

Singapore Result Snapshot

OKP Holdings

Bloomberg: OKP SP EQUITY | Reuters: OKPH.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Feb 2013

HOLD S\$0.54 STI : 3,308.89

Price Target : 12-Month S\$ 0.49

Analyst

Alfie YEO +65 6398 7957
AlfieYeo@dbsvickers.com

Suvro SARKAR +65 6398 7973
suvro@dbsvickers.com

Result Summary

FY Dec (\$\$ m)	4Q 2012	4Q 2011	3Q 2012	yoy chg	qoq chg
P&L Items					
Turnover	27.5	23.2	28.5	18.4	(3.6)
Gross Profit	6.0	15.0	6.4	(59.9)	(6.6)
Opg Profit	4.2	11.6	4.7	(63.7)	(9.8)
EBITDA	4.6	12.4	5.7	(63.2)	(19.3)
Net Profit	3.8	9.5	2.4	(60.3)	56.0
Other Data					
Gross Margin (%)	21.9	64.8	22.6		
Opg Margin (%)	15.3	50.0	16.4		
Net Margin (%)	13.8	41.1	8.5		

Financial Summary

FY Dec (\$\$ m)	2011A	2012A	2013F	2014F
Turnover	110	104	155	176
Operating Profit	32	16	22	25
EBITDA	35	20	26	28
Net Pft (Pre Ex.)	27	14	19	20
EPS (S cts)	9.0	4.0	6.0	6.6
EPS Pre Ex. (S cts)	9.0	4.5	6.0	6.6
EPS Gth (%)	39	(56)	50	10
EPS Gth Pre Ex (%)	39	(50)	34	10
PE Pre Ex. (X)	6.0	12.0	9.0	8.2
EV/EBITDA (X)	1.9	5.8	3.8	3.1
Net Div Yield (%)	5.6	2.8	5.6	5.6
P/Book Value (X)	1.9	1.7	1.6	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	33.8	13.4	18.4	18.3

At A Glance

Issued Capital (m shrs)	308
Mkt. Cap (S\$m/US\$m)	167 / 135
Avg. Daily Vol.('000)	112

Price Relative



Source: Company, DBS Vickers

Labour costs to remain challenging

- 4Q12 and FY12 earnings slightly below as operating costs were higher than expected due to tight labour supply
- Order book and revenue outlook remains positive, however tight labour supply will continue to challenge margins
- FY12 DPS of 1.5 Scts declared, below our 2.0 Scts expectations, represents 2.8% yield
- Maintain Hold, TP unchanged at S\$0.49

Highlights

4Q12 and FY12 earnings slightly below expectations. Earnings of S\$3.8m in 4Q12 and S\$12.4m in FY12 were below our S\$4.5m and S\$13.1m projections respectively, as administrative expenses came in 21% higher than our expectations. This is despite factoring in higher operating costs in labour in our post 3Q12 earnings revision. Apart from higher than expected operating expenses, revenue and gross profit were in line with our estimates for 4Q12 and FY12.

1.5 S cents final dividend declared. OKP declared final DPS of 1.5 S cents, below the 2.0 S cents we had expected. Dividend yield works out to be 2.8%.

Our View

Positive revenue outlook, but margins remain a challenge.

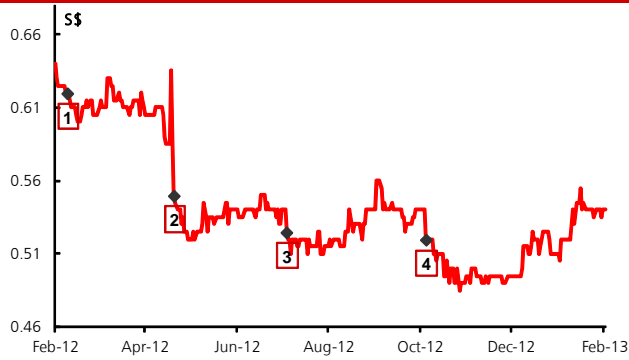
While revenue outlook will remain positive, we expect margins to remain under pressure for the next two years. The tight labour supply situation will continue to challenge margins even though the infrastructure construction project pipeline in Singapore remains robust. Current order book is healthy at S\$377m (> 2x book to bill) lasting till 2015. With tight labour supply persisting, we account for further increases in operating costs into our earnings estimates in FY13F-FY14F. This lowers our earnings by 22%/25% for FY13F/FY14F. As a result, FY13F/FY14F's growth rate is slashed from 83%/14% to 50%/10%.

Recommendation

Maintain Hold, TP unchanged S\$0.49. Within the construction sector, we continue to prefer resource providers (building materials and equipment providers) than contractors due to cost and margin challenges pressure faced by contractors. Our target price for OKP is based on 1) 6x FY13F PE for its recurring business; and 2) estimated S\$0.13 per share surplus net cash; TP remains unchanged at S\$0.49. Given a more muted growth outlook, we look to more profitable project wins going forward for any upside revision to our earnings and TP. Maintain HOLD.

OKP Holdings

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	28 Feb 12	0.62	0.75	Buy
2:	09 May 12	0.55	0.65	Hold
3:	23 Jul 12	0.53	0.54	Hold
4:	24 Oct 12	0.52	0.49	Hold

Note : Share price and Target price are adjusted for corporate actions.

Source: DBS Vickers