

Analyse This...

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OKP Holdings

Topping the record breaking order book

 OKP SP
 BUY; TP:\$0.98

 Price @31/8/11: S\$0.58
 52-week range (SGD): 0.43 – 0.69
 Market cap: S\$177m

In Seventh Heaven

- Latest contract win take order book to record high of S\$433m. This \$46.8m contract from the Public Utilities Board (PUB) to work on the Alexandra Canal, announced by OKP is the group's number seven contract win this year. This new win effectively takes OKP's robust order book to a new high of S\$433.3m.
- Total order wins of S\$152m this year already exceed our new contract win assumption for FY11. Work will start next month and is expected to complete by 1Q 2014. Earlier this month, OKP announced a S\$4.9m contract from the Jurong Town Corporation (JTC) win to build new sewers in Tuas. While the other five other projects include two from the Land Transport Authority, worth S\$90.2m. The other three projects are from the Public Utilities Board, totaling S\$10.1m.

New order wins exceed expectation

Customers	Value (S\$ m)	Projects
LTA	61.7	Design-and-build project involving the interchange at Tampines Expressway(TPE)/Sengkang West Road/Seletar Aerospace Way
LTA	28.5	Widening of Old Choa Chu Kang Road from Sungei Tengah Road to Lim Chu Kang Road
PUB	4.2	Sewer extension works in Admiralty Road West, Andrew Avenue, Tung Po Avenue, Punggol Road and Cranwell Road
PUB	3.4	Improvement works to roadside drains at Ang Mo Kio Avenue 3, Tembeling Road and Ewe Boon Road areas
PUB	2.5	Improvement works to roadside drains at Jalan Ma'mor, Hua Guan Avenue and Outram Road areas
JTC	4.9	Build new sewers in Tuas
PUB	46.8	Reconstruction of the open canal between Zion Road and Kim Seng Road. The Zion Road Bridge and Kim Seng Road Bridge will be reconstructed and three new underpasses crossing Zion Road and Kim Seng Road will also be constructed.

Total YTD 2011 **152.0** Our assumption was S\$150m in FY11

Source: Company, CIMB Research

Pipeline is exciting too!

- Expecting more positives. Recent increased stake by China Sonangol in OKP will only serve to strengthen the relationship between the two, with the former signaling its intention to participate in the property market in Singapore, which present some business opportunities for OKP. We believe that other projects that OKP could potentially secure will also come from the oil & gas-related projects, where it has strength in the infrastructural work for petrochemical plants and oil storage terminals.

Investment merits

- 55% 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. We think OKP's conservatism to beefing up balance sheet provides the importance of liquidity to the group – a condition for assured survival. 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\$433m order book can last till FY2014.
- 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.

Valuations and recommendation

- 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 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. 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.
- 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%. Fresh order wins from public and private sector civil engineering projects will be the primary growth drivers that fuel sustainable earnings growth. Catalysts are likely to come from stronger than expected order momentum; strong margins will bring the group to another record profits and higher dividend payout.

Financial analysis

FYE Dec	2009	2010	2011F	2012F	2013F
Revenue (S\$ m)	130.0	139.9	185.7	224.6	267.1
EBITDA (S\$ 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 (S\$ m)	17.1	20.4	25.1	32.5	41.9
Net profit (S\$ m)	14.4	17.0	20.7	26.4	33.6
EPS (cts)	6.1	6.5	7.3	9.3	11.9
EPS growth (%)	-4%	7%	12%	28%	27%
P/E (x)	9.6	8.9	8.0	6.2	4.9
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)	9.6	8.9	8.0	6.5	5.2
FD EPS (cts)	5.4	5.9	7.1	8.8	10.9
FD P/E (x)	10.7	9.8	8.1	6.6	5.3
Gross DPS (cts)	2.0	5.0	5.0	5.0	5.3
Dividend yield (%)	3.4%	8.6%	8.6%	8.6%	9.1%
P/NTA (x)	2.4	2.3	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 (S\$)	0.3	0.4	0.3	0.3	0.4
P/CF (x)	8.2	7.7	6.8	5.5	4.4
EV/EBITDA (x)	3.1	2.6	2.1	1.7	1.4

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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