

# Singapore Equity Explorer

## OKP Holdings

Bloomberg: OKP SP EQUITY | Reuters: OKPH.SI

DBS Group Research . Equity

1 Oct 2010

**BUY S\$0.47** STI : 3,097.63

(Initiating Coverage)

Price Target : 12-Month S\$ 0.70

Reason for Report : Initiating Coverage

Potential Catalyst: New contract wins

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### Price Relative



### Forecasts and Valuation

FY Dec (\$\$ m)	2008A	2009A	2010F	2011F
Turnover	102	130	137	156
EBITDA	15	20	20	24
Pre-tax Profit	12	17	18	22
Net Profit	10	14	15	18
Net Pft (Pre Ex.)	10	14	15	18
EPS (S cts)	6.4	5.8	5.6	6.8
EPS Pre Ex. (S cts)	6.4	5.8	5.6	6.8
EPS Gth Pre Ex (%)	(13)	(9)	(4)	22
Diluted EPS (S cts)	6.4	5.8	5.6	6.8
Net DPS (S cts)	2.0	3.0	3.0	3.0
BV Per Share (S cts)	26.8	23.8	24.8	28.6
PE (X)	7.3	8.1	8.4	6.9
PE Pre Ex. (X)	7.3	8.1	8.4	6.9
P/Cash Flow (X)	5.9	6.9	7.2	6.1
EV/EBITDA (X)	2.7	2.1	2.2	1.4
Net Div Yield (%)	4.3	6.4	6.4	6.4
P/Book Value (X)	1.8	2.0	1.9	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	26.0	29.2	23.7	25.5

Consensus EPS (S cts): 6.1 7.2

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

## All roads point north

- **Key player in road works in Singapore, expanding into oil & gas projects and overseas ventures**
- **Net orderbook in excess of S\$200m; we expect steady FY09-11 net profit CAGR of 12%**
- **Beneficiary of steady investments in public transport infrastructure projects in Singapore**
- **Net cash of S\$0.33 per share and secure dividend yield of 6.3%; Initiate with BUY and TP of S\$0.70**

**Record high orderbooks provide comfort.** OKP is a civil works contractor focused on the road infrastructure market in Singapore and has the capability and expertise to carry out large infrastructure projects. About 20-25% of its revenues come from fairly recurrent maintenance work, which provides a steady base load. In recent years, OKP has also won higher-margin contracts from the oil & gas sector. The Group currently sits on a gross order book of cS\$312m, of which more than S\$200m is still outstanding and will be delivered over the next 12-18 months, providing good revenue visibility.

**Multiple drivers for growth.** Going forward, we expect further earnings growth from (1) civil engineering projects led by the Land Transport Authority (LTA)'s MRT projects for Downtown Line Stage 3 and major road projects yet to be tendered, (2) more complex contracts from the oil and gas sector and (3) overseas contracts via recent strategic alliance with energy and construction conglomerate China Sonangol.

**50% upside to target price of S\$0.70.** The Group's strong cash balance of S\$87m implies secure dividends as well, and frees up capital to take on larger, more complex projects, and allows leeway to invest in new businesses, possibility even small-scale property developments. Our target price for OKP is based on 1) 7x FY11 PE for its recurring business and 2) estimated S\$0.22 per share surplus net cash. This is derived after taking into account OKP's conservative capital structure, which has resulted in the historical usage of about 17Scts per share to support a dollar of revenue. Initiate coverage with a BUY on OKP Holdings.

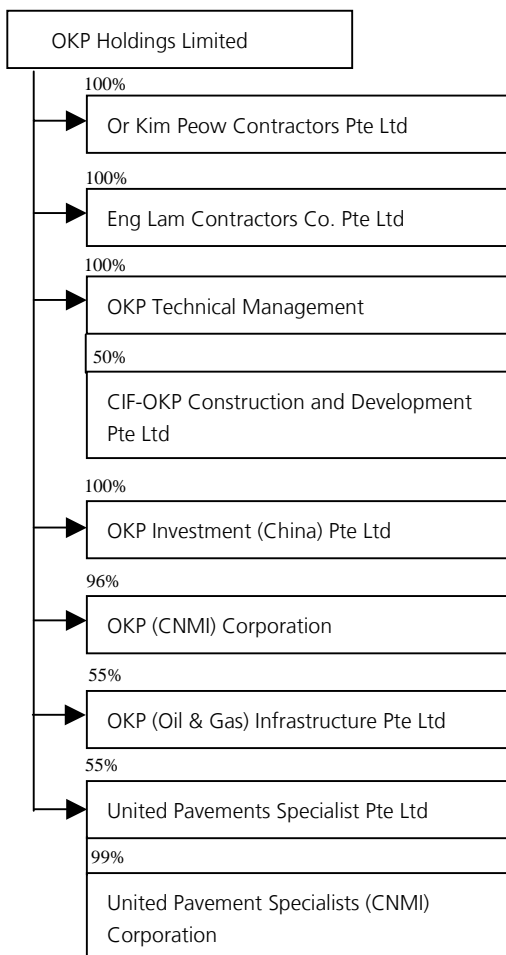
### At A Glance

Issued Capital (m shrs)	265
Mkt. Cap (S\$m/US\$m)	124 / 94.6
Major Shareholders	
Kim Peow Investment (%)	52.6
China Sonangol (%)	8.5
Free Float (%)	33.5
Avg. Daily Vol.('000)	149

**The Business Model**

**Long track record in construction business.** Listed on the SESDAQ (now renamed Catalist) since 26 July 2002, OKP Holdings Limited (“OKP”) was upgraded to the SGX Mainboard with effect from 25 July 2008. The history of OKP dates back to 1966, when Mr Or Kim Peow, the founder and Chairman, established Or Kim Peow Contractor – a sole proprietorship – to engage in civil engineering activities. OKP Holdings is also the holding company of Eng Lam Contractors Co Pte Ltd (“EL”) and OKP technical Management Pte Ltd. EL was formed in 1983 to engage in road construction and maintenance activities, while OKPTM was incorporated in 2002 to provide technical management services to road construction companies in developing countries.

**Organisation Structure**



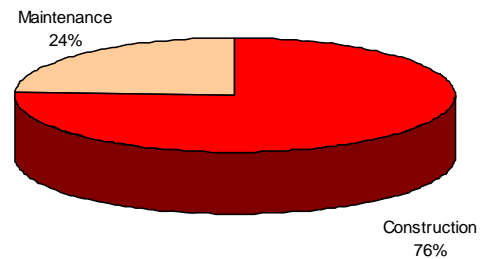
Source: Company, DBS Vickers

**The Group operates on a three-pronged strategy:**

- (i) Staying focused on its civil engineering business and continue to be a market leader in this area
- (ii) Grow its presence in the oil and gas sector to diversify risk and revenue base
- (iii) Explore overseas opportunities through strategic alliance

**Specialised in civil works for roads and surfaces.** OKP is primarily an infrastructure and civil engineering company. The civil engineering division, which includes the construction of Oil & Gas-related infrastructure for petrochemical plants and oil storage terminals, accounts for a lion’s share of OKP Holding’s topline. Over FY08-09, it contributed an approximate 70 – 75% of the company’s revenues. The remaining 25 – 30% revenue comes from the maintenance arm, which helps to provide a steady and recurring income stream for the company.

**Segmental Revenue Breakdown – FY09**

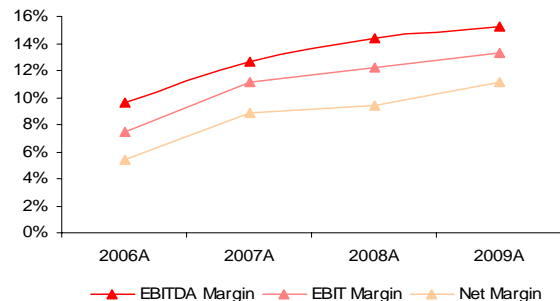


Source: Company, DBS Vickers

**Improving margin trend demonstrates market dominance.**

OKP’s tight cost control and prudent project management practices has helped it to improve gross profit margins over the last few years, even during the financial crisis in 2007-2008. OKP’s net profit margin increased from 8.9% in FY2007 to 9.3% in FY2008 and 11.1% in FY2009.

**Profit Margin**



Source: Company, DBS Vickers

## Leading road works contractor in Singapore

**Established track record.** OKP's key areas of expertise lies in the construction of airport runways, widening of expressways and the building of vehicular bridges, urban and arterial roads. In 2007, OKP was the first contractor to be awarded a contract by LTA to widen and resurface roads with special-mix asphalt for the Singapore Formula One race in 2008. OKP Holdings is currently working on a number of infrastructure projects with the largest project being the S\$119.3 million contract to widen a stretch of about 2.7km of the Central Expressway ("CTE") from the Pan Island Expressway to Braddell Interchange. The complexity of the project, which requires OKP has to minimise traffic obstruction, noise levels and disruption to the environment, further cements their position as a market leader in the road works segment.

### List of completed construction projects in 2009

Projects	Customer	Contract Size (\$m)
Widening of central expressway from Ang Mo Kio Avenue 1 to Ang Mo Kio Avenue 3	Land Transport Authority	16.9
Proposed construction of roads and infrastructure for Tukang Estate Phase 1A	Jurong Town Council	6.8
Proposed covered pedestrian overhead bridge across Tampines Expressway near Pasir Ris Blk 762 and Ikea/Courts	Land Transport Authority	3.5

Source: Company

### Glimpse of projects undertaken by OKP Holdings



Source: Company, DBS Vickers

**Sound professional capabilities.** The group's strength in the building and civil engineering field is evidenced with the numerous certifications and awards they have received over the years. OKP has ISO 9000, ISO 14000 and OHSAS 18000 certifications, which accredits OKP's quality management standards, as well as effective environmental, occupational health and safety management system. OKP's key subsidiaries, EL has a BCA grading of A2, which allows them to participate in tenders of less than S\$85m in value, while OKP with a grading of A1 will be able to bid for public sector projects with unlimited value. Only 43 out of 811 civil engineering contractors share a similar capacity (A1), hence narrowing down their competition for high value projects.

### BCA Registration Requirements for A1 Rendering Limit under the Civil Engineering Category (CW02)

	OKP	BCA Requirements
Paid-up capital	S\$24 m	S\$15m
Net Worth	S\$57 m	S\$15m
Management & Development Expertise	About 70 managerial and supervisory staff. Possesses all required certifications.	24 technical and professional staffs, ISO 9001:2008. ISO 1400. OHSAS 18000/SS506 Part 1
Track Records	Last 3 years: S\$274m total construction revenue	S\$150m

Source: Company, BCA, DBS Vickers

**Solid customer base.** Key customers include various public sector agencies such as Civil Aviation Authority of Singapore, Housing & Development Board, Jurong Town Corporation, Land Transport Authority, National Parks Board, Public Utilities Board and Urban Redevelopment Authority. OKP was the winner of the Housing & Development Board Safety Award 2006. We believe OKP good track records in the public sector works will provide a stable inflow of pipeline projects for the company. Even though private sector such as Foster Wheeler Asia Pacific Pte Ltd and WorleyParsons Pte Ltd and Far East Organization, contribute a smaller piece of revenue pie, OKP continue to build a strong relationship with them. OKP received the Contractor of Month award in 2006 (Jul) and 2007 (Oct & Nov) from Foster Wheeler Asia Pacific Pte Ltd and WorleyParsons Pte Ltd.

**Contracts awarded by customer (2008 – present)**

Customers	Contract Awarded (\$m)
Land Transport Authority	256
FWP Joint Venture	22
JTC Corp	12
Public Utilities Board	35
National Parks Board	6
Urban Redevelopment Authority	3
Exxonmobil Asia Pacific Pte Ltd	1

Source: Company, DBS Vickers

**Transport Infrastructure projects will be the key driver**

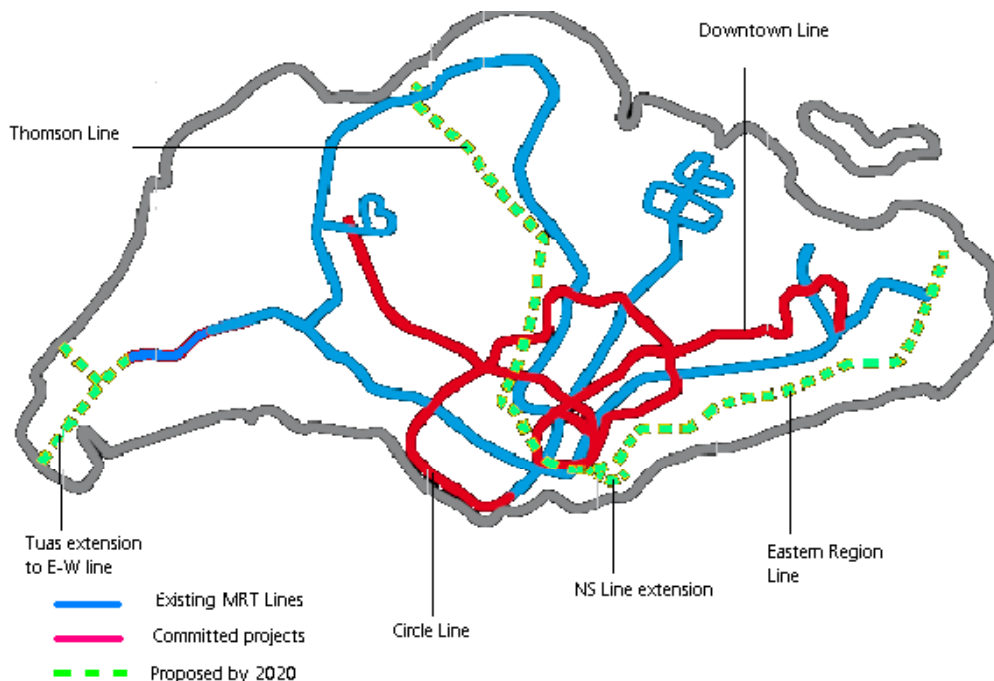
**Declining public transport mode share in recent years must be reversed.** Between 1997 and 2004, the public transport mode share during the morning peak hours has dropped from 67% in 1997 to 63% in 2004. A higher car population has generated more car trips and this will have significant implications on the environment in terms of noise, air pollution and congestion. The challenge for the Singapore Government and LTA is to reverse this trend of declining

public transport mode share and ensure that the public transport system can cater to the significant increase in daily travel demand.

The Singapore Government’s target is to increase the public transport mode share during the morning peak hours from 63% today to 70% by 2020. The LTA aims to double the number of daily public transport journeys from the current five million to almost 10 million by 2020.

**Significant investment planned in MRT projects.** In January 2008, plans were unveiled for the construction of the Downtown Line, which is currently on going, the Thomson Line and the Eastern Region Line and extensions to the existing North-South and East-West Lines. These new MRT lines will cost the Singapore Government \$20 billion, in addition to the \$20 billion, which the Singapore Government has committed for the ongoing Boon Lay Extension, the Circle Line and the Downtown Line. These new MRT lines will double Singapore’s MRT existing network from 138 km to 278 km in 2020.

**Singapore – key rail projects – ongoing and planned in 2010-20**



Source: LTA, DBS Vickers

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**Singapore – description of planned public transport projects**

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Project	Brief Description
Downtown Line	The Downtown Line, with on-going construction works, will connect the northwestern and eastern areas of Singapore to the CBD and the Marina Bay area. The 40 km line will be largely underground, to be built in three stages with a target completion date of 2017. The Downtown Line Stage 1 is targeted to be completed by 2013 and the Downtown Line Stages 2 and 3 by 2015 and 2017 respectively.
Thomson Line (27 km, 18 stations) by 2018	The Thomson Line is a new MRT line that will travel northwards from Marina Bay through the CBD to Ang Mo Kio and to Woodlands. At its preliminary planning stages, the Thomson Line will run for 27km with 18 stations with an indicative completion date in 2018. This will serve the additional public transport demand along the north-south corridor given the projected developments in the north and northeast regions. The line will improve accessibility along the corridor and help relieve crowding on the existing NSL
Eastern Region Line (21 km, 12 stations) by 2020	The Eastern Region Line will serve estates like Marine Parade, Bedok South and Upper East Coast and link these estates to Changi in the east of Singapore. Subject to detailed engineering studies, the Eastern Region Line will run for 21 km with 12 stations and has an indicative completion date of 2020.
East-West Line extension (14 km, 5 stations) by 2015	The East-West Line, which currently stops at Joo Koon, will have an extension to Tuas. In its operational stage, this extension will run for 14 km. The indicative completion date is in 2015. This will improve public transport and support employment growth in the Jurong Industrial Estate (JIE), especially for areas beyond the Boon Lay Extension.
North-South Line extension (1 km, 1 station) by 2015	The North-South Line, which currently terminates at Marina Bay, will be extended 1 km southwards into the heart of Marina Bay and will serve the upcoming developments in the area, including a new cruise terminal and Gardens by the Bay. The indicative completion date is in 2015.
North-South Highway	The North-South Expressway will be Singapore's 11th expressway and will span 21 km. It will link Woodlands and Yishun in the north to the East Coast Parkway in the south of Singapore. It will be built at an estimated total cost of \$7 billion to \$8 billion. This project is targeted for completion in 2020/21.
New Sentosa Gateway Tunnel	The new road tunnel from Sentosa Gateway to Keppel Road will meet Gateway Tunnel demands from the expected growth in traffic as a result of the continued development in the Sentosa and Harbour Front area. Construction for the Sentosa Gateway Tunnel will take place in two phases. The first phase of advanced road diversion works along the Sentosa Gateway was completed in end 2009. The second phase for construction of the road tunnel will only commence upon completion of the advance road diversion works and the engineering study. Major construction works for the road tunnel is expected to begin by 2011 and to be completed by end of 2015.

Source: LTA

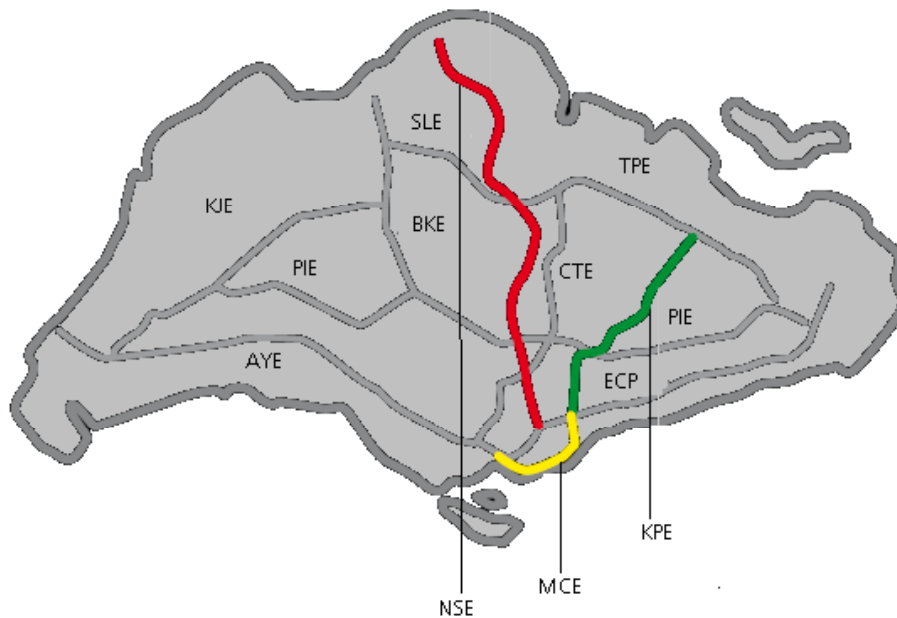
**Road infrastructure will also be improved.** Over the next 15 years, the LTA will continue to build new road infrastructure to cater to the travel demands of new employment and residential centres. The expansion of the road network will help to improve connectivity and serve new development areas such as Marina Bay, Tuas and Changi Industrial Areas.

**New expressways and upgrades to existing roads planned.**

By 2013, construction of the 5-km Marina Coastal Expressway (MCE) will be completed, which will provide high-speed access to the Marina Bay area. The Singapore

Government has also decided to construct the 21-km North-South Expressway (NSE) at an estimated cost of \$7 – \$8 billion by 2020. It will provide additional capacity to serve the increase in travel demand expected along the north-south corridor. The LTA will also undertake improvements to major roads leading out from the central to the east and west regions. These include upgrading works to expand capacity on roads that will serve the anticipated increase in traffic going to JIE and the Changi Cargo Area, extension to existing roads to improve accessibility and carrying capacity of certain road corridors such as Jalan Boon Lay.

## Singapore – key road projects – ongoing and planned in 2010-20



Source: LTA, DBS Vickers

**DTL2 and MCE contracts have already been awarded.** In 2008-09, most of the civil engineering contracts for construction of the Downtown Line Stage 2 and the Marina Coastal Expressway have been awarded, with contract values averaging in the S\$250-300m range. We estimate about S\$4 billion worth of civil works contracts have been awarded for both the DTL2 and MCE projects and some sub-contract works may still be up for grabs in the market.

**Awaiting DTL Stage 3 contracts in near term and NSE contracts in the medium term.** As to Downtown Line Stage 3, the market would be keenly awaiting the award of contracts, which is likely to happen over the next 6-12 months. Construction of DTL 3 is expected to be simpler than DTL 2, and hence average size of contracts may be

slightly smaller, but there should be at least 10 packages, which will be available for bidding. Pre-qualification of contractors for the tenders is over and initial tenders are expected before end-2010.

**OKP could form Joint Ventures to bid for MRT projects.** We note that OKP has no track record in MRT construction projects, especially tunneling works and hence, we consider it likely that they could team up with foreign partners possessing the required technology. OKP would be able to provide local knowledge, cheaper manpower and project management skills. We do not include potential MRT contracts in our projections for OKP and any award win would be an additional upside for investors.

**Singapore – key projects by LTA expected to be launched in 2H-2010 and 2011**

Project Description	Location
Proposed Extension & Reconstruction of Newton Flyover & Improvement to Newton Circus	Newton
Junction improvement at Upper Changi Road North/Changi North Street 1 and Extension of Flora Drive	Upper Changi Road North/Changi North Street 1 and Extension of Flora Drive
Widening of PIE from BKE to Adam Road	PIE from BKE to Adam Road
Widening of PIE from Clementi Avenue 6 to BKE	PIE from Clementi Avenue 6 to BKE
Widening of Yio Chu Kang Road from CTE to Jalan Kayu	Yio Chu Kang Road
Upgrading of Lower Delta Road from Kg Bahru Road to AYE	Lower Delta Road
Construction and Completion of Sentosa Gateway Tunnel from Telok Blangah Road to Kampong Bahru Road and Keppel Road	Sentosa Gateway, Telok Blangah Road, Kg Bahru Road, Keppel Road
Contract for MRT Downtown Line 3	Tampines East & Upper Changi
Contract for MRT Downtown Line 3	Tampines Central
Contract for MRT Downtown Line 3	Upper Changi
Contract for MRT Downtown Line 3	Jalan Besar
Contract for MRT Downtown Line 3	Tampines East
Contract for MRT Downtown Line 3	Bedok Town Park
Contract for MRT Downtown Line 3	Ubi & Kaki Bukit & Reception Track
Contract for MRT Downtown Line 3	Kaki Bukit
Contract for MRT Downtown Line 3	Ubi
Contract for MRT Downtown Line 3	Macpherson
Contract for MRT Downtown Line 3	Mattar
Contract for MRT Downtown Line 3	River Valley
Contract for MRT Downtown Line 3	Kallang Bahru
Contract for MRT Downtown Line 3	Tampines West
Contract for MRT Downtown Line 3	Bedok Reservoir
Contract for MRT Downtown Line 3	Sungei Road
Contract for MRT Downtown Line 3	Bencoolen
Bedok Bus Interchange	Bedok
Jurong East Bus Interchange	Jurong East

Source: LTA, DBS Vickers

**Singapore – key projects by JTC expected to be launched in 2H-2010 and 2011**

Project Description	Location
Rehabilitation of Landfill Site Area I off Tampines Road	Tampines/Hougang Area
Implementation of Very Large Floating Structure (VLFS) for Oil Products and Petrochemical Storage	Pulau Sebarok
Construction of Outlet Drain at Pulau Ayer Merbau	Jurong Island
Infrastructure Works at Demolished Seletar WRP Phase 3 Area	Seletar
Infrastructure Works at Jalan Buroh Abbatoir	Jalan Buroh
Final Premix Surfacing to Roads @ Jurong Island	Jurong Island
Roads, Drains & Sewers at Meranti Road	Jurong Island
Development of Fusionopolis Phase 2A - Tower C	Fusionopolis Way/Ayer Rajah Avenue
Development of Fusionopolis Phase 2A - Towers A & B	Fusionopolis Way/Ayer Rajah Avenue

Source: LTA, DBS Vickers

### Travelling beyond the roads of Singapore

**Diversifying revenue stream into higher-margin Oil & Gas Sector.** In 2006, the Group forayed into the Oil & Gas sector, landing their maiden project worth \$50 million of engineering works at Jurong Island, one of the world's largest independent oil storage terminals. After completing a \$44m civil works project at Jurong Island for the Foster Wheeler and WorleyParsons Joint Venture (FWP JV) in 2008, OKP was re-appointed for another \$21.7m project in 2009. In 2007, OKP Holdings incorporated a 55%-owned JV, OKP (Oil & Gas) Infrastructure Pte Ltd, to target oil, petrochemical and gas related projects in Singapore and secured three contracts in Jurong Island in the same year.

**Bidding for bigger and more complex contracts.** FWP JV is one of the contractors for ExxonMobil's Singapore Parallel Train (SPT) project. The project includes the possible construction of a new world-scale ethylene cracker, as well as downstream plants for production of ethylene/propylene derivatives. OKP's good customer relationship with FWP JV could mean more jobs on their cards. Furthermore, management could be bidding for a significant amount of overseas contracts in this sector – which if successful, could boost OKP's projected revenue and earnings growth owing to its shorter project time frame and higher margins.

#### A view of Jurong Island

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Source: DBS Vickers

**Creating synergies with strategic partners.** In April 2009, OKP entered into strategic partnership with China Sonangol International (S) Pte Ltd (CSIS), a subsidiary of China Sonangol International Limited (CSIL) through a share placement of 15m new shares, which resulted in China Sonangol effectively owning about 9% of OKP Holdings and becoming the second largest shareholder.

**Provides a foothold in the infrastructure industry in Africa.**

CSIL is a conglomerate engaged in resource investment and explorations, crude oil supply and national infrastructure construction businesses in Africa, particularly Angola. Infrastructure works by CSIL in Angola include public housing schemes in more than 10 provinces and a number of highway construction projects. We believe that via this new tied up; OKP could ramp up its visibility in other geographical locations, particularly in Africa.

**Opens the doors for building contracts as well.** In October 2009, CSIL bought a redevelopment site at Paterson Road (the former Parisian) for S\$283 million and has since then, put up a tender for the building construction works. In the building construction arena, OKP has some experience and has ties with Far East Corporation but it may not be substantial enough to be considered a serious player. However, given the ties with CSIL, we believe OKP could be among the front-runners for the building project and any future projects by CSIL.

**Strong cash position provides further options.** As at end-2Q10, the Group's net cash balance stood at S\$87.4m, with limited finance obligations, freeing up capital to fund larger projects or invest in new businesses. Management is also mulling the possibility of entering the property development market using its cash reserves, albeit on a small scale at first, including possibly minority stakes in projects. This should enable them to reap better returns on capital, and give them better visibility in the market.



## Management & Strategy

**Management team led by founder Mr. Or Kim Peow.** The founder of the company, Mr Or Kim Peow, is responsible for the overall management and strategic development of the business. He is assisted by a strong group of executives, mainly family members, including Mr. Or Toh Wat (the group

managing director), Mr Or Kiam Meng and Mr Oh Enc Nam (executive directors), who have accumulated over 15 years of experience each in the construction and civil engineering business. Mr Or Lay Huat Daniel joined in 2003 as an executive director to help the group strengthen its investors and marketing division.

## Key Management Team

Name (Age)	Appointment	Experience	Stake
Mr. Or Kim Peow, (75)	Group Chairman	<ul style="list-style-type: none"> <li>The founder of OKP</li> <li>Appointed as the Group Chairman of OKP Holdings Limited on 15 February 2002</li> <li>Has 50 years of experience in the infrastructure and civil engineering business.</li> </ul>	c.60%
Mr. Or Toh Wat, (42)	Group Managing Director	<ul style="list-style-type: none"> <li>Obtained a Diploma in Mechanical Engineering from Ngee Ann Polytechnic and a Bachelor of Applied Science (Construction Management) with Honours from the Royal Melbourne Institute of Technology.</li> <li>Appointed Group Managing Director of OKP Holdings Limited on 15 February 2002.</li> </ul>	
Mrdm Ang Beng Tin, (54)	Executive Director	<ul style="list-style-type: none"> <li>Holds GCE 'O' Levels qualification</li> <li>Join the Group in 1979 and was appointed a Director on 20 March 2002</li> <li>Has more than 35 years of experience in administration and human resource</li> </ul>	
Mr. Or Kiam Meng (45)	Executive Director	<ul style="list-style-type: none"> <li>Holds a Diploma in Building and a Certificate in Occupational Safety &amp; Health from Singapore Polytechnic.</li> <li>Joined the group in 1985 and was appointed a Director on 20 March 2002</li> </ul>	
Mr. Or Enc Nam (54)	Executive Director	<ul style="list-style-type: none"> <li>Holds a GCE 'A' Levels qualifications.</li> <li>Joined the group in 1978 and was appointed a Director on 20 March 2002</li> </ul>	
Mr. Or Lay Huat Daniel (32)	Executive Director	<ul style="list-style-type: none"> <li>Holds a Bachelor of Commerce majoring in Corporate Finance from the University of Western Australia, Perth.</li> <li>Joined the group in 2003 and was appointed a Director on 1 August 2006</li> </ul>	

Source: Company, DBS Vickers

**Gross orderbook to sales ratio of more than 2:1**

**Provides visibility over next 12-18 months.** As of latest reported date, the Group sits on a gross order book of cS\$312b, a majority of which is expected to be recognised over the next 12-18 months. We estimate outstanding orderbook could be about S\$200-220m, or about 60-70% of gross orderbook (depending on variation orders).

Among the on-going projects, the biggest contract is the S\$119.3 million contract to widen the Central Expressway from the Pan Island Expressway to Braddell Interchange. In May 2010, OKPH has secured two contracts totalling \$34.3 million to upgrade and maintain road and related facilities in the Central and North-West Region of Singapore.

**On-going projects for construction & maintenance segments**

Key Contracts in	Value (\$m)	Project	Start	End	Client
<b>Construction</b>					
30-Aug-10	1.1	Land reclamation at Jurong Island	Aug-10	Dec-10	Exxonmobil Asia Pacific Pte Ltd
22-Jul-10	6.0	Proposed Desilting of Bukit Timah Phase II Diversion Canal	Jul-10	Oct-11	Public Utilities Board
3-Mar-10	5.2	Final Premix Surfacing, Reinstatement and Auxiliary Works at Tuas View Ext Phase 1	Mar-10	Jun-11	Jurong Town Council
3-Feb-09	119.3	Widening of central Expressway From PIE to Braddell Interchange	Jan-09	Dec-11	Land Transport Authority
18-Feb-09	21.7	Selected Civil Works at Jurong Island	Jan-09	Jun-10	FWP Joint Venture
6-May-09	4.8	Road works in City Centre (Phase 3)	May-09	May-10	Land Transport Authority
17-Jun-09	5.7	Proposed Developments of 3 Park Connectors	Jun-09	Mar-10	National Parks Board
Jan-08	7.1	Construction of covered linkways, Cover to Pedestrian Overhead Bridges, and Bus Shelters	Jan-08	Jul-10	Land Transport Authority
Apr-08	28.5	Widening Of Eunos Link and Jalan Eunos from Airport Road to Sims Avenue	Apr-08	Oct-10	Land Transport Authority
Dec-08	20.8	Tanglin Halt Outlet Drain at Buona Vista	Dec-08	Dec-10	Land Transport Authority
<b>Maintenance</b>					
5-May-10	19	Ad hoc Repairs and upgrading of roads II	May-10	Aug-13	Land Transport Authority
5-May-10	15	Ad hoc Repairs and upgrading of roads III	May-10	Aug-13	Land Transport Authority
15-Jan-09	15	Improvement to roadside drains EUP Batch 5 Contract - Opera and East View Garden Estates	Jan-09	Jan-11	Public Utilities Board
18-May-09	3	Proposed Environmental Improvements Works at Siglap Village and Upper Serangoon Road along the Canal at Kampong Sireh	May-09	May-10	Urban Redevelopment Authority
7-Apr-08	13	Painting and Cleansing of Road related facilities in East Sector for a period of two years	Apr-08	Mar-10	Land Transport Authority
28-Apr-08	13	Ad Hoc Repairs and up grading of roads and road related facilities in Central Sector	Apr-08	Apr-10	Land Transport Authority
15-May-08	14	Improvement to roadside drains III western Sector Contract 3 - Chin Bee Road and Gul Circle	May-08	Sep-10	Public Utilities Board

Source: Company, DBS Vickers

## Segmental Analysis

**Steady base-load from maintenance segment.** Historically, OKP Holdings has derived about 20-30% of annual revenue from the maintenance segment, with the rest coming from construction contracts. We expect the order flow from construction contracts, while growing, will remain lumpy whereas the maintenance segment should continue to see stable contract flows from various public agencies like the LTA, PUB, Nparks and JTC.

**Oil & Gas construction projects offer better margins.** Civil works undertaken for the oil & gas sub-segment are generally more complex than road works, and hence command better gross margins.

**We expect S\$150-200m of order wins over the next 15-18 months.** OKP Holdings currently has a gross orderbook of

close to S\$312m, of which about 60-70% is still outstanding at this point. The Group has won about S\$47m of new orders YTD in 2010, including S\$34m of maintenance contracts. We expect more public as well as private sector oil and gas contracts to flow over the next 2 years and assume new orders of about S\$80m in rest of 2010 and another S\$120m in FY11.

### Currently bidding for contracts worth a few hundred millions.

The Group is actively engaged in bidding for new road work and other civil works contracts, and while its success rate in winning these contracts has been fairly difficult to predict in the past, it should end up winning a fair percentage of these, given its track record. Additional upside could come from potential MRT-related contracts, if it is able to bid successfully for the DTL 3 contracts – expected to be awarded over the next 6-12 months.

## Segmental Analysis

FY Dec	2008A	2009A	2010F	2011F
<b>Revenues (S\$ m)</b>				
Construction	71	98	105	126
Maintenance	31	32	32	30
<b>Total</b>	<b>102</b>	<b>130</b>	<b>137</b>	<b>156</b>
<b>Gross Profit (S\$ m)</b>				
Construction	19	16	19	23
Maintenance	2	7	5	5
<b>Total</b>	<b>21</b>	<b>23</b>	<b>24</b>	<b>28</b>
<b>Gross Profit Margins (%)</b>				
Construction	26.7	16.6	18.0	18.0
Maintenance	7.7	22.2	16.0	16.0
<b>Total</b>	<b>20.9</b>	<b>18.0</b>	<b>17.5</b>	<b>17.6</b>

Source: Company, DBS Vickers

## Key Assumptions

FY Dec (S\$ m)	2008A	2009A	2010F	2011F
Initial orderbook	202.0	167.8	266.0	255.6
New orders won	67.6	228.2	126.5	120.0
Closing orderbook	167.8	266.0	255.6	219.2

Source: Company, DBS Vickers estimates

## Quarterly / Interim Performance

**Record sales in 2Q-10.** Buoyed by the record orderbook levels, largely driven by the mega CTE contract for road widening between PIE and Braddell Road, OKP has been reporting steadily improving revenues over the past few quarters. Quarterly revenue run-rate is currently around the S\$35-40m range.

**Margins hold steady.** Gross margins are relatively stable at around 16-18%, while operating margins range around 13-14%. The variation from quarter to quarter is largely due to mix of projects completed. With the group's good cost management record, we expect margins to remain stable going forward.

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

FY Dec	3Q2009	4Q2009	1Q2010	2Q2010
Turnover	35	33	34	40
Cost of Goods Sold	(29)	(26)	(28)	(33)
<b>Gross Profit</b>	<b>6</b>	<b>8</b>	<b>6</b>	<b>7</b>
Other Oper. (Exp)/Inc	(1)	(3)	(2)	(1)
<b>Operating Profit</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>5</b>
Other Non Oper. (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>5</b>
Tax	(1)	(1)	(1)	(1)
Minority Interest	0	0	0	0
<b>Net Profit</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>
Net profit bef Except.	4	4	4	4
EBITDA	6	5	5	6
Sales Gth (%)	10.2	(5.0)	1.6	17.3
EBITDA Gth (%)	11.7	(15.0)	2.8	20.4
Operating Profit Gth (%)	11.0	(14.4)	1.7	22.5
Net Profit Gth (%)	10.5	(9.3)	(3.6)	22.5
Gross Margins (%)	17.6	22.8	17.1	16.5
Operating Margins (%)	14.0	12.6	12.6	13.2
Net Profit Margins (%)	11.4	10.9	10.3	10.8

Source: Company, DBS Vickers

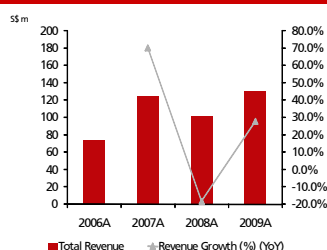
## Financials – Income Statement

### Historic Performance – Trends and Key drivers.

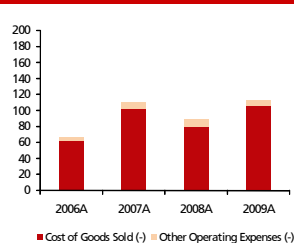
OKP's fortunes took off in 2007, when it registered 70.1% revenue growth and a staggering 178.9% net profit growth on the back of the strong public and private construction demand. However, with the slowdown in new orders in 2008, FY08 saw a dip of 18.3% in net profit which subsequently grew by 27.7% in 2009.

**FY10/11 growth will be steady.** FY2010 net profit is likely to grow by a subdued 2.5% due to lower contract wins between 3Q09 and 1Q10, in line with a brief lull in public projects. However, we expect stronger 22% net profit growth in FY11 as the public sector civil engineering works pick up momentum and more overseas and oil & gas contracts come in.

Sales Trend



Operating Cost Trend



Profitability Trend



FY Dec (\$\$ m)	2006A	2007A	2008A	2009A	2010F	2011F
Turnover	73	125	102	130	137	156
Cost of Goods Sold	(63)	(103)	(81)	(107)	(113)	(129)
<b>Gross Profit</b>	<b>10</b>	<b>22</b>	<b>21</b>	<b>23</b>	<b>24</b>	<b>28</b>
Other Opg (Exp)/Inc	(5)	(6)	(9)	(6)	(6)	(6)
<b>Operating Profit</b>	<b>5</b>	<b>14</b>	<b>12</b>	<b>17</b>	<b>18</b>	<b>22</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>5</b>	<b>14</b>	<b>12</b>	<b>17</b>	<b>18</b>	<b>22</b>
Tax	(1)	(3)	(3)	(3)	(3)	(3)
Minority Interest	0	0	0	0	0	0
Preference Dividend	0	0	0	0	0	0
<b>Net Profit</b>	<b>4</b>	<b>11</b>	<b>10</b>	<b>14</b>	<b>15</b>	<b>18</b>
Net profit before Except.	4	11	10	14	15	18
EBITDA	7	16	15	20	20	24.2
Sales Gth (%)	N/A	70.1	(18.3)	27.7	5.4	14.2
EBITDA Gth (%)	N/A	125.6	(7.3)	34.6	2.5	19.4
Operating Profit Gth (%)	N/A	154.1	(10.5)	39.2	2.6	22.1
Net Profit Gth (%)	N/A	178.9	(13.3)	50.3	2.4	22.3
Gross Margins (%)	14.3	17.5	20.9	18.0	17.5	17.6
Opg Margins (%)	7.5	11.1	12.2	13.3	13.0	13.9
Net Profit Margins (%)	5.4	8.9	9.4	11.1	10.8	11.6
% of Opg Expenses to Sales	6.8	6.4	8.7	4.7	4.6	3.8
Effective Tax Rate (%)	24.2	19.9	22.0	15.6	16.0	16.0

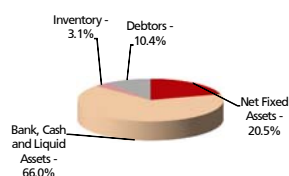
Source: Company, DBS Vickers

## Financials – Balance Sheet

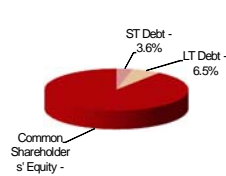
**Conservative capital structure.** With no debt on its balance sheet, OKP is still able to derive 29% ROC. Cash reserves have increased from S\$12m in FY06 to S\$87m at the end of

2Q10. This allows management the flexibility to enter into more complex projects or pursue new business strategies to spur growth.

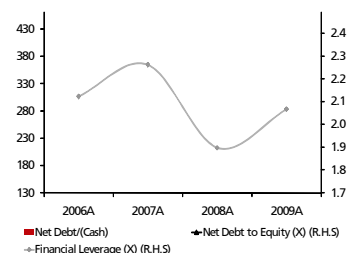
Breakdown of Assets (2009)



Breakdown of Capital (2009)



Financial Leverage &amp; Net Debt to Equity



FY Dec (\$\$ m)	2006A	2007A	2008A	2009A	2010F	2011F
Net Fixed Assets	8	11	11	14	16.1	19
Invt in Assocs & JVs	0	0	0	0	0	0
Other LT Assets	2	3	3	3	3	3
Cash & ST Invt	15	25	35	78	83	93
Inventory	1	2	2	2	2	3
Debtors	4	3	6	8	26	32
Other Current Assets	18	33	20	19	19	19
<b>Total Assets</b>	<b>48</b>	<b>77</b>	<b>77</b>	<b>122</b>	<b>149</b>	<b>168</b>
ST Debt	1	1	2	1	1	1
Other Current Liab	23	39	32	60	80	89
LT Debt	1	2	3	2	2	2
Other LT Liabilities	0	0	0	0	0	0
Shareholder's Equity	23	34	40	59	66	76
Minority Interests	0	1	1	1	1	1
<b>Total Cap. &amp; Liab.</b>	<b>48</b>	<b>77</b>	<b>77</b>	<b>122</b>	<b>149</b>	<b>168</b>
Total Debt	2.3	3.8	4.2	2.7	2.7	2.7
Net Cash / (Debt)	12	21	31	75	81	91
<b>Coverage Ratios (x)</b>						
Net Interest Cover	52.0	101.3	64.4	93.0	121.4	148.3
Free Cashflow to interest Exp	21.3	64.5	65.4	197.1	38.0	69.4
<b>Leverage Analysis (x)</b>						
EBITDA Gross Interest Cover	66.8	115.5	76.0	106.2	138.5	165.4
Total Debt to EBITDA	0.3	0.2	0.3	0.1	0.1	0.1
Total Debt to Total Assets	0.0	0.0	0.1	0.0	0.0	0.0
Total Debt to Capital	0.1	0.1	0.1	0.0	0.0	0.0
Net Debt to Equity	CASH	CASH	CASH	CASH	CASH	CASH
Net Debt to Equity ex MI	(0.5)	(0.6)	(0.8)	(1.3)	(1.2)	(1.2)
Capex to Debt	0.5	0.5	0.0	1.8	1.9	1.9
<b>Liquidity Analysis (x)</b>						
Cash Ratio	0.6	0.6	1.1	1.3	1.0	1.0
Current Ratio	1.6	1.6	1.9	1.7	1.6	1.6
Quick Ratio	0.8	0.7	1.2	1.4	1.3	1.4

Source: Company, DBS Vickers

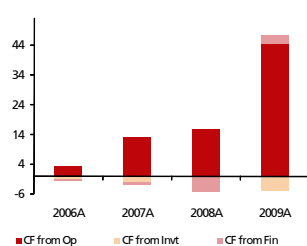
## Financials – Cash Flow

**High cash generative business.** The Group has managed to control working capital requirements well, resulting in sustained positive operating cash flows over the years, a trend we expect to continue.

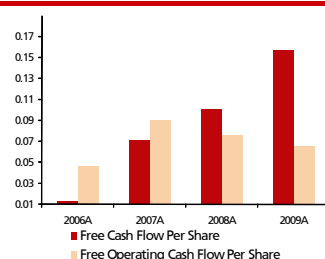
**Low capex needs.** Much of the Group's requirements of machinery and equipment is already in and we do not foresee significant capex over FY10/11 unless it wins MRT construction projects.

**Good dividend prospects.** The group has started paying dividends since FY07 and in FY09, paid out roughly 50% of net profit, or 3.05cts per share. We expect another 3.05cts dividend at least for FY10, of which 1.05ct has already been paid out as interim dividend. Based on projected growth in earnings in future, we believe the dividend amount may be increased, if management finds no other alternative use for the cash.

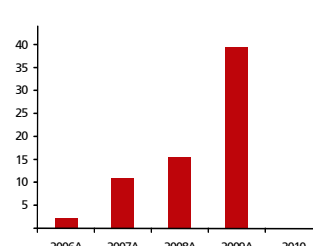
### Cash Flow Trend



### Free Cash Flow Per Share



### Free Cash Flow As At Year End



FY Dec (\$ m)	2006A	2007A	2008A	2009A	2010F	2011F
Pre-Tax Profit	5	14	12	17	18	22
Dep. & Amort.	2	2	2	2	3	3
Tax Paid	0	(1)	(3)	(3)	(3)	(3)
Assoc. & JV Inc/(loss)	0	0	0	0	0	0
Chg in Wkg.Cap.	(3)	(1)	4	28	1	2
Other Operating CF	0	(1)	0	0	0	0
<b>Net Operating CF</b>	<b>3</b>	<b>13</b>	<b>16</b>	<b>45</b>	<b>19</b>	<b>23</b>
Capital Exp.(net)	(1)	(2)	0	(5)	(5)	(5)
Other Invts.(net)	0	0	0	0	0	0
Invts in Assoc. & JV	0	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0	0
Other Investing CF	0	0	0	0	0	0
<b>Net Investing CF</b>	<b>(1)</b>	<b>(2)</b>	<b>0</b>	<b>(5)</b>	<b>(5)</b>	<b>(5)</b>
Div Paid	0	(2)	(3)	(3)	(8)	(8)
Chg in Gross Debt	(1)	(1)	(2)	(2)	0	0
Capital Issues	0	3	0	7	0	0
Other Financing CF	0	0	0	0	0	0
<b>Net Financing CF</b>	<b>0</b>	<b>(1)</b>	<b>(5)</b>	<b>3</b>	<b>(8)</b>	<b>(8)</b>
Net Cashflow	2	10	11	42	6	10
Opg CFPS (S cts)	4.9	9.4	7.9	6.9	6.5	8.0
Free CFPS (S cts)	1.6	7.4	10.4	16.0	5.1	6.8

Source: Company, DBS Vickers

## Valuation

**50% upside to target price of S\$0.70.** Our target price of S\$0.70 for OKP is based on: 1) S\$0.48 value for its recurring business, at 7x FY11 PE for its construction and maintenance business (ignoring a potentially higher multiple for the less volatile maintenance segment), and 2) Estimated S\$0.22 surplus net cash per share.

**Conservative methodology.** The PE multiple ascribed to OKP's recurring business is in line with peer average. The surplus cash per share is derived after taking into account OKP's conservative capital structure, which has resulted in its historical usage of about 17 Scents per share of net cash to support a dollar of revenue (up to FY07, after which management has saved surplus cash).

**Initiate with BUY.** We believe that the surplus cash methodology is a more accurate and conservative measure of OKP's balance sheet strength (ex-recurring business needs), vs. the simple ex-cash PE valuation methodology.

The TP of S\$0.70 implies a FY11 PE of 10.3x, in line with OKP's historical mid-to-early peak cycle valuations. Hence, we initiate coverage with a BUY on OKP Holdings.

**Looks cheap on simple ex-cash basis.** At first glance, OKP looks to be trading almost at par to the average peer valuations. However, about 70% of OKP's current market cap is backed by cash of S\$87.4m (or about S\$0.33 per share), which means that OKP is actually trading at about 2-2.5 times simple ex-cash PE. Even including the cash needed for recurring business needs, OKP trades at 3.7x FY11 earnings, and could thus be considered cheap relative to peers.

**Despite better margins, zero debt and high dividend yield.** As evident from the table that follows, OKP is able to derive better operating margins than other construction peers and this results in superior ROE and ROA despite the absence of any leverage on its balance sheet. OKP's potential secure dividend yield of 6.4% also compares very favourably with peers.

### Sum-of-the-parts valuation methodology for OKP

Recurring business	Net profit estimates		PE (x)	Value	Reference
	FY10F	FY11F			
Total value (S\$ m)	14.8	18.1	7.0	126.6	
Diluted Share capital (m)				265	
Value of OKP's recurring business (S\$)				<b>0.48</b>	(1)
Implied FY11 PE (x)				7.0	
Net Cash (S\$ m)	80.5	88.0			
Net Cash per share (S\$)	0.30	0.33			

Surplus net cash	FY06	FY07	FY08	FY09	FY10F	
Net cash (S\$ m)	12.4	21.1	31.2	75.0	23.3	
Revenue (S\$ m)	73.3	124.7	101.8	130.0	137.0	
Est. net cash needed to support per dollar of sustainable revenue (S\$)	0.17	0.17	0.31	0.58	0.17	
Est. surplus net cash by end FY10F (S\$ m)					57.3	
Est. surplus net cash per share by end FY10F (S\$)					<b>0.22</b>	(2)
Target price for OKP (S\$)					<b>0.70</b>	(1) + (2)
Implied FY11 PE (x)					10.3	

Source: DBS Vickers



## Peer Valuations

Company	Price (Local \$)	Mkt Cap (\$m)	CY10 PE	CY11 PE	P/B	ROE (%)	ROA (%)	Net debt to equity	Opg Margin
Chip Eng Seng	0.39	260.3	N/A	N/A	0.9	34.0	13.2	14.5	-2.2
Tiong Seng	0.265	203.0	6.6	5.4	1.6	21.7	7.6	6.3	11.5
CSC Holdings	0.165	202.5	7.3	6.6	1.1	14.1	6.3	15.0	8.8
Wee Hur Holdings	0.54	203.0	11.0	7.9	3.4	36.1	15.8	Cash	9.6
Lian Beng	0.3	158.9	5.4	5.2	1.1	18.1	6.3	16.6	8.3
Hock Lian Seng	0.3	153.0	N/A	N/A	2.1	39.5	14.2	Cash	10.1
Koh Brothers	0.21	100.7	N/A	N/A	0.6	6.9	1.9	132.5	5.7
BBR Holdings	0.245	75.5	5.1	5.4	1.1	24.3	6.4	15.0	2.7
<b>Average</b>			<b>7.1</b>	<b>6.1</b>	<b>1.5</b>	<b>24.3</b>	<b>9.0</b>	<b>33.3</b>	<b>6.8</b>
OKP Holdings	0.47	124.5	8.4	6.9	2.0	29.2	14.5	Cash	13.0

Source: Company, DBS Vickers

## Key Risks

**Margins subject to fluctuations in raw material.** Raw materials such as steel and other materials, equipment and components accounted for approximately 10 - 15% of costs of sales. Hence, any sudden steep rise in raw material prices could likely impact the group negatively. However, the impact is minimized as the Group has appropriate hedging policies in place.

**Mismanagement in sub-contractors could impact financial performance.** Sub-contractors' work accounted for c.50% of OKP total cost of work in FY2009, which are mostly for putting up signage, piling and structural works. Mismanagement in sub-contractors could result in delays in the work schedule, poor quality work and cost overruns. However, we understand that OKP has maintained good relations with the sub-contractors over the years and there is also a group of experienced in-house project managers to ensure that deadlines and specifications are adhered to.

**Volatility in revenue.** OKP's revenue can be volatile as revenue recognition is contract-based, which may be lumpy and unpredictable.

**Cyclical in nature.** Construction and infrastructure projects are cyclical in nature and will be affected by the health of the economy. In economic downturn, infrastructure projects may be shelved or scaled down.

**Intense competition in the construction industry.** The local construction industry is highly competitive. While OKP ranks highly amongst its peers with BCA's A1 rating in the civil engineering arena, it continues to face stiff competition from peers in bidding for tenders and could face price under-cutting pressure from them. OKP might have to bid for contracts at lower margins, thus leading to lower profitability.

**Warrants exercise could dilute earnings slightly.** In January 2010, the Group issued about 61.8m warrants (about 25% of existing share cap), exercisable at a strike price of S\$0.20 any time before January 2013. The intention was to finance future investments and working capital needs with the proceeds from the exercise of warrants. About 17m warrants have been exercised to date, but with key shareholders (management + China Sonangol) holding about 90% of the remaining 44m warrants, we only factor in exercise of about 5m warrants in the near-term. Further fund-raising exercise is unlikely in the near term, barring any significant new business activity.

DBSV recommendations are based on an 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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