

# Analyse This...

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## OKP Holdings

*International investor upping stake at premium to market*

 OKP SP  
 BUY; TP:\$0.98

 Price @19/8/11: S\$0.565  
 52-week range (SGD): 0.43 – 0.69  
 Market cap: S\$172m

### Non-dilutive placement at above market price!

- **Non-dilutive placement at above market price!** OKP announced that its executive directors and other shareholders are selling, in aggregate, 15m vendor shares to China Sonangol International (S) Pte Ltd (China Sonangol) at S\$0.66/ share, or a total consideration of S\$9.9m. This is a 17% placement at premium to market price of S\$0.565/share.
- China Sonangol recently exercised its warrants, bringing its stake in OKP to about 9.23%. Following this transaction, China Sonangol's stake in OKP has increased to 14.15%.
- **Who is China Sonangol?** China Sonangol is a subsidiary of China Sonangol International Limited, which is an overseas conglomerate engaged in oil, gas and minerals investments and explorations, crude oil supply and national infrastructure construction projects.
- **Expect further business collaboration.** The transaction further strengthens the relationship between OKP and China Sonangol, and prepares the ground for further business collaboration between the two.
- China Sonangol's recent venture into the Singapore property market has resulted in at least one new building contract for OKP. It is currently involved in the construction of a luxury condominium at Angullia Park. This S\$83.5m project is undertaken by one of OKP's JV companies, and was awarded by Angullia Development Pte. Ltd, a wholly-owned subsidiary of China Sonangol Land Pte Ltd, the owner of the development site.
- **Other positive developments to look out for.** China Sonangol recently acquired Amber Towers along Amber Road in an en-bloc transaction. This second acquisition appears to signal China Sonangol's intention to participate in the property market in Singapore, and this could present some business opportunities for OKP.

### High yield + earnings growth + strong balance sheet = BUY

- **OKP – the safe haven stock.** We are rehashing some of the points we made before, but we cannot emphasize more, that in present environment, this is a safe haven stock to own. Maintain BUY. Target price remains at S\$0.98.
- **Track record of superior dividend yield.** Management has a track record of enhancing shareholders value. In FY10, OKP paid out a total dividend of 5Scts, total payout from earnings amounted to 77%. This works out to a dividend yield of 8.8% based on last Friday's closing share price of S\$0.565. Going forward, we think this is generous dividend scheme will stay.
- **56% of market cap backed by net cash of S\$97m.** The financials and balance sheet of OKP remains one of the best, if not the best among peers. Group's assets totaled S\$152m in 2Q11, implying an NTA of 24.6 Scts/share. Group's net working capital was positive at S\$54.5m with net cash flows generated by operating activities of S\$6.1m for the six months ended 30 June 2011. More importantly, OKP now has a net cash position of S\$97m or 56% of its current market cap of S\$172m.
- We note that OKP has over the year has been very consistently and selective in its tender participation, and only taking up projects that promise a reasonable rate of return. Management has always exercised prudence both financially and in its business operations. We believe this will engineered high degree of success to the group.
- **OKP's conservatism to beefing up balance sheet provides the importance of liquidity to the group – a condition for assured survival.** There are a lot of construction and civil engineering companies out there that rely on leveraging the balance sheet. Companies with large

debt often assume that these obligations can be refinanced as they mature. The problem is that be it company specific problems or global credit shortage (as seen in the last financial crisis), these obligations (debt maturity) must actually be paid, and only cash can do the job!

- We believe with the expansive balance sheet and free cash flow OKP has built up, it is natural for the group to branch out into various business segments that will ensure long term sustainable earnings. Yet, with very little need to go on any amount of leveraging.
- **If the current market uncertainties prolonged, in the worst case scenario, even when there is no new replenishment of contracts (though very unlikely), OKP's current S\$387m order book can last till FY2014.** OKP's total gross order book stands at a healthy S\$386.5m based on secured civil engineering and construction contracts, with projects stretching up to 2014. We estimated a conservative S\$150-180m new order to add on the order book to replace the equivalent amount of orders to be delivered in FY11.

### Valuations and investment merits

- **Maintain BUY.** In its recent 2Q11 results, OKP's net profit of S\$6.9m (+61% yoy) far exceeds all expectations. This strong set of numbers indicated that OKP's its growth trajectory is still climbing. Our estimates are unchanged and **target price remains at S\$0.98**, peg 10x CY12 earnings, below the mid-cycle valuation, and discount to bigger peers who re-rated upon awards of overseas contracts.
- We like OKP for its high projects visibility in the public sector, and its strong potential overseas expansion story. OKP is a prime candidate to government infrastructural spending and the stock offers excellent value trading at only 6.1x CY12 P/E against its 3-year core earnings CAGR forecast of 20%.
- Our above consensus estimates reflect OKP's higher order book and robust margin. Further upside to our earnings estimates could emerge with potential catalyst of the possible overseas projects.
- Fresh order wins from public and private sector civil engineering projects will be the primary growth drivers that fuel sustainable earnings growth. In our view, immediate re-rating catalysts are likely to come from stronger than expected order momentum, strong margins from recently awarded road-raising works that will bring the group to another record profits and higher dividend payout.

### Financial analysis

FYE Dec	2009	2010	2011F	2012F	2013F
Revenue (\$\$ m)	130.0	139.9	185.7	224.6	267.1
EBITDA (\$\$ m)	19.8	23.4	29.0	35.7	44.4
EBITDA margins (%)	15.2	16.7	15.6	15.9	16.6
Pretax profit (\$\$ m)	17.1	20.4	25.1	32.5	41.9
<b>Net profit (\$\$ m)</b>	<b>14.4</b>	<b>17.0</b>	<b>20.7</b>	<b>26.4</b>	<b>33.6</b>
EPS (cts)	6.1	6.5	7.3	9.3	11.9
EPS growth (%)	-4%	7%	12%	28%	27%
P/E (x)	9.3	8.7	7.8	6.1	4.8
Core EPS (cts)	6.1	6.5	7.3	9.0	11.2
Core EPS growth (%)	-4%	7%	12%	23%	24%
Core P/E (x)	9.3	8.7	7.8	6.3	5.1
FD EPS (cts)	5.4	5.9	7.1	8.8	10.9
FD P/E (x)	10.4	9.6	7.9	6.4	5.2
Gross DPS (cts)	2.0	5.0	5.0	5.0	5.3
Dividend yield (%)	3.5%	8.8%	8.8%	8.8%	9.3%
P/NTA (x)	2.4	2.2	2.2	1.9	1.5
ROE (%)	24.5%	24.6%	27.5%	29.9%	31.2%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (\$\$)	0.3	0.4	0.3	0.3	0.4
P/CF (x)	8.0	7.5	6.6	5.3	4.3
EV/EBITDA (x)	2.9	2.5	2.0	1.6	1.3
% change in EPS estimates			0.0%	0.0%	0.0%

Source: Bloomberg, Company, CIMB Research

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**HOLD:** The stock's total return is expected to range between +15% and -15% over the next three months.

**SELL:** The stock's total return is expected to be -15% or worse over the next three months.

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**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next three months.

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