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4QFY12 Results Review

OKP Holdings

Neutral ⇄ SGD

Target	SGD0.57
Previous	SGD0.55
Price	SGD0.54

Engineering & Construction

OKP is a road builder and construction company which, with its subsidiaries, construct urban and arterial roads, expressways, vehicular bridges and flyovers. It also reconstructs work

Stock Statistics

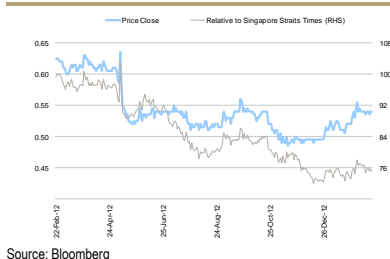
Bloomberg Ticker	OKP SP
Market Cap	SGD167m
	USD135m
52 wk H/L price (SGD)	0.64 0.49
3m ADT	SGD0.05m
YTD Returns	5.9%
Beta (x)	0.86

Major Shareholders (%)

Share Performance (%)

Month	Absolute	Relative
1m	5.9	2.9
3m	9.1	-2.7
6m	4.9	-3.2
12m	-15.6	-25.1

6-month Share Price Performance



Healthy order book but margin pressure remains

OKP's 4Q12 results was in line with expectations. PATMI was 60.3% lower YoY to SGD3.8m, even as revenue grew 18.4% YoY to SGD27.5m. This was largely due to lower-margin projects during the quarter, as well as higher costs incurred for some projects. Going forward, margins are likely to be under further pressure, as the completion dates for some projects are extended resulting in higher costs, as well as keen competition in the industry. Nonetheless, growth would be supported by its healthy order book and the pipeline of government projects. As we roll forward our earnings, we have a TP of SGD0.57, based on 6.5x P/E (ex-cash). Maintain NEUTRAL.

Significantly lower dividends. We note that OKP will be distributing dividends of 1.5 SGD¢ / share for FY12, its lowest dividend/share over the past five years, even though FY12 PATMI is not the lowest. This translates into a yield of 2.8%. We think management is taking a conservative stance, preferring to keep its cash in preparation to be able to tender for potential government construction projects.

Margin pressure to remain. OKP's order book currently stands at SGD376.6m, with contracts lasting up to FY15. Given the government's plans to further enhance infrastructure, and OKP's capabilities, we think OKP is in a good position to continue to secure new contracts, thereby adding to its order book. However, operating costs are likely to rise, particularly labour costs. Increased competition from other local and overseas players would also add downward pressure on margins.

Strong balance sheet; Maintain NEUTRAL. OKP has a strong balance sheet with net cash position of SGD52.5m (or 17.0 SGD¢/share) as at end 4Q12. While the outlook is encouraging, buoyed by more government projects, we are maintaining our NEUTRAL recommendation in view of the likely margin compression going forward.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (SGDm)	140	110	104	129	143
Recurring net profit (SGDm)	16.8	26.5	12.7	15.4	16.1
Recurring net profit growth	16.5%	57.4%	(52.1%)	21.3%	4.6%
Core EPS (SGD)	0.06	0.09	0.04	0.05	0.05
Core EPS growth	6.4%	39.4%	(54.2%)	21.3%	4.6%
DPS (SGD)	0.06	0.03	0.02	0.02	0.02
Dividend Yield	10.3%	5.6%	2.8%	3.7%	3.7%
Core P/E (x)	8.4	6.0	13.1	10.8	10.3
Return on average equity	26.3%	33.7%	13.7%	15.7%	15.5%
P/B (x)	2.08	1.87	1.73	1.68	1.53
EV/EBITDA (x)	1.83	1.97	6.84	4.59	3.61
Net debt to equity	net cash	net cash	net cash	net cash	net cash
OSK vs consensus EPS				(10.9%)	(40.7%)

Source: Company data, OSK Research estimates

FINANCIAL

Profit & Loss (SGDm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover	140	110	104	129	143
Cost of sales	(110)	(67)	(81)	(101)	(111)
Gross profit	29	43	23	28	31
Gen & admin expenses	(10)	(12)	(11)	(13)	(14)
Other operating costs	(0)	(0)	(0)	(0)	(0)
Operating profit	20	31	12	15	17
Operating EBITDA	23	34	15	19	21
Depreciation of fixed assets	(3)	(3)	(3)	(4)	(4)
Operating EBIT	20	31	12	15	17
Net income from investments	-	-	(0)	1	1
Other recurring income	1	1	3	3	3
Interest expense	(0)	(0)	(0)	(0)	(1)
Pre-tax profit	20	32	15	19	20
Taxation	(4)	(6)	(2)	(3)	(3)
Minority interests	(0)	(0)	0	(0)	(0)
Profit after tax & minorities	17	26	13	15	16
Net income to ord equity	17	26	13	15	16
Recurring net profit	17	26	13	15	16
Balance Sheet (SGDm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	100	93	54	71	84
Accounts receivable	28	29	31	36	40
Total current assets	131	124	90	112	128
Other current assets	3	2	5	5	5
Total investments	2	2	5	5	5
Tangible fixed assets	17	19	19	20	20
Intangible assets	2	2	2	2	2
Total other assets	2	2	22	22	21
Total non-current assets	22	24	48	48	48
Total assets	153	148	138	160	176
Short-term debt	1	1	1	0	0
Accounts payable	78	53	37	55	61
Other current liabilities	4	6	2	3	3
Total current liabilities	83	59	39	59	65
Total long-term debt	1	0	1	1	1
Other liabilities	0	1	1	1	1
Total non-current liabilities	1	1	2	2	2
Total liabilities	84	60	41	61	67
Share capital	28	36	37	37	37
Retained earnings reserve	41	52	58	61	71
Other reserves	0	0	1	1	1
Shareholders' equity	69	88	96	99	109
Minority interests	(0)	(0)	0	0	(0)
Other equity	(0)	0	0	0	(0)
Total equity	69	88	96	99	109
Total liabilities & shareholders' equity	153	148	138	160	176

Cashflow (SGDm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Operating profit	20	31	12	15	17
Depreciation & amortisation	3	3	3	4	4
Change in working capital	19	(26)	(19)	14	2
Other operating cashflow	3	5	2	3	5
Operating cashflow	45	13	(2)	36	28
Interest received	0	0	0	(0)	(0)
Interest paid	(0)	(0)	(0)	(0)	(1)
Tax paid	(3)	(3)	(5)	(3)	(3)
Cashflow from operations	42	10	(8)	33	23
Capex	(6)	(5)	(4)	(4)	(4)
Other new investments	(2)	(1)	(5)	-	-
Other investing cashflow	0	1	(16)	-	-
Cashflow from investing activities	(8)	(5)	(25)	(4)	(4)
Dividends paid to ordinary shareholders	(11)	(15)	(6)	(6)	(6)
Proceeds from issue of shares	4	8	0	-	-
Increase in debt	(1)	(1)	(1)	(0)	(0)
Other financing cashflow	(0)	0	(0)	(0)	(0)
Cashflow from financing activities	(8)	(8)	(7)	(6)	(6)
Cash at beginning of period	78	100	93	54	71
Total cash generated	26	(3)	(39)	22	12
Implied cash at end of period	103	97	54	76	84

Source : OSK, Bloomberg

HIGHLIGHTS

Figure 1 Quarterly Results

Year Ended Dec (\$m)	4Q12	4Q11	% Chge	3Q12	% Chge	Comments
Revenue	27.5	23.2	18.4%	28.5	-3.6%	Some projects were newly-awarded and therefore, had lower revenue contribution. A number of projects had also been completed during the quarter.
Cost of Sales	(21.4)	(8.2)	162.4%	(22.0)	-2.7%	Projects had lower margins; higher labour costs
Gross Profit	6.0	15.0	-59.9%	6.4	-6.6%	
Other income	1.1	0.3	230.7%	0.4	183.4%	
Administrative expenses	(2.8)	(3.7)	-23.9%	(3.6)	-21.4%	Decline was due to lower directors' remuneration
Other operating expenses	(0.1)	(0.0)	135.5%	(0.1)	40.4%	
Operating Profit	4.2	11.6	-63.7%	3.2	32.9%	
Finance expenses	(0.0)	(0.0)	-30.8%	(0.0)	-10.0%	
Share of associate	(0.0)	-	#DIV/0!	(0.0)	-88.9%	
Profit before income tax	4.2	11.6	-63.7%	3.1	33.6%	
Income tax expense	(0.2)	(2.1)	-88.4%	(0.7)	-66.3%	
Minority Interests	0.2	(0.0)	-497.6%	(0.0)	n.m.	
Net profit	3.8	9.5	-60.3%	2.4	56.0%	
GPM	21.9%	64.8%		22.6%		
PATMI margin	13.8%	41.1%		8.5%		

Source: Company Data

RECOMMENDATION CHART



Date	Recommendation	Target Price	Price
2012-10-29	Neutral	0.00	0.51

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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