

Singapore Result Snapshot

OKP Holdings

Bloomberg: OKP SP EQUITY | Reuters: OKPH.SI

DBS Group Research . Equity

10 May 2011

Margins higher than expected

HOLD S\$0.65

Price Target : S\$ 0.64 (Prev S\$ 0.63)

Reporting Period	Performance	Mkt Cap	FY	EPS (\$ cts)	EPS Gth Pre-Ex (%)	EPS Revision	PE (x)	PBV (x)	Net Dividend Yield (%)
1Q 2011	Above	S\$198m	2010A	6.4	9		10.2	2.5	7.7
		US\$160m	2011F	6.7	6	+ 4.7%	9.6	2.6	7.7
			2012F	6.9	2	+ 4.5%	9.5	2.6	7.7

Result Summary

FY Dec (\$ m)	1Q2010	1Q2011	yoy chg
P&L Items			
Sales	33.9	32.8	(3.1)
Gross Profit	5.8	8.8	50.9
EBIT	4.3	6.4	50.5
Exceptional Gain/(Loss)	0.0	0.0	N/A
Pretax Profit	4.2	6.4	51.0
Net Profit	3.5	5.2	49.5
EPS (\$ cts)	1.5	1.9	25.3
Gross Margin (%)	17.1	26.7	
BS & CF Items			
Operating Cash Flow	5.9	8.9	
Capex	0.0	0.9	
Net Cash/(Debt)	78.6	104.1	

At a Glance

- 1Q11 net profit of S\$5.2m beats our estimate
- Gross profit margin up almost 10 ppts y-o-y to 26.7% but should normalise over the year
- We raise our EPS estimates by 4-5% but maintain our HOLD call as valuations look fair
- Margin sustenance in coming quarters would be a key re-rating catalyst

Comment on Results

Margins better than expected. 1Q11 net profit of S\$5.2m was up 49% y-o-y, and 13% q-o-q, beating our estimate. While revenue remained largely stable at S\$32.8m (-3% y-o-y and +11% q-o-q), earnings outperformance was largely driven by expanding gross margin - which came in at 26.7% compared to 17.1% in 1Q10 and 21.1% for full-year FY10 - owing to cost savings in certain design and build construction projects. The construction segment contributed 85% of 1Q11 revenue, registering a y-o-y growth of 2%, while maintenance revenues contracted 25% owing to the fewer number of new maintenance contracts awarded recently.

Healthy and growing orderbook. OKP has made a good start to the year, winning S\$94m worth of new orders YTD, and we estimate net outstanding orderbook in excess of S\$260m, which provides good revenue and earnings visibility in FY11/12.

Recommendation

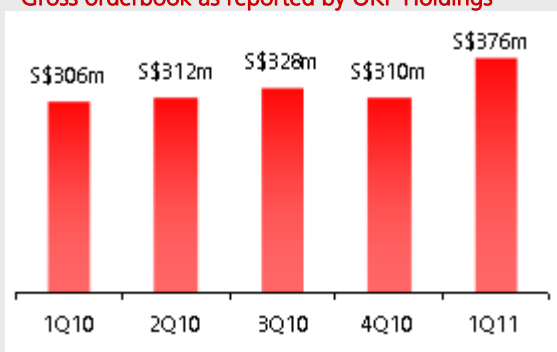
Margin sustenance is the key. While we raise our FY11/12 EPS estimates by 4-5% on the back of 1Q11 results, we believe that margins should normalise over the year. If management is able to consistently deliver on higher margins in the coming quarters, we will relook our assumptions and there is thus, potential upside to our current flattish earnings growth estimates. For now, we maintain our HOLD call though, at a slightly higher TP of S\$0.64. The Group's cash position improved further to over S\$104m (37 Scts per share) at end-1Q11, before final dividend payment of 4.0 Scts for FY10, which is due to be paid on 27th May. Dividend yield is an attractive 7.8%.

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Price Relative



Gross orderbook as reported by OKP Holdings



Source: Company, DBS Vickers

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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