

Singapore Company Focus

OKP Holdings

Bloomberg: OKP SP EQUITY | Reuters: OKPH.SI

DBS Group Research . Equity

9 May 2012

HOLD S\$0.59 STI : 2,931.98

Downgrade from BUY

Price Target : 12-Month S\$ 0.65 (Prev S\$ 0.75)

Reason for Report : Change in earnings and TP

Potential Catalyst: Contract wins, margin sustenance

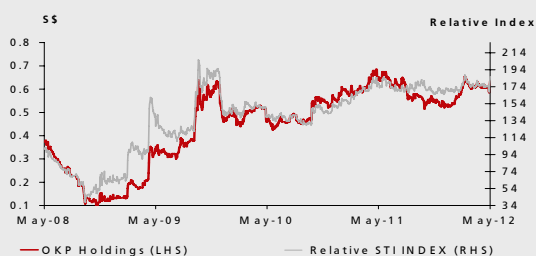
DBSV vs Consensus: Lower, on more conservative margin and order win assumptions

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (\$m)	2010A	2011A	2012F	2013F
Turnover	140	110	126	170
EBITDA	23	35	27	38
Pre-tax Profit	20	32	24	34
Net Profit	17	27	20	28
Net Pft (Pre Ex.)	17	27	20	28
EPS (S cts)	6.5	9.0	6.4	9.1
EPS Pre Ex. (S cts)	6.5	9.0	6.4	9.1
EPS Gth (%)	11	39	(29)	41
EPS Gth Pre Ex (%)	11	39	(29)	41
Diluted EPS (S cts)	6.5	9.0	6.4	9.1
Net DPS (S cts)	5.0	3.0	3.0	3.0
BV Per Share (S cts)	26.0	28.9	32.0	38.0
PE (X)	9.1	6.5	9.2	6.5
PE Pre Ex. (X)	9.1	6.5	9.2	6.5
P/Cash Flow (X)	3.9	31.5	12.9	5.1
EV/EBITDA (X)	2.4	2.3	3.5	2.0
Net Div Yield (%)	8.5	5.1	5.1	5.1
P/Book Value (X)	2.3	2.0	1.8	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	26.5	33.8	21.2	25.9

Earnings Rev (%) :		(15.8)	(7.1)
Consensus EPS (S cts) :		8.6	9.9
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

Healthy orderbook but impact not immediate

- **1Q12 earnings of S\$3.1m below estimates**
- **Risks of margin compression and slow order book delivery weighs on FY12 outlook**
- **Cut FY12F earnings by 16%; Downgrade to HOLD with lower TP of S\$0.65**

Slow start to the year. OKP reported lower than expected 1Q12 net profits of S\$3.1m, down 42% y-o-y. Revenue recognition from new projects remained slow, and gross margins also normalised down to 21% for the quarter, after the exceptional 39% average gross margins recorded in FY11 (due to variance orders and completion of a high-margin design-and-build project).

Order flow outlook is healthy. OKP has secured a large contract worth S\$75.3m from the LTA in early-2012, which accounts for almost half of our full-year FY12 order-win estimates. Current net outstanding orderbook estimates of about S\$250m makes up c.85% of our FY12F revenue estimates. We can possibly look forward to more contract wins in FY12, given that the LTA will be tendering for a few other road contracts in 2012, and the PUB will be calling for tenders for island-wide drainage works in due course as well. Building contracts from partner, China Sonangol Land, cannot be ruled out either.

Impact may not be near term; Downgrade to HOLD. Given that any further contract wins will likely be back loaded in FY12, impact on FY12 earnings may not be significant. As such, we have revised down our FY12 earnings estimate by 16% to account for timing issues of orderbook draw-down and potential margins compression, given the intense competition in the industry. Consequently, we have revised down our TP to S\$0.65 and have downgraded our call to HOLD, given limited upside at current prices. OKP ended the quarter with about S\$85m net cash (28Scts per share) and yield is decent at 5.1%, but earnings delivery may be slow in the near term, and deployment of surplus cash into any potential investments, in related areas like property development, will only yield returns in the medium- to long-term horizon.

At A Glance

Issued Capital (m shrs)	306
Mkt. Cap (S\$m/US\$m)	180 / 145
Major Shareholders	
Kim Peow Investment (%)	55.2
China Sonangol (%)	14.1
Free Float (%)	30.7
Avg. Daily Vol.('000)	478

Results Summary and Comments

FY Dec (\$m)	1Q11	4Q11	1Q12	Y-o-Y Chg	Y-o-Y Chg
Sales	32.8	23.2	25.0	-24%	8%
Cost of Goods Sold	(24.1)	(8.2)	(19.7)	-18%	141%
Gross Profit	8.8	15.0	5.2	-40%	-65%
Other Operating Income	0.1	0.3	0.7	443%	124%
<i>Distribution Costs</i>	0.0	0.0	0.0		
<i>Administration Expenses</i>	(2.4)	(3.7)	(2.2)	-9%	-41%
<i>R & D and other expenses</i>	(0.0)	(0.0)	(0.1)		
Other Operating Expenses	(2.5)	(3.8)	(2.3)	-6%	-38%
EBIT	6.4	11.6	3.7	-43%	-68%
Non-Operating Income	0.0	0.0	0.0		
Interest Income	0.0	0.0	0.0		
Interest Expense	(0.0)	(0.0)	(0.0)	-25%	4%
Share of Associates' or JV Income	0.0	0.0	0.0		
Exceptional Gains/(Losses)	0.0	0.0	0.0		
Pretax Profit	6.4	11.6	3.6	-43%	-69%
Tax	(1.2)	(2.1)	(0.6)	-50%	-72%
Minority Interests	0.0	0.0	0.0	-67%	-98%
Net Profit	5.2	9.5	3.1	-42%	-68%
Margins (%)					
Gross Margin	26.7	64.8	21.0		
SGA % Sales	7.5	16.2	9.3		
EBITDA Margin	21.6	53.6	17.4		
EBIT Margin	19.6	50.0	14.7		
Pre-tax Margin	19.5	49.9	14.6		
Net Margin	15.9	41.1	12.2		

Source: Company, DBS Vickers

Valuation Summary

	Value	Reference
Value of recurring business based on 7.0x FY12F net profit estimate (\$m)	139.0	(1)
Net est cash as of end-FY11 (\$m)	87.3	(2)
Net cash working cap needed in business (\$m)	(25.2)	(3)
Est. surplus net cash by end FY11F (\$m)	62.1	(4)=(2)-(3)
Estimated fair value (\$m)	201.1	(5)=(1)+(4)
Weighted avg share capital (m shares)	309.1	(6)
Target price for OKP (\$)	0.65	(5)/(6)

'Source: DBS Vickers estimates

Key Assumptions

FY Dec	2009A	2010A	2011A	2012F	2013F
New orders won	170.2	166.5	152.3	150.3	130.0

Segmental Breakdown

FY Dec	2009A	2010A	2011A	2012F	2013F
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Revenues (\$\$ m)

Construction	98	116	90	104	158
Maintenance	32	24	20	22	12

Conservative order win assumptions, likely to exceed

Total	130	140	110	126	170
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Gross Profit (\$\$ m)

Construction	16	23	36	28	43
Maintenance	7	7	7	5	3

Total	23	29	43	33	45
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Gross Profit Margins

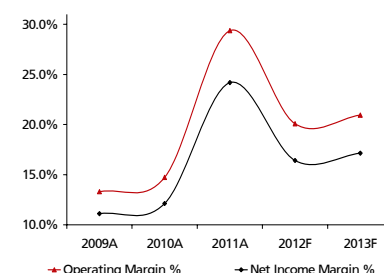
Construction	16.6	19.8	40.2	27.0	27.0
Maintenance	22.2	27.4	35.3	22.0	22.0

Higher margins from design-and-build projects

Total	18.0	21.1	39.3	26.1	26.6
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Income Statement (\$\$ m)

FY Dec	2009A	2010A	2011A	2012F	2013F
Revenue	130	140	110	126	170
Cost of Goods Sold	(107)	(110)	(67)	(93)	(125)
Gross Profit	23	29	43	33	45
Other Opng (Exp)/Inc	(6)	(9)	(11)	(9)	(11)
Operating Profit	17	21	32	24	34
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	24	34
Tax	(3)	(4)	(6)	(4)	(6)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	14	17	27	20	28
Net Profit before Except.	14	17	27	20	28
EBITDA	20	23	35	27	38

Margins Trend**Growth**

Revenue Gth (%)	27.7	7.6	(21.5)	14.7	35.0
EBITDA Gth (%)	34.6	18.5	50.9	(22.7)	38.0
Opg Profit Gth (%)	39.2	19.1	56.7	(24.6)	40.6
Net Profit Gth (%)	50.3	17.4	56.7	(25.2)	40.9

Margins & Ratio

Gross Margins (%)	18.0	21.1	39.3	26.1	26.6
Opg Profit Margin (%)	13.3	14.7	29.4	19.3	20.1
Net Profit Margin (%)	11.1	12.1	24.2	15.8	16.5
ROAE (%)	29.2	26.5	33.8	21.2	25.9
ROA (%)	14.5	12.3	17.6	13.3	16.9
ROCE (%)	27.2	25.5	33.0	21.0	25.5
Div Payout Ratio (%)	51.4	78.4	34.5	46.7	33.1
Net Interest Cover (x)	93.0	136.4	283.0	236.3	541.7

Source: Company, DBS Vickers

Net profit growth impacted by exceptionally high base in FY11 and timing of orderbook draw down; growth should resume in FY13

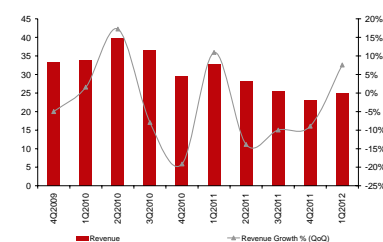
OKP Holdings

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

FY Dec	1Q2011	2Q2011	3Q2011	4Q2011	1Q2012
Revenue	33	28	25	23	25
Cost of Goods Sold	(24)	(17)	(17)	(8)	(20)
Gross Profit	9	11	8	15	5
Other Oper. (Exp)/Inc	(2)	(3)	(2)	(3)	(2)
Operating Profit	6	8	6	12	4
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	6	8	6	12	4
Tax	(1)	(1)	(1)	(2)	(1)
Minority Interest	0	0	0	0	0
Net Profit	5	7	5	10	3
Net profit bef Except.	5	7	5	10	3
EBITDA	7	9	7	12	4
Growth					
Revenue Gth (%)	11.0	(13.8)	(10.0)	(8.9)	7.6
EBITDA Gth (%)	10.1	28.5	(26.9)	86.5	(65.1)
Opg Profit Gth (%)	16.5	30.0	(29.8)	97.4	(68.4)
Net Profit Gth (%)	12.7	31.6	(29.1)	95.3	(68.0)
Margins					
Gross Margins (%)	26.7	39.4	32.4	64.8	21.0
Opg Profit Margins (%)	19.6	29.6	23.1	50.0	14.7
Net Profit Margins (%)	15.9	24.4	19.2	41.1	12.2

Source: Company, DBS Vickers

Revenue Trend

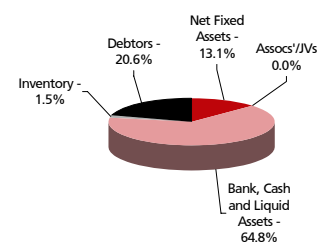


Slow draw down on new contracts

Margin pressures to stay, margins will normalise hereon

Balance Sheet (\$\$ m)

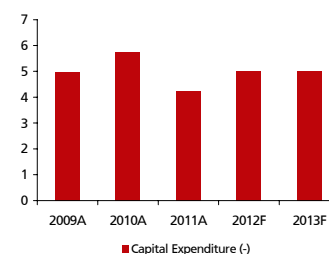
FY Dec	2009A	2010A	2011A	2012F	2013F
Net Fixed Assets	14	17	19	21	22
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	3	5	6	10	10
Cash & ST Invt	78	100	93	88	110
Inventory	2	3	2	2	3
Debtors	26	28	29	29	37
Other Current Assets	0	0	0	0	0
Total Assets	122	153	148	150	182
ST Debt	1	1	1	1	1
Other Current Liab	60	82	59	50	63
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	150	182
Non-Cash Wkg. Capital	(32)	(51)	(27)	(18)	(22)
Net Cash/(Debt)	75	98	91	87	109
Debtors Turn (avg days)	44.6	71.3	96.2	85.1	71.5
Creditors Turn (avg days)	100.5	167.3	274.3	127.1	99.8
Inventory Turn (avg days)	6.3	7.8	13.8	9.1	8.3
Asset Turnover (x)	1.3	1.0	0.7	0.8	1.0
Current Ratio (x)	1.7	1.6	2.1	2.4	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)	(0.9)	(0.9)
Capex to Debt (%)	184.3	311.1	376.5	442.9	442.9
Z-Score (X)	NA	3.3	3.3	4.6	4.4

Asset Breakdown (2011)

Strong cash hoard

Cash Flow Statement (\$\$ m)

FY Dec	2009A	2010A	2011A	2012F	2013F
Pre-Tax Profit	17	20	32	24	34
Dep. & Amort.	2	3	3	3	4
Tax Paid	(3)	(3)	(3)	(6)	(4)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	28	19	(26)	(8)	2
Other Operating CF	0	0	0	0	0
Net Operating CF	45	39	6	14	36
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	(4)	0
Net Investing CF	(5)	(8)	(4)	(9)	(5)
Div Paid	(3)	(11)	(15)	(9)	(9)
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)	(9)	(9)
Currency Adjustments	0	0	0	0	0
Chg in Cash	42	22	(7)	(4)	21
Opg CFPS (\$ cts)	6.9	7.8	10.7	7.0	10.8
Free CFPS (\$ cts)	16.0	12.8	0.4	3.0	9.9

Capital Expenditure

Source: Company, DBS Vickers

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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)

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Share price appreciation + dividends

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