

# Singapore Company Focus

## OKP Holdings

Bloomberg: OKP SP EQUITY | Reuters: OKPH.SI

DBS Group Research . Equity

27 Jul 2011

**BUY S\$0.64** STI : 3,186.57

Upgrade from HOLD

Price Target : 12-Month S\$ 0.80 (Prev S\$ 0.64)

Reason for Report : Better than expected margins

Potential Catalyst: Margin sustainability, M&A and investments

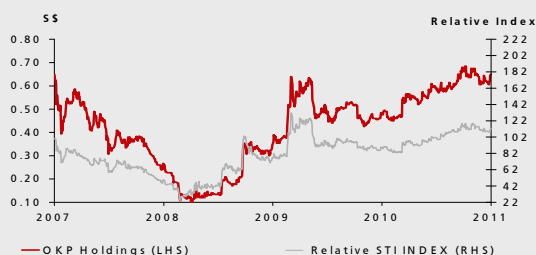
DBSV vs Consensus: Our FY11 EPS estimates are higher on the back of higher margin assumptions

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Dec (\$\$ m)	2009A	2010A	2011F	2012F
Turnover	130	140	141	169
EBITDA	20	23	30	34
Pre-tax Profit	17	20	27	31
Net Profit	14	17	23	26
Net Pft (Pre Ex.)	14	17	23	26
EPS (S cts)	5.8	6.4	7.8	8.4
EPS Pre Ex. (S cts)	5.8	6.4	7.8	8.4
EPS Gth Pre Ex (%)	(9)	9	22	8
Diluted EPS (S cts)	5.8	6.4	7.8	8.4
Net DPS (S cts)	3.0	5.0	5.0	5.0
BV Per Share (S cts)	23.8	26.0	24.6	28.0
PE (X)	11.0	10.0	8.2	7.6
PE Pre Ex. (X)	11.0	10.0	8.2	7.6
P/Cash Flow (X)	3.5	4.4	16.5	5.4
EV/EBITDA (X)	4.2	3.1	3.2	2.7
Net Div Yield (%)	4.7	7.8	7.8	7.8
P/Book Value (X)	2.7	2.5	2.6	2.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	29.2	26.5	31.1	31.9

Earnings Rev (%)			19.0	28.6
Consensus EPS (S cts)			7.0	8.9
Other Broker Recs:		B: 1	S: 0	H: 1

ICB Industry : Industrials

ICB Sector: Construction & Materials

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

Source of all data: Company, DBS Vickers, Bloomberg

## Margin expansion drives growth

- **2Q11 net profit blows estimates, up 61% y-o-y**
- **FY11/12F EPS estimates raised by 19-29% on higher gross margin assumptions**
- **Upgrade to BUY with higher TP of S\$0.80; catalysts likely from M&A activities and investment of surplus cash in new or related businesses**

**Results beat our estimates handsomely.** 2Q11 net profit of S\$6.9m was surprisingly strong – up 61% y-o-y and 32% q-o-q. This came on the back of slightly lower than expected revenues of S\$28.3m (down 29% y-o-y and 14% q-o-q) and was largely driven by expanding margins. OKP recorded gross margin of 39.4% in 2Q11, compared to 26.7% in 1Q11 and 16.5% in 2Q10, as a result of revenue recognition from the higher margin design-and-build projects like the CTE expansion project.

**Higher earnings growth trajectory likely.** While the quantum of 2Q11 gross margin is one-off in nature and margins will normalise over the year, we still expect them to record better margins in FY11/12 compared to prior years as more design-and-build projects contribute. On the back of higher margin assumptions, we revise up our earlier conservative FY11/12 EPS estimates by 19% and 28.6%, respectively. Our revenue projections are backed by OKP's S\$382m gross outstanding orderbook and OKP has already secured about S\$104m of new orders YTD in FY11 (60% of our new order assumptions).

**Upgrade to BUY.** Given the healthy 15% EPS CAGR over FY10-12, we upgrade the stock to BUY with TP revised up to S\$0.80, based on 1) 7x FY11/12 blended PE for its recurring business and ii) estimated S\$0.23 per share surplus cash. OKP currently has about S\$97m net cash on its books (S\$0.32 per share), and dividend yield looks attractive at about 7.7%. Interim dividend of 1Sct (in line with FY10) has already been declared. Re-rating catalysts could come from deployment of surplus cash towards M&A activities to drive vertical integration, or even towards investments in property developments.

### At A Glance

Issued Capital (m shrs)	304
Mkt. Cap (S\$m/US\$m)	195 / 162
Major Shareholders	
Kim Peow Investment (%)	55.4
China Sonangol (%)	9.2
Free Float (%)	35.4
Avg. Daily Vol. ('000)	3,018

## Results Summary and Comments

FY Dec (\$m)	2Q10	2Q11	y-o-y Chg	1H10	1H11	y-o-y Chg
Sales	39.8	28.3	-29%	73.7	61.1	-17%
Cost of Goods Sold	(33.2)	(17.1)	-48%	(61.3)	(41.2)	-33%
Gross Profit	6.6	11.2	70%	12.4	19.9	61%
Other Operating Income	0.1	0.2	321%	0.1	0.4	198%
<i>Distribution Costs</i>	0.0	0.0		0.0	0.0	
<i>Administration Expenses</i>	(1.4)	(3.0)	113%	(3.0)	(5.4)	80%
<i>R &amp; D and other expenses</i>	0.0	(0.0)		0.0	(0.1)	
Other Operating Expenses	(1.4)	(3.0)	116%	(3.0)	(5.5)	83%
EBIT	5.2	8.4	60%	9.5	14.8	56%
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)	-32%	(0.1)	(0.1)	-18%
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	5.2	8.3	60%	9.4	14.7	56%
Tax	(0.9)	(1.4)	60%	(1.6)	(2.6)	59%
Minority Interests	0.0	0.0	100%	0.0	0.0	
Net Profit	4.3	6.9	61%	7.8	12.1	56%
<b>Margins (%)</b>						
Gross Margin	16.5	39.4		16.8	32.6	
SGA % Sales	3.5	10.7		4.1	9.0	
EBITDA Margin	14.7	32.2		14.5	26.4	
EBIT Margin	13.2	29.6		12.9	24.2	
Pre-tax Margin	13.1	29.5		12.8	24.1	
Net Margin	10.8	24.4		10.6	19.8	

Source: Company, DBS Vickers

## Valuation Summary

Recurring business	Net profit forecast			Value	Reference
	FY11F	FY12F	PE (x)		
Based on blended FY11/12F estimates	22.5	26.0	7.0	169.7	
Weighted avg share capital (m)				290.2	
Value of OKP's recurring business (\$)				<b>0.58</b>	(1)
Net Cash (\$ m)	89.1	105.0			
Net Cash per share (\$)	0.31	0.36			
<b>Surplus net cash</b>					
Est. net cash needed to support per dollar of sustainable revenue (\$)				0.17	
FY11 Revenue (\$ m)				140.8	
Net cash needed in business (\$ m)				23.9	
Est. surplus net cash by end FY11F (\$ m)				65.1	
Weighted avg share capital (m)				290.2	
Est. surplus net cash per share by end FY11F (\$)				<b>0.22</b>	(2)
Target price for OKP (\$)				<b>0.80</b>	(1) + (2)
Implied FY11 PE (x)				10.4	
Implied FY12 PE (x)				9.6	

Source: DBS Vickers

**Key Assumptions**

FY Dec	2008A	2009A	2010A	2011F	2012F
New orders won (\$\$ m)	67.6	228.2	166.5	164.6	168.0

**Segmental Breakdown**

FY Dec	2008A	2009A	2010A	2011F	2012F
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**Revenues (\$\$ m)**

Construction	71	98	116	122	133
Maintenance	31	32	24	18	35

About 80-85% of revenues from construction segment

<b>Total</b>	<b>102</b>	<b>130</b>	<b>140</b>	<b>141</b>	<b>169</b>
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**Gross Profit (\$\$ m)**

Construction	19	16	23	31	33
Maintenance	2	7	7	3	6

<b>Total</b>	<b>21</b>	<b>23</b>	<b>29</b>	<b>34</b>	<b>40</b>
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**Gross Profit Margins**

Construction	26.7	16.6	19.8	25.0	25.0
Maintenance	7.7	22.2	27.4	18.0	18.0

Higher margins in design-and-build construction projects

<b>Total</b>	<b>20.9</b>	<b>18.0</b>	<b>21.1</b>	<b>24.1</b>	<b>23.5</b>
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**Income Statement (\$\$ m)**

FY Dec	2008A	2009A	2010A	2011F	2012F
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Revenue	102	130	140	141	169
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Cost of Goods Sold	(81)	(107)	(110)	(107)	(129)
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<b>Gross Profit</b>	<b>21</b>	<b>23</b>	<b>29</b>	<b>34</b>	<b>40</b>
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Other Opng (Exp)/Inc	(9)	(6)	(9)	(7)	(8)
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<b>Operating Profit</b>	<b>12</b>	<b>17</b>	<b>21</b>	<b>27</b>	<b>31</b>
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Other Non Opg (Exp)/Inc	0	0	0	0	0
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Associates & JV Inc	0	0	0	0	0
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Net Interest (Exp)/Inc	0	0	0	0	0
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Exceptional Gain/(Loss)	0	0	0	0	0
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<b>Pre-tax Profit</b>	<b>12</b>	<b>17</b>	<b>20</b>	<b>27</b>	<b>31</b>
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Tax	(3)	(3)	(4)	(5)	(5)
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Minority Interest	0	0	0	0	0
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Preference Dividend	0	0	0	0	0
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<b>Net Profit</b>	<b>10</b>	<b>14</b>	<b>17</b>	<b>23</b>	<b>26</b>
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Net Profit before Except.	10	14	17	23	26
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EBITDA	15	20	23	30	34
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**Growth**

Revenue Gth (%)	(18.3)	27.7	7.6	0.7	19.8
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EBITDA Gth (%)	(7.3)	34.6	18.5	27.3	13.7
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Opg Profit Gth (%)	(10.5)	39.2	19.1	32.6	14.9
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Net Profit Gth (%)	(13.3)	50.3	17.4	32.9	15.2
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**Margins & Ratio**

Gross Margins (%)	20.9	18.0	21.1	24.1	23.5
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Opg Profit Margin (%)	12.2	13.3	14.7	19.4	18.6
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Net Profit Margin (%)	9.4	11.1	12.1	16.0	15.4
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ROAE (%)	26.0	29.2	26.5	31.1	31.9
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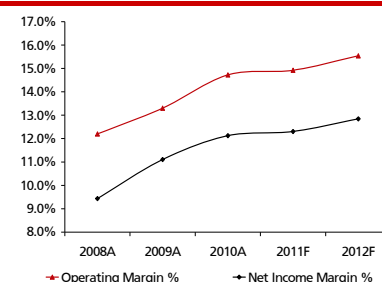
ROA (%)	12.5	14.5	12.3	14.9	16.3
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ROCE (%)	23.3	27.2	25.5	30.3	31.2
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Div Payout Ratio (%)	31.2	51.4	78.4	68.6	59.5
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Net Interest Cover (x)	64.4	93.0	136.4	180.8	304.9
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Source: Company, DBS Vickers

**Margins Trend**

17-18% effective tax rates

EPS growth is lower than net profit growth owing to dilution from warrant conversions

**OKP Holdings**

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

FY Dec	2Q2010	3Q2010	4Q2010	1Q2011	2Q2011
Revenue	40	37	30	33	28
Cost of Goods Sold	(33)	(29)	(20)	(24)	(17)
<b>Gross Profit</b>	<b>7</b>	<b>7</b>	<b>10</b>	<b>9</b>	<b>11</b>
Other Oper. (Exp)/Inc	(1)	(2)	(4)	(2)	(3)
<b>Operating Profit</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>8</b>
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
<b>Pre-tax Profit</b>	<b>5</b>	<b>6</b>	<b>5</b>	<b>6</b>	<b>8</b>
Tax	(1)	(1)	(1)	(1)	(1)
Minority Interest	0	0	0	0	0
<b>Net Profit</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>7</b>
Net profit bef Except.	4	5	5	5	7
EBITDA	6	6	6	7	9

**Growth**

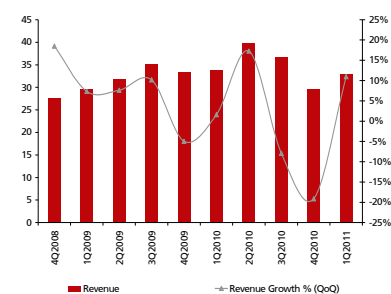
Revenue Gth (%)	17.3	(7.9)	(19.1)	11.0	(13.8)
EBITDA Gth (%)	20.4	6.8	3.1	8.7	30.2
Opg Profit Gth (%)	22.5	6.4	(0.9)	16.5	30.0
Net Profit Gth (%)	22.5	5.3	2.9	12.7	31.6

**Margins**

Gross Margins (%)	16.5	19.4	33.8	26.7	39.4
Opg Profit Margins (%)	13.2	15.2	18.6	19.6	29.6
Net Profit Margins (%)	10.8	12.3	15.7	15.9	24.4

Source: Company, DBS Vickers

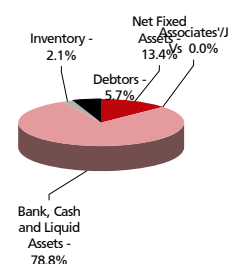
**Revenue Trend**



Exceptionally high margin in 2Q11, will normalise over following quarters

**Balance Sheet (\$\$ m)**

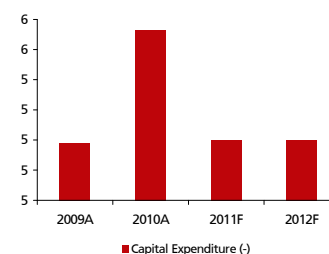
FY Dec	2008A	2009A	2010A	2011F	2012F
Net Fixed Assets	11	14	17	19	22
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	3	3	5	5	5
Cash & ST Invt	35	78	100	91	107
Inventory	2	2	3	3	3
Debtors	6	8	7	10	12
Other Current Assets	20	19	21	21	21
<b>Total Assets</b>	<b>77</b>	<b>122</b>	<b>153</b>	<b>149</b>	<b>170</b>
ST Debt	2	1	1	1	1
Other Current Liab	32	60	82	71	81
LT Debt	3	2	1	1	1
Other LT Liabilities	0	0	0	0	0
Shareholder's Equity	40	59	69	76	87
Minority Interests	1	1	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>77</b>	<b>122</b>	<b>153</b>	<b>149</b>	<b>170</b>
Non-Cash Wkg. Capital	(4)	(32)	(51)	(37)	(45)
Net Cash/(Debt)	31	75	98	89	105
Debtors Turn (avg days)	16.1	18.4	19.2	21.8	22.9
Creditors Turn (avg days)	99.4	100.5	167.3	189.5	152.4
Inventory Turn (avg days)	8.1	6.3	7.8	9.2	8.2
Asset Turnover (x)	1.3	1.3	1.0	0.9	1.1
Current Ratio (x)	1.9	1.7	1.6	1.7	1.7
Quick Ratio (x)	1.2	1.4	1.3	1.4	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(0.8)	(1.3)	(1.4)	(1.2)	(1.2)
Capex to Debt (%)	4.0	184.3	311.1	271.6	271.6
Z-Score (X)	NA	NA	NA	NA	NA

**Asset Breakdown (2010)**

Net cash can be deployed in acquisitions/ investments

**Cash Flow Statement (\$\$ m)**

FY Dec	2008A	2009A	2010A	2011F	2012F
Pre-Tax Profit	12	17	20	27	31
Dep. & Amort.	2	2	3	3	3
Tax Paid	(3)	(3)	(3)	(4)	(5)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	4	28	19	(15)	7
Other Operating CF	0	0	0	0	0
<b>Net Operating CF</b>	<b>16</b>	<b>45</b>	<b>39</b>	<b>11</b>	<b>36</b>
Capital Exp.(net)	0	(5)	(6)	(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	0	(2)	0	0
<b>Net Investing CF</b>	<b>0</b>	<b>(5)</b>	<b>(8)</b>	<b>(5)</b>	<b>(5)</b>
Div Paid	(3)	(3)	(11)	(15)	(15)
Chg in Gross Debt	(2)	(2)	(1)	0	0
Capital Issues	0	7	4	0	0
Other Financing CF	0	0	(1)	0	0
<b>Net Financing CF</b>	<b>(5)</b>	<b>3</b>	<b>(9)</b>	<b>(15)</b>	<b>(15)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	11	42	22	(9)	16
Opg CFPS (S cts)	7.9	6.9	7.7	9.0	9.4
Free CFPS (S cts)	10.4	16.0	12.5	2.2	10.2

**Capital Expenditure**

Includes special dividends paid along with final dividends

Source: Company, DBS Vickers

DBSV recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**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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