

Singapore Company Focus

OKP Holdings

Bloomberg: OKP SP EQUITY | Reuters: OKPH.SI

DBS Group Research . Equity

17 Feb 2012

BUY S\$0.64 STI : 2,977.20

Price Target : 12-Month S\$ 0.75 (Prev S\$ 0.78)

Reason for Report : Better than expected results

Potential Catalyst: Contract wins, deployment of cash reserves

DBSV vs Consensus: Our FY12 EPS estimates are lower than consensus on more conservative margin and order win assumptions

Analyst

Suvro SARKAR +65 6398 7973

suvro@dbsvickers.com

Price Relative



Forecasts and Valuation

FY Dec (\$\$ m)	2010A	2011A	2012F	2013F
Turnover	140	110	144	176
EBITDA	23	35	32	40
Pre-tax Profit	20	32	29	37
Net Profit	17	27	24	30
Net Pft (Pre Ex.)	17	27	24	30
EPS (S cts)	6.5	9.0	7.6	9.7
EPS Pre Ex. (S cts)	6.5	9.0	7.6	9.7
EPS Gth (%)	11	39	(15)	28
EPS Gth Pre Ex (%)	11	39	(15)	28
Diluted EPS (S cts)	6.5	9.0	7.6	9.7
Net DPS (S cts)	5.0	3.0	4.0	4.0
BV Per Share (S cts)	26.0	28.9	32.2	37.9
PE (X)	9.8	7.1	8.4	6.6
PE Pre Ex. (X)	9.8	7.1	8.4	6.6
P/Cash Flow (X)	4.3	34.2	9.4	5.8
EV/EBITDA (X)	2.9	2.7	3.2	2.1
Net Div Yield (%)	7.8	4.7	6.3	6.3
P/Book Value (X)	2.5	2.2	2.0	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	26.5	33.8	25.1	27.8

Earnings Rev (%):	(7.8)	(7.2)
Consensus EPS (S cts):	8.9	9.7
Other Broker Recs:	B: 4	S: 0
	H: 0	

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: OKP Holdings Limited is involved in the construction and maintenance of roads in Singapore.

Source of all data: Company, DBS Vickers, Bloomberg

Still a lot to look forward to

- **4Q11 results beat estimates on strong margins**
- **Total DPS of 35cts for FY11 disappointed**
- **But existing orderbook provides good revenue visibility; expect sustained order flows in FY12**
- **Maintain BUY with revised TP of S\$0.75**

Record FY11 results. OKP reported exceptionally strong net profit of S\$9.5m for 4Q11, more than doubling y-o-y. The key driver was gross margin, which rocketed to 65% for 4Q11, owing to variation orders on some completing projects, as well as contribution from higher-margin design and build projects. This led to a 57% jump in FY11 earnings to a record S\$26.6m.

Margins could moderate but order win outlook strong.

The margin strength in FY11 is unlikely to be repeated, going forward, but with design-and-build projects making up half the current orderbook, gross margins will definitely be better than historical average of 17-20%. OKP won S\$152m worth of new contracts in FY11 and net estimated orderbook still remains robust at about S\$210m, which covers more than 75% of our revised FY12F revenue assumptions. With a number of road projects lined up to be tendered by the LTA in 2012, and PUB set to invest S\$750m in drainage works island wide, the outlook for new orders remains healthy for OKP and we estimate another S\$150m in new order flows for FY12.

Look beyond the dividend cut. The key disappointment in this set of results is of course, the absence of the 25cts special dividend unlike FY10. This likely signals management's intention to deploy surplus cash into opportunistic property investments, which can potentially yield better returns in the medium term. While we cut our FY12/13F EPS estimates by 7-8% to factor in slower revenue recognition from new projects, we believe OKP is one of the better-managed construction companies with a conservative balance sheet, and best-in-class margins and ROEs. FY12 EPS may come off owing to the exceptionally high base in FY11 but EPS CAGR over 2010-13 is still expected to be an impressive 21%. Maintain BUY, TP adjusted slightly down to S\$0.75. Expect catalysts from contract wins in near term.

At A Glance

Issued Capital (m shrs)	305
Mkt. Cap (S\$m/US\$m)	195 / 155
Major Shareholders	
Kim Peow Investment (%)	54.8
China Sonangol (%)	8.0
Free Float (%)	37.2
Avg. Daily Vol. ('000)	319

Stellar 4Q11 results. OKP reported exceptionally strong net profit of S\$9.5m for 4Q11, up 105% y-o-y and 95% q-o-q. This came despite a reduction in revenues to S\$23.2 for 4Q11 (down 22% y-o-y and 9% q-o-q) as a good number of projects reached completion in 4Q, and ramp up on newly awarded projects was slow. Thus, the key driver was gross margin, which rocketed to 65% for 4Q11, compared to 34% in 4Q10 and 32% in 3Q11. The surprisingly high gross margin was a result of variation orders on some completing projects, as well as contribution from higher-margin design and build projects. For the full-year FY11, gross margin came in at 39%, compared to 21% in FY10 and led to a 57% y-o-y jump in net profit to hit a record S\$26.6m.

Good revenue visibility for FY12/13F. OKP won S\$152m worth of new contracts in FY11 and net estimated orderbook still remains robust at about S\$210m, which covers more than 75% and 46% of our revised FY12F and FY13F revenue assumptions, respectively.

Expect good contract flows in FY12. Major roadworks and civil engineering contracts coming up for bidding in the near term include expansion of the KPE/TPE Interchange, reconstruction of Newton Flyover and construction of New Lornie Road. OKP would also be bidding for drainage improvement projects as the PUB has announced S\$750m investment in drainage works over the next 5 years. It has sufficient track record in these projects and we remain comfortable with OKP's chances of winning a few of the above contracts. Partner China Sonangol Land is expected to start construction of the Amber Road project later this year, and OKP remains a frontrunner to win the building

contract. Overall, we conservatively estimate another S\$150m in new order flows for FY12.

The key disappointment in this set of results was of course, the absence of a special dividend. Unlike FY10, when OKP declared 2Scts final and 2Scts special dividends, no special dividends were declared for FY11 and the total 3Scts dividend for FY11 (including interim dividend of 1Sct) implies a yield of 4.6% at current prices. This is despite OKP's net cash hoard of S\$91m (\$0.30 per share), and likely signals management's intention to deploy surplus cash into opportunistic property investments. The group has already set up a fully owned subsidiary, OKP Land Pte Ltd, for property investment purposes and we estimate they could be eyeing minority stakes in future projects developed by partner China Sonangol Land. Of course, the focus for management will still be the core civil engineering projects.

Look beyond the dividend cut. Property investments have a fairly long gestation time and while OKP's potential deployment of surplus cash could boost ROEs and profits over a 2-3 year horizon, near term returns to shareholders in the form of higher dividends could be moderated. We cut our FY12/13F EPS estimates by 7-8% to factor in slower revenue recognition from projects. But we continue to believe OKP is one of the better-managed construction companies with a conservative balance sheet, and the ability to generate best-in-class margins and ROEs. FY12 EPS may come off owing to the exceptionally high base in FY11 but EPS CAGR over 2010-13 is still expected to be an impressive 21%. Maintain BUY, TP adjusted marginally down to S\$0.75. Expect catalysts from contract wins in near term and deployment of cash in investments.

Results Summary and Comments

FY Dec (\$m)	4Q10	4Q11	Y-o-Y Chg	FY10	FY11	Y-o-Y Chg
Sales	29.6	23.2	-22%	139.9	109.8	-21%
Cost of Goods Sold	(19.6)	(8.2)	-58%	(110.4)	(66.6)	-40%
Gross Profit	10.0	15.0	50%	29.5	43.2	47%
Other Operating Income	0.5	0.3	-39%	0.9	1.0	15%
<i>Distribution Costs</i>	0.0	0.0		0.0	0.0	
<i>Administration Expenses</i>	(5.0)	(3.7)	-25%	(9.6)	(11.9)	24%
<i>R & D and other expenses</i>	(0.1)	(0.0)		(0.2)	(0.0)	-77%
Other Operating Expenses	(5.0)	(3.8)	-25%	(9.8)	(12.0)	22%
EBIT	5.5	11.6	110%	20.6	32.3	57%
Non-Operating Income	0.0	0.0		0.0	0.0	
Interest Income	0.0	0.0		0.0	0.0	
Interest Expense	(0.0)	(0.0)	-30%	(0.2)	(0.1)	-25%
Share of Associates' or JV Income	0.0	0.0		0.0	0.0	
Exceptional Gains/(Losses)	0.0	0.0		0.0	0.0	
Pretax Profit	5.5	11.6	111%	20.4	32.2	57%
Tax	(0.9)	(2.1)	128%	(3.6)	(5.6)	58%
Minority Interests	0.1	0.0	-41%	0.1	0.0	-30%
Net Profit	4.6	9.5	105%	17.0	26.6	57%
Margins (%)						
Gross Margin	33.8	64.8		21.1	39.3	
SGA % Sales	17.0	16.2		16.7	32.2	
EBITDA Margin	21.8	53.6		14.7	29.4	
EBIT Margin	18.6	50.0		14.6	29.3	
Pre-tax Margin	18.5	49.9		12.1	24.2	
Net Margin	15.7	41.1		21.1	39.3	

Source: Company, DBS Vickers

Valuation Summary

	Value	Reference
Value of recurring business based on 7.0x FY12F net profit estimate (\$m)	165.1	(1)
Net est cash as of end-FY11 (\$ m)	95.1	(2)
Net cash working cap needed in business (\$ m)	(28.8)	(3)
Est. surplus net cash by end FY11F (\$ m)	66.4	(4)=(2)-(3)
Estimated fair value (\$m)	231.5	(5)=(1)+(4)
Weighted avg share capital (m shares)	309.1	(6)
Target price for OKP (\$)	0.75	(5)/(6)

Source: DBS Vickers estimates

OKP Holdings

Key Assumptions

FY Dec	2009A	2010A	2011A	2012F	2013F
New orders won	170.2	166.5	152.3	150.0	130.0

Segmental Breakdown

FY Dec	2009A	2010A	2011A	2012F	2013F
Revenues (\$\$ m)					
Construction	98	116	90	120	161
Maintenance	32	24	20	24	15

Very conservative assumptions, likely to exceed

Total	130	140	110	144	176
Gross Profit (\$\$ m)					
Construction	16	23	36	34	45
Maintenance	7	7	7	5	3

Total	23	29	43	39	48
Gross Profit Margins					
Construction	16.6	19.8	40.2	28.0	28.0
Maintenance	22.2	27.4	35.3	22.0	22.0

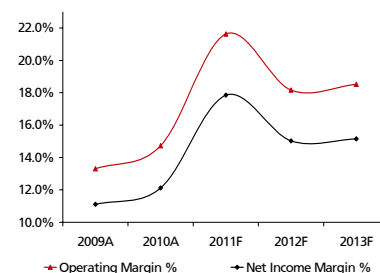
Higher margins from design-and-build projects

Total	18.0	21.1	39.3	27.0	27.5
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Income Statement (\$\$ m)

FY Dec	2009A	2010A	2011A	2012F	2013F
Revenue	130	140	110	144	176
Cost of Goods Sold	(107)	(110)	(67)	(105)	(127)
Gross Profit	23	29	43	39	48
Other Opng (Exp)/Inc	(6)	(9)	(11)	(10)	(11)
Operating Profit	17	21	32	29	37
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	17	20	32	29	37
Tax	(3)	(4)	(6)	(5)	(7)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	14	17	27	24	30
Net Profit before Except.	14	17	27	24	30
EBITDA	20	23	35	32	40

Margins Trend



Growth

Revenue Gth (%)	27.7	7.6	(21.5)	30.9	22.2
EBITDA Gth (%)	34.6	18.5	50.9	(9.8)	26.4
Opg Profit Gth (%)	39.2	19.1	56.7	(10.5)	27.4
Net Profit Gth (%)	50.3	17.4	56.7	(11.2)	27.7

Margins & Ratio

Gross Margins (%)	18.0	21.1	39.3	27.0	27.5
Opg Profit Margin (%)	13.3	14.7	29.4	20.1	20.9
Net Profit Margin (%)	11.1	12.1	24.2	16.4	17.1
ROAE (%)	29.2	26.5	33.8	25.1	27.8
ROA (%)	14.5	12.3	17.6	15.5	17.7
ROCE (%)	27.2	25.5	33.0	24.8	27.4
Div Payout Ratio (%)	51.4	78.4	34.5	52.4	41.1
Net Interest Cover (x)	93.0	136.4	283.0	280.5	582.9

Net profit growth impacted by exceptionally high base in FY12; growth should resume in FY13

Source: Company, DBS Vickers

Quarterly / Interim Income Statement (\$\$ m)

FY Dec	4Q2010	1Q2011	2Q2011	3Q2011	4Q2011
Revenue	30	33	28	25	23
Cost of Goods Sold	(20)	(24)	(17)	(17)	(8)
Gross Profit	10	9	11	8	15
Other Oper. (Exp)/Inc	(4)	(2)	(3)	(2)	(3)
Operating Profit	6	6	8	6	12
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	5	6	8	6	12
Tax	(1)	(1)	(1)	(1)	(2)
Minority Interest	0	0	0	0	0
Net Profit	5	5	7	5	10
Net profit bef Except.	5	5	7	5	10
EBITDA	6	7	9	7	12

Growth

Revenue Gth (%)	(19.1)	11.0	(13.8)	(10.0)	(8.9)
EBITDA Gth (%)	3.1	8.7	30.2	(26.9)	86.5
Opg Profit Gth (%)	(0.9)	16.5	30.0	(29.8)	97.4
Net Profit Gth (%)	2.9	12.7	31.6	(29.1)	95.3

Margins

Gross Margins (%)	33.8	26.7	39.4	32.4	64.8
Opg Profit Margins (%)	18.6	19.6	29.6	23.1	50.0
Net Profit Margins (%)	15.7	15.9	24.4	19.2	41.1

Source: Company, DBS Vickers

Revenue Trend



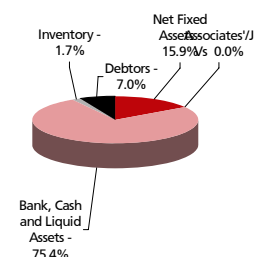
One-off quarter for margins.
Will moderate hereon

OKP Holdings

Balance Sheet (\$\$ m)

FY Dec	2009A	2010A	2011A	2012F	2013F
Net Fixed Assets	14	17	19	21	22
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	3	5	6	6	6
Cash & ST Invt	78	100	93	96	113
Inventory	2	3	2	3	3
Debtors	26	28	29	32	39
Other Current Assets	0	0	0	0	0
Total Assets	122	153	148	157	183
ST Debt	1	1	1	1	1
Other Current Liab	60	82	59	56	64
LT Debt	2	1	0	0	0
Other LT Liabilities	0	0	1	1	1
Shareholder's Equity	59	69	88	99	117
Minority Interests	1	0	0	0	0
Total Cap. & Liab.	122	153	148	157	183
Non-Cash Wkg. Capital	(32)	(51)	(27)	(21)	(22)
Net Cash/(Debt)	75	98	91	95	112
Debtors Turn (avg days)	44.6	71.3	96.2	77.4	72.7
Creditors Turn (avg days)	100.5	167.3	274.3	121.0	106.0
Inventory Turn (avg days)	6.3	7.8	13.8	8.6	8.7
Asset Turnover (x)	1.3	1.0	0.7	0.9	1.0
Current Ratio (x)	1.7	1.6	2.1	2.3	2.4
Quick Ratio (x)	1.7	1.6	2.1	2.3	2.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(1.3)	(1.4)	(0.1)	(1.0)	(1.0)
Capex to Debt (%)	184.3	311.1	376.5	442.9	442.9
Z-Score (X)	NA	3.3	4.1	4.2	4.5

Asset Breakdown (2011)

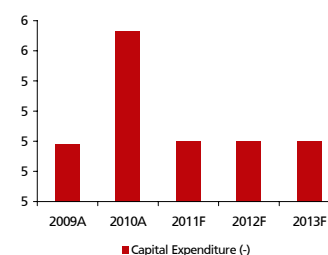


Strong cash hoard

Cash Flow Statement (\$\$ m)

FY Dec	2009A	2010A	2011A	2012F	2013F
Pre-Tax Profit	17	20	32	29	37
Dep. & Amort.	2	3	3	3	4
Tax Paid	(3)	(3)	(3)	(6)	(5)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	28	19	(26)	(5)	(1)
Other Operating CF	0	0	0	0	0
Net Operating CF	45	39	6	21	34
Capital Exp.(net)	(5)	(6)	(4)	(5)	(5)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	(2)	0	0	0
Net Investing CF	(5)	(8)	(4)	(5)	(5)
Div Paid	(3)	(11)	(15)	(12)	(12)
Chg in Gross Debt	(2)	(1)	(1)	0	0
Capital Issues	7	4	8	0	0
Other Financing CF	0	(1)	0	0	0
Net Financing CF	3	(9)	(8)	(12)	(12)
Currency Adjustments	0	0	0	0	0
Chg in Cash	42	22	(7)	4	17
Opg CFPS (S cts)	6.9	7.8	10.7	8.5	11.3
Free CFPS (S cts)	16.0	12.8	0.4	5.2	9.5

Capital Expenditure



Source: Company, DBS Vickers

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DBS Vickers Research (Singapore) Pte Ltd – 8 Cross Street, #02-01 PWC Building, Singapore 048424
 Tel. 65-6533 9688
 Company Regn. No. 198600295W