably with its peer's 12x P/E and 1x P/B.

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