

## OKP Holdings (OKP SP)

Industrial - Engineering &amp; Construction

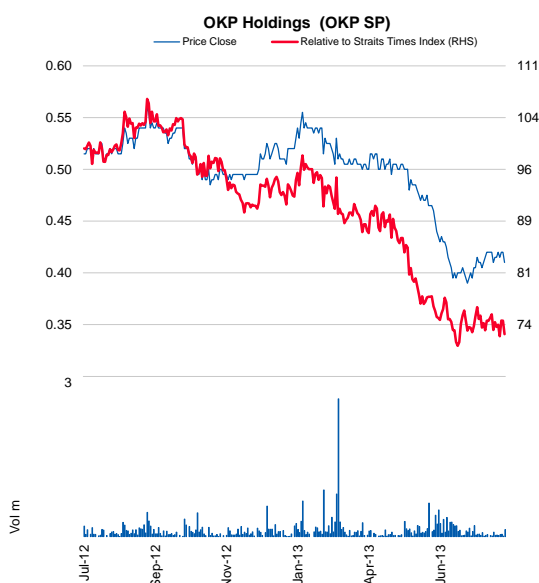
Market Cap: USD99.7m

**Neutral** (Maintained)

 Target Price: **SGD0.35**

 Price: **SGD0.41**

## 2Q13 Results Hit By Lower Margins

 Macro ◆◆◆  
 Risks ◆◆  
 Growth ◆◆  
 Value ◆◆


Source: Bloomberg

Avg Turnover (SGD/USD)	0.05m/0.04m
Cons. Upside (%)	39.0
Upside (%)	-13.6
52-wk Price low/high (SGD)	0.39 - 0.56
Free float (%)	29

Shareholders (%)	
Or Kim Peow Investments	46.6
China Sonangol	14.0

OKP recorded 2Q13 PATMI of SGD0.7m (-77.0% y-o-y), even as revenue was 27.5% stronger y-o-y at SGD30.1m, due to higher costs incurred on a project. Gross margins are expected to remain low until the project is completed towards end-3Q13. With our margin assumptions lowered, we adjust our estimates and arrive at a TP of SGD0.35. OKP has strong balance sheet, with net cash of SGD0.15/share.

- ◆ **Gross profit margin dips.** OKP achieved gross profit margin of 8.2% in 2Q13, compared with 24.3% in 2Q12. This was largely due to the lower margins at its Anguilla Park construction project. This project was at the active stages of construction, resulting in higher sub-contracting costs. As the project nears completion, the amount of sub-contracting is likely to taper off. Meanwhile, the increase in headcount contributed to higher staff costs, which also dragged down gross margins. We think gross margins will remain low in 3Q13, and may only start to pick up slightly from 4Q13.
- ◆ **Healthy balance sheet supports orderbook growth.** OKP's orderbook currently stands at SGD428.8m, of which SGD221.3m is expected to be recognized between 2H13 and 2015. Its strong balance sheet (net cash of SGD0.15 per share) puts it in a good position to tender for new projects and boost its orderbook.
- ◆ **Outlook positive but competition keen.** There is a pipeline of public sector projects that OKP can tender for. However, competition is stiff and this will likely compress margins. Management indicated that it would continue to tender for projects, focusing on the Company's core business of construction and maintenance activities.
- ◆ **Lower FY13 earnings estimate and TP; NEUTRAL.** Given the significantly lower 1H13 gross margins, we also lower our FY margin assumptions. We keep our FY13 revenue estimate of SGD129.3m, but lower our PATMI to SGD4.9m. Pegging its earnings to 6.5x P/E (ex-cash), we arrive at a lower TP of SGD0.35 (from SGD0.47).

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Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (SGDm)	140	110	104	129	143
Reported net profit (SGDm)	16.8	26.5	12.7	4.9	7.5
Recurring net profit (SGDm)	16.8	26.5	12.7	4.9	7.5
Recurring net profit growth (%)	16.5	57.4	(52.1)	(61.7)	53.7
Core EPS (SGD)	0.06	0.09	0.04	0.02	0.02
DPS (SGD)	0.06	0.03	0.02	0.02	0.02
Dividend Yield (%)	13.6	7.3	3.7	3.7	4.9
Core P/E (x)	6.4	4.6	10.0	26.1	17.0
Return on average equity (%)	26.3	33.7	13.7	5.1	8.0
P/B (x)	1.58	1.42	1.31	1.37	1.36
P/CF (x)	2.6	11.9	na	4.7	10.7
EV/EBITDA (x)	0.36	0.88	4.37	7.45	4.41
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (%)				(69.7)	(57.6)

Source: Company data, OSK-DMG estimates

## 2Q13 Results Summary

Figure 1: Quarterly Results

Year Ended Dec(S\$m)	2Q13	2Q12	% Chge YoY	1Q13	% Chge QoQ	Comments
Revenue	30.1	23.6	27.5%	32.0	-6.2%	Higher revenue was due to more projects being in the active stages of construction.
Cost of Sales	(27.6)	(17.8)	54.7%	(27.2)	1.5%	Increased headcount and higher salaries, coupled with higher sub-contracting costs.
Gross Profit	2.5	5.7	-57.1%	4.8	-49.2%	
Other income	0.2	0.4	-46.7%	0.3	-22.7%	
Administrative expenses	(1.9)	(2.4)	-21.8%	(2.4)	-22.4%	
Other operating expenses	-	0.0	-100.0%	-	0.0%	
Operating Profit	0.8	3.8	-78.1%	2.8	-69.6%	
Finance expenses	(0.0)	(0.0)	-37.5%	(0.0)	-16.7%	
Share of associate	(0.0)	-	100.0%	-	100.0%	
Profit before income tax	0.8	3.8	-78.4%	2.7	-70.0%	
Income tax expense	(0.1)	(0.7)	-84.6%	(0.4)	-69.6%	
Minority Interests	-	(0.0)	-100.0%	(0.0)	n.m.	
Net profit	0.7	3.1	-77.0%	2.4	-70.1%	PATMI was dragged down by higher sub-contracting cost
GPM	8.2%	24.3%		15.1%		
PATMI margin	2.4%	13.1%		7.4%		

Source: Company data

## Financial Exhibits

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)	(113)	(121)
<b>Gross profit</b>	<b>29</b>	<b>43</b>	<b>23</b>	<b>16</b>	<b>21</b>
Gen & admin expenses	(10)	(12)	(11)	(13)	(14)
Other operating costs	(0)	(0)	(0)	(0)	(0)
<b>Operating profit</b>	<b>20</b>	<b>31</b>	<b>12</b>	<b>3</b>	<b>7</b>
Operating EBITDA	23	34	15	7	11
Depreciation of fixed assets	(3)	(3)	(3)	(4)	(4)
<b>Operating EBIT</b>	<b>20</b>	<b>31</b>	<b>12</b>	<b>3</b>	<b>7</b>
Net income from investments	-	-	(0)	(0)	1
Other recurring income	1	1	3	3	3
Interest expense	(0)	(0)	(0)	(0)	(1)
<b>Pre-tax profit</b>	<b>20</b>	<b>32</b>	<b>15</b>	<b>6</b>	<b>9</b>
Taxation	(4)	(6)	(2)	(1)	(2)
Minority interests	(0)	(0)	0	(0)	(0)
<b>Profit after tax &amp; minorities</b>	<b>17</b>	<b>26</b>	<b>13</b>	<b>5</b>	<b>7</b>
<b>Reported net profit</b>	<b>17</b>	<b>26</b>	<b>13</b>	<b>5</b>	<b>7</b>
<b>Recurring net profit</b>	<b>17</b>	<b>26</b>	<b>13</b>	<b>5</b>	<b>7</b>

Source: Company data, OSK-DMG estimates

Cash flow (SGDm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
<b>Operating profit</b>	<b>20</b>	<b>31</b>	<b>12</b>	<b>3</b>	<b>7</b>
<b>Depreciation &amp; amortisation</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>4</b>
<b>Change in working capital</b>	<b>19</b>	<b>(26)</b>	<b>(19)</b>	<b>20</b>	<b>1</b>
Other operating cash flow	3	5	2	1	3
<b>Operating cash flow</b>	<b>45</b>	<b>13</b>	<b>(2)</b>	<b>28</b>	<b>15</b>
Interest received	0	0	0	(0)	(0)
Interest paid	(0)	(0)	(0)	(0)	(1)
Tax paid	(3)	(3)	(5)	(1)	(2)
<b>Cash flow from operations</b>	<b>42</b>	<b>10</b>	<b>(8)</b>	<b>27</b>	<b>12</b>
Capex	(6)	(5)	(4)	(4)	(4)
Other new investments	(2)	(1)	(5)	-	-
Other investing cash flow	0	1	(16)	-	-
<b>Cash flow from investing activities</b>	<b>(8)</b>	<b>(5)</b>	<b>(25)</b>	<b>(4)</b>	<b>(4)</b>
Dividends paid	(11)	(15)	(6)	(5)	(6)
Proceeds from issue of shares	4	8	0	-	-
Increase in debt	(1)	(1)	(1)	(0)	(0)
Other financing cash flow	(0)	0	(0)	(0)	(0)
<b>Cash flow from financing activities</b>	<b>(8)</b>	<b>(8)</b>	<b>(7)</b>	<b>(5)</b>	<b>(6)</b>
Cash at beginning of period	78	100	93	54	69
<b>Total cash generated</b>	<b>26</b>	<b>(3)</b>	<b>(39)</b>	<b>18</b>	<b>1</b>
<b>Implied cash at end of period</b>	<b>103</b>	<b>97</b>	<b>54</b>	<b>72</b>	<b>70</b>

Source: Company data, OSK-DMG estimates

## Financial Exhibits

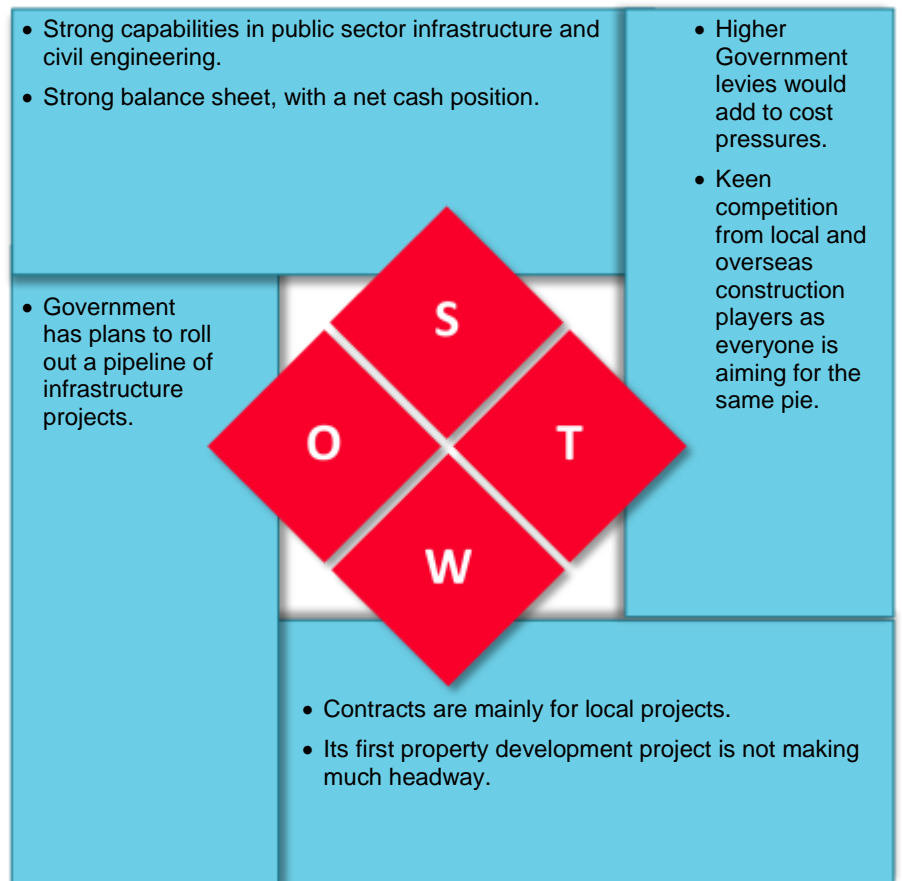
Balance Sheet (SGDm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	100	93	54	69	72
Accounts receivable	28	29	31	36	40
Other current assets	3	2	5	5	5
<b>Total current assets</b>	<b>131</b>	<b>124</b>	<b>90</b>	<b>110</b>	<b>116</b>
Total investments	2	2	5	5	5
Tangible fixed assets	17	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
<b>Total assets</b>	<b>153</b>	<b>148</b>	<b>138</b>	<b>158</b>	<b>164</b>
Short-term debt	1	1	1	0	0
Accounts payable	78	53	37	62	67
Other current liabilities	4	6	2	1	2
<b>Total current liabilities</b>	<b>83</b>	<b>59</b>	<b>39</b>	<b>64</b>	<b>69</b>
Total long-term debt	1	0	1	1	1
Other liabilities	0	1	1	1	1
<b>Total non-current liabilities</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Total liabilities</b>	<b>84</b>	<b>60</b>	<b>41</b>	<b>66</b>	<b>71</b>
Share capital	28	36	37	37	37
Retained earnings reserve	41	52	58	54	55
Other reserves	0	0	1	1	1
<b>Shareholders' equity</b>	<b>69</b>	<b>88</b>	<b>96</b>	<b>92</b>	<b>93</b>
Minority interests	(0)	(0)	0	0	0
Other equity	(0)	0	0	(0)	0
<b>Total equity</b>	<b>69</b>	<b>88</b>	<b>96</b>	<b>93</b>	<b>93</b>
<b>Total liabilities &amp; equity</b>	<b>153</b>	<b>148</b>	<b>138</b>	<b>158</b>	<b>164</b>

Source: Company data, OSK-DMG estimates

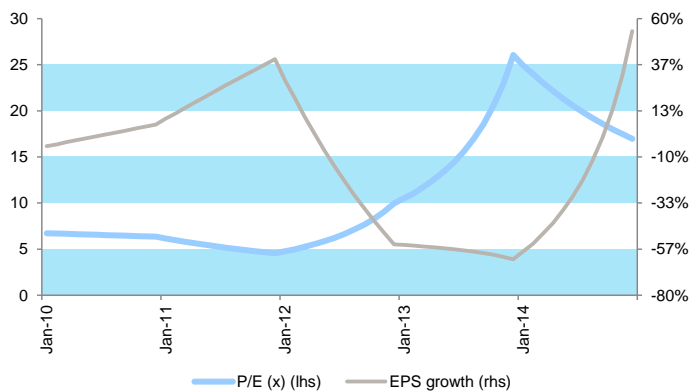
Key Ratios (SGD)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	7.6	(21.5)	(4.9)	23.8	10.4
Operating profit growth (%)	24.5	58.6	(61.0)	(73.9)	122.6
Net profit growth (%)	16.5	57.4	(52.1)	(61.7)	53.7
EPS growth (%)	6.4	39.4	(54.2)	(61.7)	53.7
Bv per share growth (%)	9.0	11.3	8.1	(4.0)	0.5
Operating margin (%)	14.1	28.5	11.7	2.5	5.0
Net profit margin (%)	12.0	24.1	12.1	3.8	5.2
Return on average assets (%)	12.2	17.6	8.9	3.3	4.6
Return on average equity (%)	26.3	33.7	13.7	5.1	8.0
Net debt to equity (%)	(142.5)	(103.8)	(54.5)	(73.2)	(75.5)
DPS	0.06	0.03	0.02	0.02	0.02
Recurrent cash flow per share	0.16	0.03	(0.02)	0.09	0.04

Source: Company data, OSK-DMG estimates

## SWOT Analysis

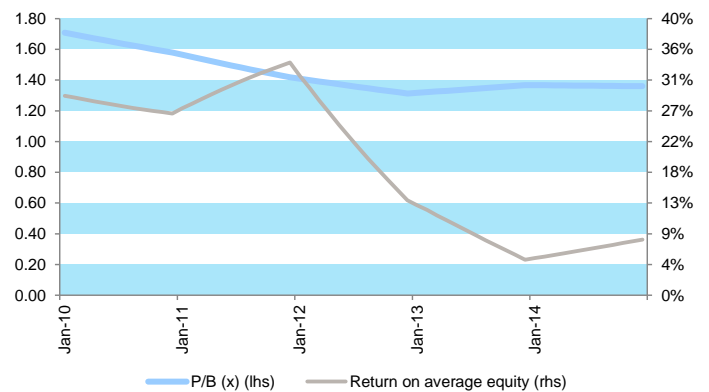


P/E (x) vs EPS growth



Source: Company data, OSK-DMG estimates

P/BV (x) vs ROAE



Source: Company data, OSK-DMG estimates

## Company Profile

OKP is a road builder and construction company. Along with its subsidiaries, it constructs urban and arterial roads, expressways, vehicular bridges and flyovers.

## Recommendation Chart



Source: OSK-DMG estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-05-02	Neutral	0.47	0.50
2013-02-21	Neutral	0.56	0.52
2012-10-29	Neutral	0.55	0.51

Source: OSK-DMG estimates, Bloomberg

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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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