

# Singapore Company Focus

## OKP Holdings

Bloomberg: OKP SP EQUITY | Reuters: OKPH.SI  
report

Refer to important disclosures at the end of this

DBS Group Research . Equity

30 Jul 2013

**FULLY VALUED S\$0.41 STI : 3,236.97**

Price Target : 12-Month S\$ 0.35 (Prev S\$ 0.41)

Reason for Report : TP downgrade/2Q13 results

Potential Catalyst: Margin improvement and project wins

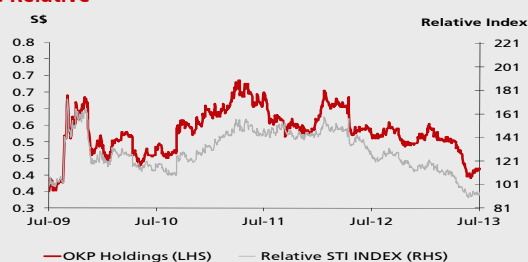
DBSV vs Consensus: Below on weaker margin outlook

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### Price Relative



### Forecasts and Valuation

FY Dec (\$\$ m)	2012A	2013F	2014F	2015F
Revenue	104	135	163	158
EBITDA	20	10	14	13
Pre-tax Profit	15	7	11	9
Net Profit	12	6	9	8
Net Pft (Pre Ex.)	14	6	9	8
EPS (S cts)	4.0	2.0	2.9	2.6
EPS Pre Ex. (S cts)	4.5	2.0	2.9	2.6
EPS Gth (%)	(56)	(51)	48	(11)
EPS Gth Pre Ex (%)	(50)	(57)	48	(11)
Diluted EPS (S cts)	4.0	2.0	2.9	2.6
Net DPS (S cts)	1.5	0.6	0.9	0.8
BV Per Share (S cts)	31.2	32.6	34.6	36.4
PE (X)	10.2	21.0	14.2	16.0
PE Pre Ex. (X)	9.1	21.0	14.2	16.0
P/Cash Flow (X)	nm	3.8	nm	3.2
EV/EBITDA (X)	3.8	4.5	4.8	2.8
Net Div Yield (%)	3.7	1.4	2.1	1.9
P/Book Value (X)	1.3	1.3	1.2	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	13.4	6.1	8.6	7.2

Earnings Rev (%):	(42)	(12)	na
Consensus EPS (S cts):	9.7	11.0	na
Other Broker Recs:	B: 0	S: 1	H: 1

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 Finance L.P

## Weak outlook ahead

- **2Q13 below; gross margin collapsed 16ppts on higher subcontracting costs and low margin work**
- **Gross margins to remain depressed for at least another quarter; weak visibility for project wins**
- **Cut FY13F/14F earnings by 42%/12%**
- **Maintain Fully Valued with lower TP of S\$0.35**

**2Q13 below expectations, gross margin declined by 16ppts.** 2Q13 net profit plunged 77% y-o-y, 70% q-o-q to S\$0.7m. While revenue came in at S\$30.1m (+27.5% y-o-y, -6% q-o-q), gross margins declined by 16.1ppts as a result of higher subcontracting costs and low margin work. 1H13 earnings amounted to S\$3.1m, accounting for just 30% of our previous forecast (net profit: S\$10.1m).

**Margins to be depressed for another quarter.** The collapse in margins was affected by higher subcontracting costs, in particular construction work on Angullia Park. The project was mostly subcontracted to third parties, and yielded very low margins but yet contributed close to 20% of 2Q13 revenue. Angullia Park will continue to book in revenue till next quarter and we expect margins to continue to be depressed in 3Q13 as well.

**Weak visibility for project wins.** Project rollout by the government has been slow in 1H13. To date, OKP has secured only S\$52m of contracts compared to our S\$130m project win expectations for FY13F at the start of the year. Going forward, we expect project wins to come from the low value, low margin maintenance segment from 1) slow roll out of road works by LTA as it prepares to tender out work for the Thomson Line MRT; 2) continued roll out of drainage works by PUB to address flooding issues.

**Maintain Fully Valued, TP S\$0.35.** We cut FY13F/14F earnings by 42%/12% as we expect to see weak margins for at least another quarter. Growth for FY14F will be driven by projects secured in FY12 and FY13, but we see pace of project wins slowing that will cause earnings decline in FY15F. Our SOTP-based TP is reduced to S\$0.35. Maintain Fully Valued. We will be suspending coverage on OKP.

### At A Glance

Issued Capital (m shrs)	308
Mkt. Cap (S\$m/US\$m)	126 / 99.8
Major Shareholders	
Kim Peow Investment (%)	54.8
China Sonangol (%)	14.0
Free Float (%)	31.2
Avg. Daily Vol.('000)	132

## Results Summary and Comparison

FY Dec (m)	2Q12	1Q13	2Q13	YoY Chg	QoQ Chg
Sales	23.6	32.0	30.1	27%	-6%
Cost of Goods Sold	(17.8)	(27.2)	(27.6)	55%	1%
Gross Profit	5.7	4.8	2.5	-57%	-49%
Other Operating Income	0.4	0.3	0.2	-47%	-23%
<i>Distribution Costs</i>	0.0	0.0	0.0	n/m	n/m
<i>Administration Expenses</i>	(2.4)	(2.4)	(1.9)	-22%	-22%
<i>R &amp; D and other expenses</i>	0.0	0.0	0.0	n/m	n/m
Other Operating Expenses	(2.4)	(2.4)	(1.9)	-21%	-22%
EBIT	3.8	2.8	0.8	-78%	-70%
Non-Operating Income	0.0	0.0	0.0	n/m	n/m
Interest Income	0.0	0.0	0.0	n/m	n/m
Interest Expense	(0.0)	(0.0)	(0.0)	-38%	-17%
Share of Associates' or JV Income	0.0	0.0	(0.0)	n/m	n/m
Exceptional Gains/(Losses)	0.0	0.0	0.0	n/m	n/m
Pretax Profit	3.8	2.7	0.8	-78%	-70%
Tax	(0.7)	(0.4)	(0.1)	-85%	-70%
Minority Interests	0.0	0.0	0.0	n/m	n/m
Net Profit	3.1	2.4	0.7	-77%	-70%
<b>Margins (%)</b>					
Gross Margin	24.3	15.1	8.2		
SGA % Sales	10.0	7.5	6.2		
EBITDA Margin	19.3	10.3	4.8		
EBIT Margin	16.2	8.6	2.8		
Pre-tax Margin	16.1	8.5	2.7		
Net Margin	13.1	7.4	2.4		

Source: Company, DBS Vickers

## Valuation Summary

	Net profit forecast		Value (\$m)	Per share (\$)	Reference
	FY14F	PE (x)			
Valuation based on FY14F earnings	9	7.0	62.2	0.20	(1)
Net Cash ex interest income per share (\$)			45.6	0.15	(2)
Target price for OKP (\$)				0.35	(1) + (2)

Source: Company, DBS Vickers

**Key Assumptions**

FY Dec	2011A	2012A	2013F	2014F	2015F
New orders won	152.3	137.4	87.2	140.0	160.0

Forecast declining project win assumption for Construction projects on slower roll out of roadworks by LTA as LTA focuses on MRT line construction. Increased drainage works by PUB would offset the slower pace of roadworks projects.

**Segmental Breakdown**

FY Dec	2011A	2012A	2013F	2014F	2015F
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**Revenues (\$S m)**

Construction	90	92	103	110	82
Maintenance	20	13	32	54	76

No project wins for Construction segment in 1H13, expect minimal project wins in 2H13 for construction segment as well.

**Total**

<b>110</b>	<b>104</b>	<b>135</b>	<b>163</b>	<b>158</b>
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**Gross Profit (\$S m)**

Construction	36	21	12	15	12
Maintenance	7	3	3	5	8

More PUB drainage contracts. Expect maintenance projects to contribute more to revenue. Construction revenue driven by contracts secured in FY12.

**Total**

<b>43</b>	<b>23</b>	<b>15</b>	<b>21</b>	<b>20</b>
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**Gross Profit Margins**

Construction	40.2	22.6	11.6	14.0	14.5
Maintenance	35.3	21.3	9.3	10.0	10.0

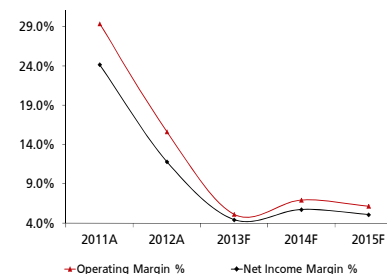
Lower margin projects ending in 3Q13.

**Total**

<b>39.3</b>	<b>22.4</b>	<b>11.1</b>	<b>12.7</b>	<b>12.3</b>
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**Income Statement (\$S m)**

FY Dec	2011A	2012A	2013F	2014F	2015F
Revenue	110	104	135	163	158
Cost of Goods Sold	(67)	(81)	(120)	(143)	(139)
<b>Gross Profit</b>	<b>43</b>	<b>23</b>	<b>15</b>	<b>21</b>	<b>20</b>
Other Opng (Exp)/Inc	(11)	(7)	(8)	(10)	(10)
<b>Operating Profit</b>	<b>32</b>	<b>16</b>	<b>7</b>	<b>11</b>	<b>10</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	(2)	0	0	0
<b>Pre-tax Profit</b>	<b>32</b>	<b>15</b>	<b>7</b>	<b>11</b>	<b>9</b>
Tax	(6)	(2)	(1)	(2)	(2)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>27</b>	<b>12</b>	<b>6</b>	<b>9</b>	<b>8</b>
Net Profit before Except.	27	14	6	9	8
EBITDA	35	20	10	14	13

**Margins Trend**

Higher revenue recognition from expressway expansion projects secured in FY12, drainage works secured in FY13.

**Growth**

Revenue Gth (%)	(21.5)	(4.9)	29.2	21.0	(3.0)
EBITDA Gth (%)	50.9	(44.2)	(46.8)	36.2	(8.4)
Opg Profit Gth (%)	56.7	(49.3)	(57.3)	54.2	(11.2)
Net Profit Gth (%)	56.7	(53.4)	(51.3)	47.5	(11.3)

Expecting slower pace of project wins in FY13 and FY14F resulting in slower revenue recognition in FY15F

**Margins & Ratio**

Gross Margins (%)	39.3	22.4	11.1	12.7	12.3
Opg Profit Margin (%)	29.4	15.7	5.2	6.6	6.0
Net Profit Margin (%)	24.2	11.8	4.5	5.4	5.0
ROAE (%)	33.8	13.4	6.1	8.6	7.2
ROA (%)	17.6	8.7	3.8	5.1	4.4
ROCE (%)	33.0	14.7	6.0	8.4	7.1
Div Payout Ratio (%)	34.5	37.4	30.0	30.0	30.0
Net Interest Cover (x)	283.0	183.8	111.0	132.6	117.8

Forecast low teens margins on higher staff, subcontracting and raw material costs.

Source: Company, DBS Vickers

## OKP Holdings

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

FY Dec	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013
Revenue	24	28	27	32	30
Cost of Goods Sold	(18)	(22)	(21)	(27)	(28)
<b>Gross Profit</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>2</b>
Other Oper. (Exp)/Inc	(2)	(2)	(2)	(2)	(2)
<b>Operating Profit</b>	<b>4</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>1</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	(2)	0	0	0
<b>Pre-tax Profit</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>1</b>
Tax	(1)	(1)	0	0	0
Minority Interest	0	0	0	0	0
<b>Net Profit</b>	<b>3</b>	<b>2</b>	<b>4</b>	<b>2</b>	<b>1</b>
Net profit bef Except.	3	4	4	2	1
EBITDA	5	6	5	3	1

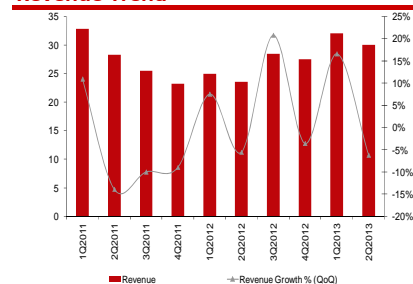
## Growth

Revenue Gth (%)	(5.5)	20.8	(3.6)	16.6	(6.2)
EBITDA Gth (%)	5.1	24.4	(19.3)	(27.6)	(56.7)
Opg Profit Gth (%)	4.3	22.3	(9.8)	(34.7)	(69.6)
Net Profit Gth (%)	1.0	(21.2)	56.0	(37.4)	(70.1)

## Margins

Gross Margins (%)	24.3	22.6	21.9	15.1	8.2
Opg Profit Margins (%)	16.2	16.4	15.3	8.6	2.8
Net Profit Margins (%)	13.1	8.5	13.8	7.4	2.4

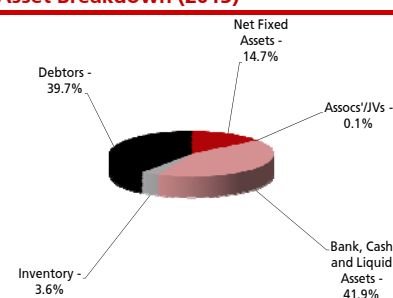
## Revenue Trend



## Balance Sheet (\$\$ m)

FY Dec	2011A	2012A	2013F	2014F	2015F
Net Fixed Assets	19	19	21	22	24
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	6	29	29	29	29
Cash & ST Invt	93	54	81	60	91
Inventory	2	4	5	6	4
Debtors	29	31	46	49	46
Other Current Assets	0	1	1	1	1
<b>Total Assets</b>	<b>148</b>	<b>138</b>	<b>183</b>	<b>167</b>	<b>195</b>
ST Debt	1	1	1	1	1
Creditor	35	19	61	36	59
Other Current Liab	23	20	19	22	22
LT Debt	0	1	1	1	1
Other LT Liabilities	1	1	1	1	1
Shareholder's Equity	88	96	101	107	112
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>148</b>	<b>138</b>	<b>183</b>	<b>167</b>	<b>195</b>
Non-Cash Wkg. Capital	(27)	(3)	(27)	(2)	(29)
Net Cash/(Debt)	91	53	79	58	90
Debtors Turn (avg days)	96.2	105.4	104.3	106.6	109.2
Creditors Turn (avg days)	274.3	126.5	124.8	127.1	127.5
Inventory Turn (avg days)	13.8	13.5	13.6	14.5	13.9
Asset Turnover (x)	0.7	0.7	0.8	0.9	0.9
Current Ratio (x)	2.1	2.3	1.7	2.0	1.8
Quick Ratio (x)	2.1	2.2	1.6	1.9	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	376.5	293.7	343.9	343.9	343.9
Z-Score (X)	3.6	3.9	2.5	3.2	2.6

## Asset Breakdown (2013)



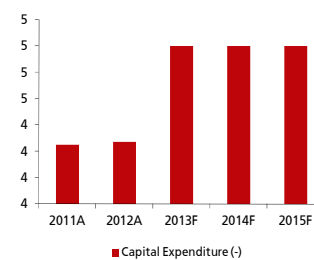
Source: Company, DBS Vickers

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

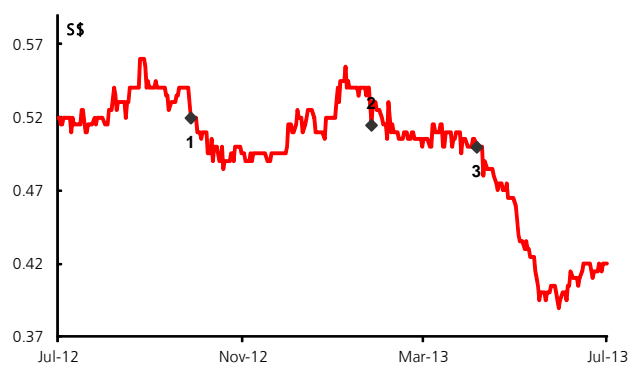
FY Dec	2011A	2012A	2013F	2014F	2015F
Pre-Tax Profit	32	15	7	11	9
Dep. & Amort.	3	3	4	4	4
Tax Paid	(3)	(5)	(2)	(1)	(2)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	(26)	(19)	25	(27)	28
Other Operating CF	0	(1)	0	0	0
<b>Net Operating CF</b>	<b>6</b>	<b>(7)</b>	<b>34</b>	<b>(13)</b>	<b>39</b>
Capital Exp.(net)	(4)	(4)	(5)	(5)	(5)
Other Invt.(net)	(1)	(20)	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	0	0	0
<b>Net Investing CF</b>	<b>(5)</b>	<b>(25)</b>	<b>(5)</b>	<b>(5)</b>	<b>(5)</b>
Div Paid	(15)	(6)	(2)	(3)	(2)
Chg in Gross Debt	(1)	(1)	0	0	0
Capital Issues	8	0	0	0	0
Other Financing CF	0	0	0	0	0
<b>Net Financing CF</b>	<b>(8)</b>	<b>(7)</b>	<b>(2)</b>	<b>(3)</b>	<b>(2)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(8)	(38)	27	(21)	32
Opg CFPS (S cts)	10.7	4.0	2.7	4.3	3.6
Free CFPS (S cts)	0.4	(3.7)	9.3	(6.0)	11.0

Source: Company, DBS Vickers

## Capital Expenditure



## Target Price &amp; Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	24 Oct 12	0.52	0.49	Hold
2:	21 Feb 13	0.52	0.49	Hold
3:	02 May 13	0.50	0.41	Fully Valued

Source: DBS Vickers

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

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

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

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