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 S cents declared, below our 2.0 S cents 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.
Result Snapshot

OKP Holdings

Target Price & Ratings History

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<tr>
<th>S.No.</th>
<th>Date</th>
<th>Closing Price</th>
<th>Target Price</th>
<th>Rating</th>
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Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Vickers