

Singapore Company Focus

OKP Holdings

Bloomberg: OKP SP EQUITY | Reuters: OKPH.SI

DBS Group Research . Equity

6 Sep 2011

BUY S\$0.56 STI : 2,773.17

Price Target : 12-Month S\$ 0.80

Reason for Report : New order win

Potential Catalyst: Margin sustainability, M&A, investments

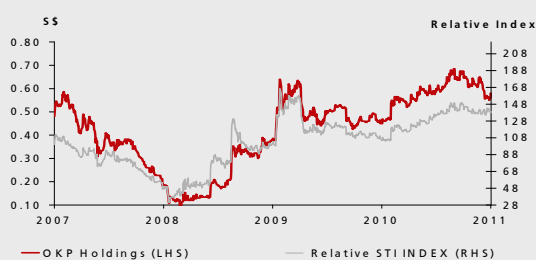
DBSV vs Consensus: Our EPS estimates are largely in line with consensus

Analyst

Suvro SARKAR +65 6398 7973

suvro@dbsvickers.com

Price Relative



Forecasts and Valuation

FY Dec (\$\$ m)	2009A	2010A	2011F	2012F
Revenue	130	140	138	164
EBITDA	20	23	30	34
Pre-tax Profit	17	20	27	31
Net Profit	14	17	22	26
Net Pft (Pre Ex.)	14	17	22	26
EPS (S cts)	5.8	6.4	7.7	8.4
EPS Pre Ex. (S cts)	5.8	6.4	7.7	8.4
EPS Gth (%)	(9)	9	21	8
EPS Gth Pre Ex (%)	(9)	9	21	8
Diluted EPS (S cts)	5.8	6.4	7.7	8.4
Net DPS (S cts)	3.0	5.0	5.0	5.0
BV Per Share (S cts)	23.8	26.0	27.4	30.7
PE (X)	9.6	8.8	7.3	6.7
PE Pre Ex. (X)	9.6	8.8	7.3	6.7
P/Cash Flow (X)	3.1	3.8	15.7	4.9
EV/EBITDA (X)	3.2	2.2	2.2	1.8
Net Div Yield (%)	5.4	8.9	8.9	8.9
P/Book Value (X)	2.4	2.2	2.0	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	29.2	26.5	29.2	28.8

Earnings Rev (%): (0.5) (0.5)
Consensus EPS (S cts): 7.7 8.7
Other Broker Recs: B: 2 S: 0 H: 0

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

High dividend, good earnings visibility

- **New orders continue to flow, and drives healthy revenue visibility in FY11/12F**
- **Net cash of S\$0.32 per share underpins dividend sustainability; currently trading at yield of 9%**
- **Maintain BUY with TP of S\$0.80**

Orders continue to flow. Last week, OKP announced its 7th contract win this year – a S\$46.8m contract from the Public Utilities Board in Singapore to improve the Alexandra Canal between Zion Road and Kim Seng Road. With this order win, OKP has won about S\$152m worth of contracts YTD in 2011, and has almost met our FY11 new order win assumption of ~S\$170m within the first 8 months of the year. We estimate current net outstanding orderbook of over S\$250m, which underpins our FY11F earnings while securing more than 60% of our FY12F revenue. Net book-to-bill ratio stands at ~1.8x.

Other business opportunities emerging. Major shareholder China Sonangol has recently agreed to buy another 15m vendor shares of OKP Holdings at a premium to the market (S\$0.66 per share), bringing its stake up to 14% and further strengthening its commitment to OKP as a partner. China Sonangol has shown serious intent in the Singapore property market through its ongoing Angullia Park project and the Amber Towers en bloc acquisition in April 2011, creating more business opportunities for OKP in building construction contracts as well as potential investment avenues.

Outperformed the STI to date. OKP has around S\$97m net cash on its books (S\$0.32 per share or 56% of its current market cap). The surplus cash hoard allows the company a buffer against any adverse market conditions, return part of it to shareholders as dividends, potentially acquire complementary businesses and/ or invest in related fields like property development. We estimate 55c total DPS in FY11/12F (including special dividends). Even if OKP were to pay out only 35c, that still translates to a decent 5.3% yield at current price. Maintain BUY with unchanged TP of S\$0.80.

At A Glance

Issued Capital (m shrs)	305
Mkt. Cap (S\$m/US\$m)	171 / 142
Major Shareholders	
Or Kim Peow Investment (%)	55.3
China Sonangol (%)	14.2
Free Float (%)	30.5
Avg. Daily Vol. ('000)	1,219

Contract win momentum continues to be strong. Last week, OKP announced its 7th contract win this year – a S\$46.8m contract from the Public Utilities Board (the national water agency of Singapore) to improve the Alexandra Canal between Zion Road and Kim Seng Road. Work on the contract will start in September 2011 and is expected to be completed by 1Q 2014. The scope of work includes the reconstruction of Zion Road Bridge and Kim Seng Road Bridge and construction of three new underpasses.

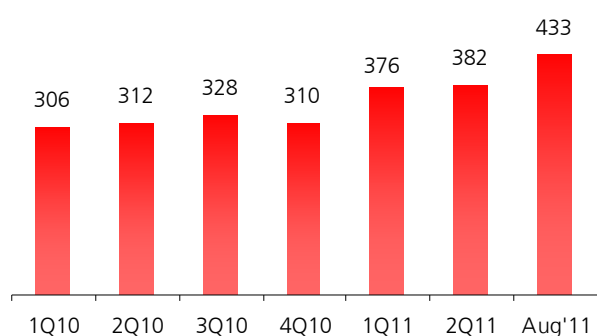
Gross order book of S\$433m implies healthy revenue visibility. With this order win, OKP has won about S\$152m worth of contracts in 2011 YTD, and is close to meeting our FY11 new order win assumption of ~S\$170m within the first 8 months of the year. We estimate current net outstanding orderbook in excess of S\$250m – 99% of 2H11 revenue and more than 60% of FY12 revenue is backed by existing contracts. Current orderbook comprises orders stretching all the way out till 2014.

Order wins in FY11 YTD

Dates	Project	Value (S\$m)	Start Date	End Date	Schedule (months)	Customer
29-Aug-11	Improve Alexandra Canal between Zion Road and Kim Seng Road	46.8	Sep-11	Mar-14	30	Public Utilities Board
15-Aug-11	Build sewers from Tuas South Avenue 14 to Tuas South Avenue 11	4.9	Aug-11	Jul-12	12	Jurong Town Corporation
22-Jun-11	Improvement to roadside drains IV Contract 1B-1	2.5	Jul-11	Jan-13	18	Public Utilities Board
12-May-11	Improvement to roadside drains IV Contract 1A-0	3.7	Jun-11	Dec-12	18	Public Utilities Board
6-Apr-11	Roadworks at TPE, Sengkang West Road and Seletar Aerospace Way	61.7	Apr-11	Oct-14	43	Land Transport Authority
21-Mar-11	Extend sewers in various locations	4.2	Apr-11	Nov-12	19	Public Utilities Board
8-Feb-11	Widening of Old Choa Chu Kang Road	28.5	Feb-11	Feb-14	37	Land Transport Authority
Total		152.3				

Source: Company, DBS Vickers

Gross orderbook trend since 1Q-FY10



Source: Company, DBS Vickers

Outlook for new orders continues to be healthy. OKP's healthy order win momentum comes despite management's selective approach in tendering for contracts which offer reasonable margins. Total construction demand in 2011 is estimated at between S\$22-28bn, of which civil engineering contracts alone (including Downtown Line 3 MRT contracts) could account for about 30% or S\$7.0-8.5bn, up from S\$3bn

in 2010. Key civil engineering projects planned in the next 2-3 quarters by government agencies like the Land Transport Authority, Public Utilities Board and JTC Corporation are outlined in the table on the following page. Major contracts include reconstruction of Newton Flyover, construction of viaduct from TPE to PIE (Westbound) and sewerage and drainage improvement works at various locations. We conservatively estimate OKP should be able to win another S\$170m worth of orders in FY12.

Margin expansion will drive projected net profit at 23% CAGR over FY10-12. OKP recorded superior gross margin of 32.6% in 1H-FY11 – compared to 21.1% in FY10. While we expect this to normalise over the year, overall FY11/12F gross margins of ~24% are still expected to be better than prior years, on account of higher proportion of higher-margin design-and-build projects undertaken currently. Projected EPS growth CAGR will, however, be diluted by warrant conversions in FY11, but we believe will still be healthy at 14.5% over FY10-12. With only about 4.5m warrants outstanding now, further warrant overhang is limited.

Upcoming tenders for public sector civil engineering works by key agencies (3Q 2011 to 2Q 2012)

Agency	Project Description	Location	Estimated Tender Date
Land Transport Authority	Proposed extension and reconstruction of Newton Flyover and improvement to Newton Circus	Newton	3Q 2011
Land Transport Authority	Widening of Benoi Road from Upper Jurong Road to Pioneer Road	Benoi Road	3Q 2011
Land Transport Authority	Widening of Upper Paya Lebar Road from Upper Serangoon Road to Bartley Road	Upper Paya Lebar Road	3Q 2011
Land Transport Authority	Jurong East Bus Interchange	Jurong East	3Q 2011
Land Transport Authority	Joo Koon Bus Interchange	Joo Koon	3Q 2011
Land Transport Authority	New Lornie Road	Bukit Brown Cemetery	4Q 2011
Land Transport Authority	Construction of major arterial road from TPE to Yishun Avenue 6	TPE to Yishun Avenue 6	4Q 2011
Land Transport Authority	Widening of Bukit Batok East Avenue 3 and PIE improvement between Clementi North Flyover and Toh Tuck Flyover	Bukit Batok East Avenue 3	4Q 2011
Land Transport Authority	Integrated Bus Interchange	Yishun	4Q 2011
Land Transport Authority	Expansion of KPE/TPE Interchange including a link road to Punggol Centre and Pasir Ris Drive 1	KPE/TPE Interchange	2Q 2012
Land Transport Authority	Construction of viaduct from TPE to PIE (Westbound) and Upper Changi Road East	TPE	2Q 2012
JTC Corporation	Construction of service tunnels	Jurong Island	4Q 2011
JTC Corporation	Implementation of Very Large Floating Structure (VLFS) for Oil Products and Petrochemical Storage	Pulau Sebarok	1Q 2012
JTC Corporation	Infrastructure at Pulau Ayer Merbau Extension	Jurong Island	1Q 2012
JTC Corporation	Earthworks	Seletar	1Q 2012
Public Utilities Board	Improvement to Old Roadside Drains in Batch 6 of the Estate Upgrading Programme	Various locations	3Q 2011
Public Utilities Board	Drainage Works - EUP Batch 6	Seletar	3Q 2011
Public Utilities Board	Improvement to Roadside Drains IV Contract 2B-3		3Q 2011
Public Utilities Board	Drainage Works - EUP Batch 6	Sembawang Springs	2Q 2011
Public Utilities Board	Construction of Sewers for Changi East Area	Changi East	4Q 2011
Public Utilities Board	Sewer improvement in International Road area	International Road	4Q 2011
Public Utilities Board	Expansion of sewerage network	Various locations	4Q 2011
Public Utilities Board	Sewerage scheme to serve Marina South Area - Contract 3	Marina Bay area	4Q 2011
Public Utilities Board	Sewer extensions to phase out STPs Phase 2 - Package D	Various locations	4Q 2011
Public Utilities Board	Sewer improvement works	Telok Blangah Road	4Q 2011
Public Utilities Board	Improvement to outlet drains	Various locations	1Q 2012
Public Utilities Board	Improvement to Old Roadside Drains in Batch 7 of the Estate Upgrading Programme	Various locations	2Q 2012

Source: BCA

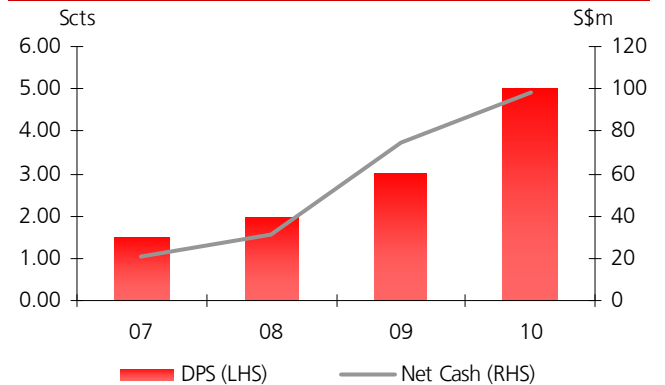
OKP Holdings

Major shareholder China Sonangol increases stake in OKP at a premium to market. In a move which further cements China Sonangol's commitment to OKP as a partner, China Sonangol has agreed to buy another 15m vendor shares from the executive directors and other shareholders of OKP Holdings at a price of S\$0.66 per share, a premium of 17% to market price. The sale of vendor shares includes disposals by Executive Directors Or Kim Peow (3.8m shares), Or Toh Wat (2.0m shares), Or Lay Huat Daniel (2.0m shares), Or Kiam Meng (2.0m shares), Ang Beng Tin (2.0m shares) and Oh Enc Nam (0.7m shares). This brings China Sonangol's stake in OKP from 9.2% to 14.1%.

Partnership could generate more business opportunities. China Sonangol's entry into the Singapore property market was via the 21 Angullia Park project in the Orchard Road precinct of Singapore. Construction of the condominium project is currently underway, and OKP has won the S\$83.5m building contract for this project through a joint venture with another building construction player Soilbuild Group. In April 2011, China Sonangol acquired its 2nd project in Singapore – Amber Towers along Amber Road in an en bloc transaction, which implies an intention to emerge as a serious property player in Singapore. Amber Towers, a District 15 freehold site occupying an area of 40,708 sq ft, was acquired for S\$161.6m and will be redeveloped and relaunched in due time. We believe this will present further opportunities for OKP to participate in the building construction contract and even as a minority investor in the project, if returns appear attractive.

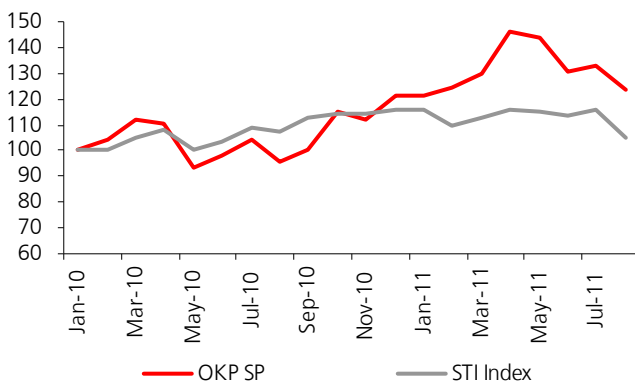
Strong balance sheet and healthy dividend payout potential supports share price outperformance in current market. OKP currently boasts of around S\$97m net cash on its books, which translates to S\$0.32 per share, or 56% of its market capitalisation at current prices. The surplus cash hoard allows the company a safeguard against any adverse market conditions, return part of it to shareholders as dividend, acquire complementary businesses and/ or invest in related fields like property development – which could enhance returns on shareholder's equity in future. We estimate 5Scts DPS from OKP in FY11/12F (including special dividends). Even if OKP were to take a conservative stance and pay out only 3Scts, that still translates to a decent 5.3% yield at current prices. Maintain BUY with unchanged TP of S\$0.80.

OKP dividend payouts increase as cash hoard builds up



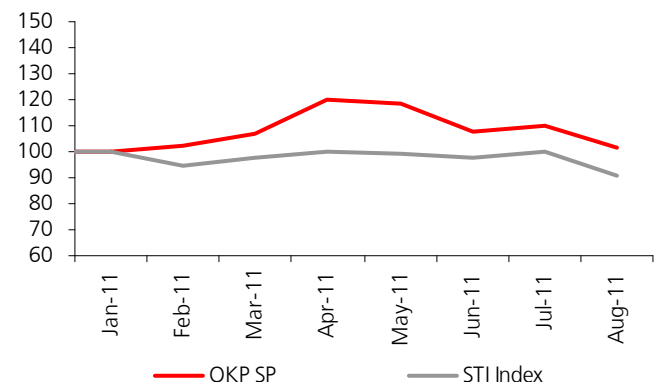
Source: Bloomberg, DBS Vickers

OKP vs. STI Index – since 2010



Source: Bloomberg, DBS Vickers

OKP vs. STI Index – YTD in 2011



Valuation Summary

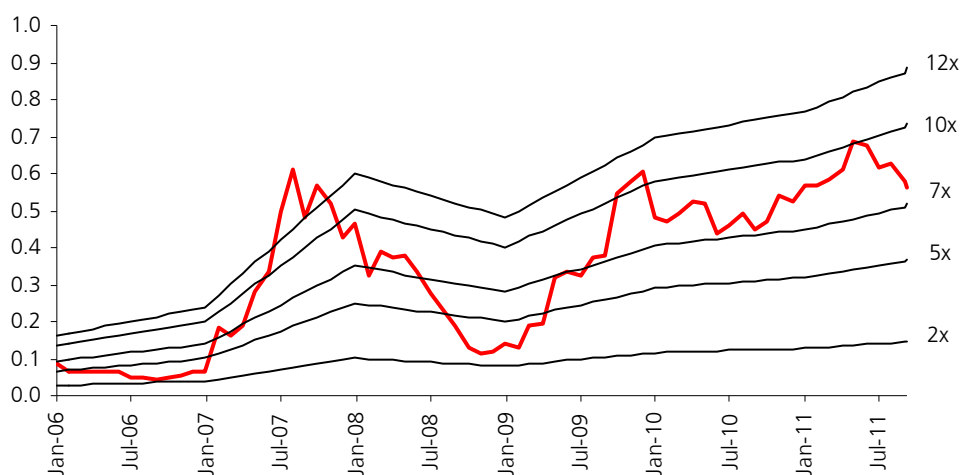
Recurring business	Net profit forecast			Value	Reference
	FY11F	FY12F	PE (x)		
Based on blended FY11/12F estimates	22.4	25.8	7.0	168.8	
Weighted avg share capital (m)				304.4	
Value of OKP's recurring business (S\$)				0.56	(1)
Implied FY11 PE (x)				7.2	
Implied FY12 PE (x)				6.6	
Net Cash (S\$ m)	96.7	111.8			
Net Cash per share (S\$)	0.32	0.37			

Surplus net cash

Est. net cash needed to support per dollar of sustainable revenue (S\$)	0.17	
FY11 Revenue (S\$ m)	138.2	
Net cash working capital needed in business (S\$ m)	23.5	
Est. surplus net cash by end FY11F (S\$ m)	73.2	
Weighted avg share capital (m)	304.4	
Est. surplus net cash per share by end FY11F (S\$)	0.24	(2)
Target price for OKP (S\$)	0.80	(1) + (2)
Implied FY11 PE (x)	10.3	
Implied FY12 PE (x)	9.5	

Source: DBS Vickers

PE Trading Band



Source: Bloomberg, DBS Vickers

OKP Holdings

Key Assumptions

FY Dec	2008A	2009A	2010A	2011F	2012F
New orders won	118.7	170.2	166.5	169.3	168.0

Segmental Breakdown

FY Dec	2008A	2009A	2010A	2011F	2012F
Revenues (\$\$ m)					
Construction	71	98	116	119	129
Maintenance	31	32	24	19	34

OKP has already won about S\$152m new orders YTD in FY11

Total	102	130	140	138	164
Gross Profit (\$\$ m)					
Construction	19	16	23	30	32
Maintenance	2	7	7	4	7

Total	21	23	29	34	39
Gross Profit Margins					
Construction	26.7	16.6	19.8	25.0	25.0
Maintenance	7.7	22.2	27.4	20.0	20.0

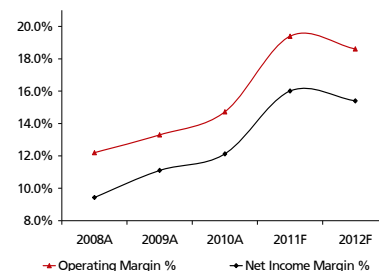
Higher margins from design-and-build construction projects

Total	20.9	18.0	21.1	24.3	23.9
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Income Statement (\$\$ m)

FY Dec	2008A	2009A	2010A	2011F	2012F
Revenue	102	130	140	138	164
Cost of Goods Sold	(81)	(107)	(110)	(105)	(125)
Gross Profit	21	23	29	34	39
Other Opng (Exp)/Inc	(9)	(6)	(9)	(6)	(8)
Operating Profit	12	17	21	27	31
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	12	17	20	27	31
Tax	(3)	(3)	(4)	(5)	(5)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	10	14	17	22	26
Net Profit before Except.	10	14	17	22	26
EBITDA	15	20	23	30	34
Growth					
Revenue Gth (%)	(18.3)	27.7	7.6	(1.2)	18.5
EBITDA Gth (%)	(7.3)	34.6	18.5	26.7	13.7
Opg Profit Gth (%)	(10.5)	39.2	19.1	31.9	14.9
Net Profit Gth (%)	(13.3)	50.3	17.4	32.2	15.2
Margins & Ratio					
Gross Margins (%)	20.9	18.0	21.1	24.3	23.9
Opg Profit Margin (%)	12.2	13.3	14.7	19.7	19.1
Net Profit Margin (%)	9.4	11.1	12.1	16.2	15.8
ROAE (%)	26.0	29.2	26.5	29.2	28.8
ROA (%)	12.5	14.5	12.3	14.5	15.5
ROCE (%)	23.3	27.2	25.5	28.6	28.2
Div Payout Ratio (%)	31.2	51.4	78.4	69.0	59.9
Net Interest Cover (x)	64.4	93.0	136.4	179.8	303.2

Margins Trend



EPS growth is lower than net profit growth due to dilution impact of warrants

Source: Company, DBS Vickers

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)
Gross Profit	7	7	10	9	11
Other Oper. (Exp)/Inc	(1)	(2)	(4)	(2)	(3)
Operating Profit	5	6	6	6	8
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	5	6	5	6	8
Tax	(1)	(1)	(1)	(1)	(1)
Minority Interest	0	0	0	0	0
Net Profit	4	5	5	5	7
Net profit bef Except.	4	5	5	5	7
EBITDA	6	6	6	7	9

Growth

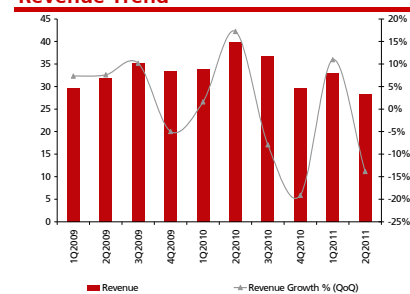
Revenue Gth (%)	17.3	(7.9)	(19.1)	11.0	(13.8)
EBITDA Gth (%)	20.4	6.8	3.1	8.7	30.2
Opg Profit Gth (%)	22.5	6.4	(0.9)	16.5	30.0
Net Profit Gth (%)	22.5	5.3	2.9	12.7	31.6

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



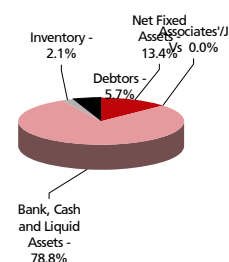
Exceptionally high gross margin in 2Q11; should normalise over subsequent quarters

OKP Holdings

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	99	114
Inventory	2	2	3	3	3
Debtors	6	8	7	9	11
Other Current Assets	20	19	21	21	21
Total Assets	77	122	153	156	176
ST Debt	2	1	1	1	1
Other Current Liab	32	60	82	70	79
LT Debt	3	2	1	1	1
Other LT Liabilities	0	0	0	0	0
Shareholder's Equity	40	59	69	85	95
Minority Interests	1	1	0	0	0
Total Cap. & Liab.	77	122	153	156	176
Non-Cash Wkg. Capital	(4)	(32)	(51)	(36)	(43)
Net Cash/(Debt)	31	75	98	97	112
Debtors Turn (avg days)	16.1	18.4	19.2	22.0	23.0
Creditors Turn (avg days)	99.4	100.5	167.3	192.0	153.5
Inventory Turn (avg days)	8.1	6.3	7.8	9.3	8.3
Asset Turnover (x)	1.3	1.3	1.0	0.9	1.0
Current Ratio (x)	1.9	1.7	1.6	1.9	1.9
Quick Ratio (x)	1.2	1.4	1.3	1.5	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(0.8)	(1.3)	(1.4)	(1.1)	(1.2)
Capex to Debt (%)	4.0	184.3	311.1	271.6	271.6
Z-Score (X)	NA	NA	3.3	3.8	3.8

Asset Breakdown (2010)

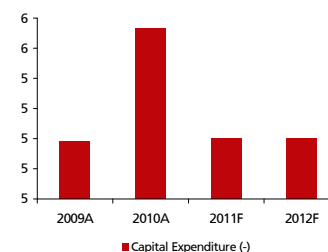


Net cash hoard can be deployed in higher dividends/ acquisitions/ investments

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	(16)	7
Other Operating CF	0	0	0	0	0
Net Operating CF	16	45	39	10	36
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
Net Investing CF	0	(5)	(8)	(5)	(5)
Div Paid	(3)	(3)	(11)	(15)	(15)
Chg in Gross Debt	(2)	(2)	(1)	0	0
Capital Issues	0	7	4	9	0
Other Financing CF	0	0	(1)	0	0
Net Financing CF	(5)	3	(9)	(7)	(15)
Currency Adjustments	0	0	0	0	0
Chg in Cash	11	42	22	(1)	15
Opg CFPS (S cts)	7.9	6.9	7.7	9.0	9.4
Free CFPS (S cts)	10.4	16.0	12.5	1.8	9.9

Capital Expenditure



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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DBS Vickers Research (Singapore) Pte Ltd – 8 Cross Street, #02-01 PWC Building, Singapore 048424
 Tel. 65-6533 9688
 Company Regn. No. 198600295W