Margins, order wins below expectations

- **Headline 3Q12 earnings of S$2.4m were below expectations on slower order wins, higher costs and provisions**
- **FY12F/FY13F earnings cut by 34%/14% on slower order wins, lower margins**
- **Maintain HOLD with lower TP of S$0.49, forecast dividend yield of 3.7% no longer attractive**

Order wins have lagged expectations this year. Headline 3Q12 earnings of S$2.4m (-50% y-o-y) was below expectation due to slower than expected order wins, higher labour costs and a one off provision of S$1.4m on doubtful receivables. Our initial order win expectation for FY12F was S$148m, but as order wins have come in slower than expected, we now expect FY12F order wins to be c.S$138m (7% lower).

**Trim margins on slower project rollouts, labour costs.** We believe slower project rollout by the government has caused tenders to be more competitive. Together with higher labour costs due to labour shortage in the market, we trim our FY13F gross margin assumptions from 26% to 25%. Our FY13F net profit is hence reduced by 14%. (FY12, -34% on slower order wins, lower margins)

**Maintain S$130m order win assumption for FY13F on robust project pipeline.** Industry project pipeline remains robust in FY13F. Work on the S$18bn Thomson MRT line is due to commence next year. Other projects commencing include North South Expressway, and road improvement works on Leonie Road/Bukit Brown. OKP already has an outstanding order book of S$346m (>3x book to bill) as of 3Q12, keeping it busy till FY14F. With a robust project pipeline and strong order book, our FY13F/FY14F order wins assumption stand at S$130m each.

**Maintain Hold with lower TP of S$0.49.** With forecast earnings expected to drop by 53% in FY12F, we cut our TP to 49cts. Dividend yield is no longer attractive at a forecast 3.7% for FY12. Maintain HOLD.
## Results Summary and Comparison

<table>
<thead>
<tr>
<th>FY Dec (m)</th>
<th>3Q11</th>
<th>2Q12</th>
<th>3Q12</th>
<th>YoY Chg</th>
<th>QoQ Chg</th>
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<tr>
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<tr>
<td>Cost of Goods Sold</td>
<td>(17.2)</td>
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<td>24%</td>
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<td>Gross Profit</td>
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<td>Administration Expenses</td>
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<td>(2.4)</td>
<td>(3.6)</td>
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<td>53%</td>
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<tr>
<td>Other Operating Expenses</td>
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<td>(2.4)</td>
<td>(3.7)</td>
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<td>56%</td>
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<tr>
<td>EBIT</td>
<td>5.9</td>
<td>3.8</td>
<td>3.2</td>
<td>-46%</td>
<td>-17%</td>
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<td>Interest Expense</td>
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<td>(0.0)</td>
<td>(0.0)</td>
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<td>-17%</td>
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<td>Share of Associates’ or JV Income</td>
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<td>0.0</td>
<td>(0.0)</td>
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<td></td>
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<tr>
<td>Exceptional Gains/(Losses)</td>
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<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Pretax Profit</td>
<td>5.8</td>
<td>3.8</td>
<td>3.1</td>
<td>-46%</td>
<td>-17%</td>
</tr>
<tr>
<td>Tax</td>
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<td>(0.7)</td>
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<td>0%</td>
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<td>Net Profit</td>
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<td>3.1</td>
<td>2.4</td>
<td>-50%</td>
<td>-21%</td>
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### Margins (%)
- Gross Margin: 32.4, 24.3, 22.6
- SGA % Sales: 10.7, 10.0, 12.9
- EBIT Margin: 23.1, 16.2, 11.1
- Pre-tax Margin: 23.0, 16.1, 11.0
- Net Margin: 19.2, 13.1, 8.5

**Source:** Company, DBS Vickers

## Valuation Summary

### Recurring business

<table>
<thead>
<tr>
<th></th>
<th>FY12F</th>
<th>FY13F</th>
<th>PE (x)</th>
<th>Value</th>
<th>Reference</th>
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### Surplus net cash

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<th>FY12 Revenue (S$ m)</th>
<th>Net cash working cap needed in business (S$ m)</th>
<th>Est. surplus net cash by end ex interest income FY12F (S$ m)</th>
<th>Weighted avg share capital (m)</th>
<th>Est. surplus net cash per share by end FY12F (S$)</th>
<th>Target price for OKP (S$)</th>
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<tr>
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<td>0.13</td>
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**Source:** Company, DBS Vickers
Key Assumptions

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<td>New orders won</td>
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Segmental Breakdown

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<td>104</td>
<td>155</td>
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<td>Gross Profit (S$ m)</td>
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<td></td>
<td></td>
<td></td>
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<td>Construction</td>
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<td>36</td>
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<td>34</td>
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<td>5</td>
<td>2</td>
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<td>Gross Profit Margins</td>
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<td></td>
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<td>40.2</td>
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<td>22.8</td>
<td>25.4</td>
<td>25.8</td>
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Income Statement (S$ m)

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<tbody>
<tr>
<td>Revenue</td>
<td>140</td>
<td>110</td>
<td>104</td>
<td>155</td>
<td>176</td>
</tr>
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<td>Cost of Goods Sold</td>
<td>(110)</td>
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<td>(130)</td>
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<td>43</td>
<td>24</td>
<td>39</td>
<td>45</td>
</tr>
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<td>Other Opng (Exp)/Inc</td>
<td>(9)</td>
<td>(11)</td>
<td>(8)</td>
<td>(10)</td>
<td>(11)</td>
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<td>32</td>
<td>16</td>
<td>29</td>
<td>34</td>
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<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Associates &amp; JV Inc</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net Interest (Exp)/Inc</td>
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<td>0</td>
<td>0</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Pre-tax Profit</td>
<td>20</td>
<td>32</td>
<td>16</td>
<td>29</td>
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</tr>
<tr>
<td>Tax</td>
<td>(4)</td>
<td>(6)</td>
<td>(3)</td>
<td>(5)</td>
<td>(6)</td>
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<td>0</td>
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<td>27</td>
<td>13</td>
<td>24</td>
<td>27</td>
</tr>
<tr>
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<td>27</td>
<td>13</td>
<td>24</td>
<td>27</td>
</tr>
<tr>
<td>EBITDA</td>
<td>23</td>
<td>35</td>
<td>19</td>
<td>33</td>
<td>37</td>
</tr>
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</table>

Growth

| Revenue Gth (%) | 7.6 | (21.5) | (5.1) | 48.6 | 13.4 |
| EBITDA Gth (%) | 18.5 | 50.9 | (46.0) | 71.8 | 13.9 |
| Opg Profit Gth (%) | 19.1 | 56.7 | (50.2) | 82.1 | 15.5 |
| Net Profit Gth (%) | 17.4 | 56.7 | (50.7) | 82.9 | 14.2 |

Margins & Ratio

| Gross Margins (%) | 21.1 | 39.3 | 22.8 | 25.4 | 25.8 |
| Opg Profit Margin (%) | 14.7 | 29.4 | 15.4 | 18.9 | 19.3 |
| Net Profit Margin (%) | 12.1 | 24.2 | 12.6 | 15.5 | 15.6 |
| ROA (%) | 26.5 | 33.8 | 14.3 | 23.4 | 23.0 |
| ROE (%) | 12.3 | 17.6 | 9.0 | 15.5 | 15.3 |
| ROCE (%) | 25.5 | 33.0 | 14.1 | 23.1 | 22.7 |
| Div Payout Ratio (%) | 78.4 | 34.5 | 47.2 | 38.7 | 33.9 |
| Net Interest Cover (x) | 136.4 | 283.0 | 156.2 | 463.8 | 535.8 |

Source: Company, DBS Vickers

Margins Trend

More earnings recognition from projects in FY13F/FY14F

Trimmed order win expectations for FY12F

Margins trimmed from 27% to factor higher costs and competitive pressures

Maintaining FY13F assumption due to robust construction pipeline in the market

Source: Company, DBS Vickers
## Quarterly / Interim Income Statement (S$ m)

<table>
<thead>
<tr>
<th>FY Dec</th>
<th>3Q2011</th>
<th>4Q2011</th>
<th>1Q2012</th>
<th>2Q2012</th>
<th>3Q2012</th>
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<tbody>
<tr>
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<td>25</td>
<td>23</td>
<td>25</td>
<td>24</td>
<td>28</td>
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<tr>
<td>Cost of Goods Sold</td>
<td>(17)</td>
<td>(8)</td>
<td>(20)</td>
<td>(18)</td>
<td>(22)</td>
</tr>
<tr>
<td>Gross Profit</td>
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<td>5</td>
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<td>6</td>
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<tr>
<td>Other Oper. (Exp)/Inc</td>
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<td>(2)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
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<td>Operating Profit</td>
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<td>4</td>
<td>4</td>
<td>3</td>
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<td>Other Non Opg (Exp)/Inc</td>
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<td>0</td>
<td>0</td>
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<td>Associates &amp; JV Inc</td>
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<td>0</td>
<td>0</td>
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</tr>
<tr>
<td>Net Interest (Exp)/Inc</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Exceptional Gain/(Loss)</td>
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<td>0</td>
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<td>0</td>
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<tr>
<td>Pre-tax Profit</td>
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<td>10</td>
<td>3</td>
<td>3</td>
<td>2</td>
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<td>3</td>
<td>3</td>
<td>2</td>
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<tr>
<td>EBITDA</td>
<td>7</td>
<td>12</td>
<td>4</td>
<td>5</td>
<td>4</td>
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### Growth

- **Revenue Gth (%)**
  - 3Q2011: (10.0)
  - 4Q2011: (8.9)
  - 1Q2012: 7.6
  - 2Q2012: (5.5)
  - 3Q2012: 20.8

- **EBITDA Gth (%)**
  - 3Q2011: (26.9)
  - 4Q2011: 86.5
  - 1Q2012: (65.1)
  - 2Q2012: 5.1
  - 3Q2012: (8.5)

- **Opg Profit Gth (%)**
  - 3Q2011: (29.8)
  - 4Q2011: 97.4
  - 1Q2012: (68.4)
  - 2Q2012: 4.3
  - 3Q2012: (17.0)

- **Net Profit Gth (%)**
  - 3Q2011: (29.1)
  - 4Q2011: 95.3
  - 1Q2012: (68.0)
  - 2Q2012: 1.0
  - 3Q2012: (21.2)

### Margins

- **Gross Margins (%)**
  - 3Q2011: 32.4
  - 4Q2011: 64.8
  - 1Q2012: 21.0
  - 2Q2012: 24.3
  - 3Q2012: 22.6

- **Opg Profit Margins (%)**
  - 3Q2011: 23.1
  - 4Q2011: 50.0
  - 1Q2012: 14.7
  - 2Q2012: 16.2
  - 3Q2012: 11.1

- **Net Profit Margins (%)**
  - 3Q2011: 19.2
  - 4Q2011: 41.1
  - 1Q2012: 12.2
  - 2Q2012: 13.1
  - 3Q2012: 8.5

*Source: Company, DBS Vickers*

### Revenue Trend

Lower margins affected by initial material costs outlay for one of the projects.

Lower margins, provision of S$1.4m from one of the projects. Otherwise margins would be c.13%.
### Balance Sheet (S$ m)

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<td>Other Current Liab</td>
<td>82</td>
<td>59</td>
<td>45</td>
<td>56</td>
<td>61</td>
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<tr>
<td>LT Debt</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Other LT Liabilities</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
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<tr>
<td>Shareholder's Equity</td>
<td>69</td>
<td>88</td>
<td>95</td>
<td>110</td>
<td>128</td>
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<tr>
<td>Minority Interests</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Total Cap. &amp; Liab.</td>
<td>153</td>
<td>148</td>
<td>142</td>
<td>167</td>
<td>190</td>
</tr>
</tbody>
</table>

### Asset Breakdown (2012)

- Bank, Cash and Liquid Assets: 55.8%
- Inventories: 18.3%
- Associates/JVs: 0.1%
- Capital Expenditure: 0%

### Cash Flow Statement (S$ m)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<tr>
<td>Pre-Tax Profit</td>
<td>20</td>
<td>32</td>
<td>16</td>
<td>29</td>
<td>34</td>
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<td>Dep. &amp; Amort.</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
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<tr>
<td>Tax Paid</td>
<td>(3)</td>
<td>(3)</td>
<td>(6)</td>
<td>(3)</td>
<td>(5)</td>
</tr>
<tr>
<td>Assoc. &amp; JV Inc/(loss)</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>0</td>
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<tr>
<td>Chg in Wkg.Cap.</td>
<td>19</td>
<td>(26)</td>
<td>(9)</td>
<td>(3)</td>
<td>(1)</td>
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<tr>
<td>Other Operating CF</td>
<td>0</td>
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<td>0</td>
<td>0</td>
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<tr>
<td>Net Operating CF</td>
<td>39</td>
<td>6</td>
<td>5</td>
<td>27</td>
<td>31</td>
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<tr>
<td>Capital Exp.(net)</td>
<td>(6)</td>
<td>(4)</td>
<td>(5)</td>
<td>(5)</td>
<td>(5)</td>
</tr>
<tr>
<td>Other Invts.(net)</td>
<td>0</td>
<td>0</td>
<td>(5)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Invts in Assoc. &amp; JV</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Div from Assoc &amp; JV</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other Investing CF</td>
<td>(2)</td>
<td>0</td>
<td>(19)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net Investing CF</td>
<td>(8)</td>
<td>(4)</td>
<td>(28)</td>
<td>(5)</td>
<td>(5)</td>
</tr>
<tr>
<td>Div Paid</td>
<td>(11)</td>
<td>(15)</td>
<td>(6)</td>
<td>(9)</td>
<td>(9)</td>
</tr>
<tr>
<td>Chg in Gross Debt</td>
<td>(1)</td>
<td>(1)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Capital Issues</td>
<td>4</td>
<td>8</td>
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<tr>
<td>Other Financing CF</td>
<td>(1)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net Financing CF</td>
<td>(9)</td>
<td>(8)</td>
<td>(6)</td>
<td>(9)</td>
<td>(9)</td>
</tr>
<tr>
<td>Currency Adjustments</td>
<td>0</td>
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<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Chg in Cash</td>
<td>22</td>
<td>(7)</td>
<td>(30)</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Opg CFPS (S cts)</td>
<td>7.8</td>
<td>10.7</td>
<td>4.3</td>
<td>9.7</td>
<td>10.4</td>
</tr>
<tr>
<td>Free CFPS (S cts)</td>
<td>12.8</td>
<td>0.4</td>
<td>(0.1)</td>
<td>7.0</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Source: Company, DBS Vickers

### Capital Expenditure

- S$18m cash lent to property development associate
- Lower dividend expectations
Company Focus

OKP Holdings

DBSV recommendations are based 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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