

OKP Holdings (OKP SP)

Industrial - Engineering & Construction

Market Cap: USD127m

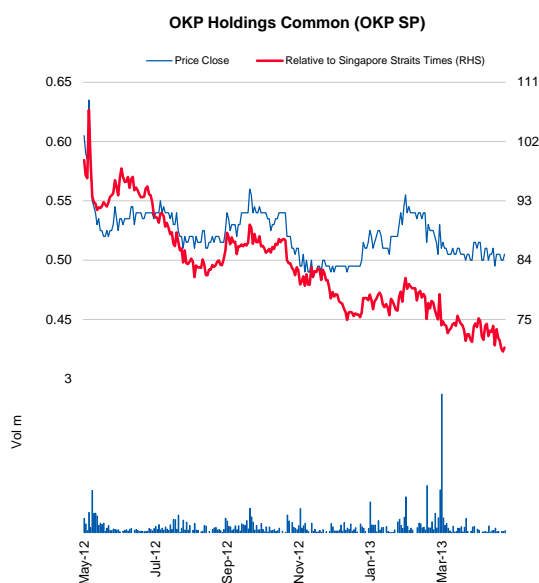
Neutral

 Target Price: **SGD0.47**

 Price: **SGD0.51**

1Q13 earnings below expectations

Macro	◆◆◆
Risks	◆◆
Growth	◆◆
Value	◆◆



Source: Bloomberg

Avg Turnover (SGD/USD)	0.08m/0.07m
Cons. Upside (%)	11.8
Upside (%)	-7.5
52-wk Price low/high (SGD)	0.49 - 0.64
Free float (%)	

Shareholders (%)

OKP's 1Q13 PATMI was lower 22.2% y-o-y at SGD2.4m, which was below our estimates. This was largely due to higher subcontracting costs incurred, higher government levies and salaries. The decline in PATMI was despite the 28.4% y-o-y increase in revenue to SGD32.0m as more projects were in the active stages of construction. Its higher order book of SGD393.5m would keep it busy till 2015, but cost pressures remain.

- ◆ **Maintain NEUTRAL, lower TP to SGD0.47** (previously SGD0.56), pegged to 6.5x P/E (ex-cash). Its strong balance sheet (net cash position of SGD53.6m or SGD0.22/share) as at end 1Q13 puts it in a good position to tender for new projects. We lower our FY gross margin assumptions, as 1Q13 margins were lower than expected. As a result, our FY13 PATMI estimate is SGD11.2m (from SGD15.4m)). Maintain NEUTRAL, as we hold the view that margins are likely to continue to face compression, even as the outlook is positive with the government's plans to enhance infrastructure.
- ◆ **Order book continues to grow.** OKP was able to secure more projects, bringing its order book to SGD393.5 (compared with SGD376.6m a quarter ago), with projects expected to last till 2015. Having always been a key player in the public infrastructure space, OKP aims to retain this market position, while looking to expand into other sectors such as O&G and building construction. Its JV for the development of a residential project at Amber is still incurring losses, although OKP only has a 10% stake.
- ◆ **Cost pressures to remain.** COGS increased due to higher subcontracting costs and higher labour costs. Higher sub-contracting cost was mainly due to its work for the Anguilla Park project. Sub-contracting works for this project accounts for 30%-40% of the total sub-contracting costs incurred by the Group on the whole. This project is expected to be completed in September 2013. Management indicated that there might be another round of salary adjustments in 2Q, this time, for its engineers and higher management staff.

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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
Net income to ord equity (SGDm)	16.8	26.5	12.7	11.1	16.1
Recurring net profit (SGDm)	16.8	26.5	12.7	11.1	16.1
Recurring net profit growth (%)	16.5	57.4	(52.1)	(12.3)	44.7
Core EPS (SGD)	0.06	0.09	0.04	0.04	0.05
DPS (SGD)	0.06	0.03	0.02	0.02	0.02
Dividend Yield (%)	11.0	5.9	3.0	3.0	4.0
Core P/E (x)	7.8	5.6	12.3	14.0	9.7
Return on average equity (%)	26.3	33.7	13.7	11.5	15.8
P/B (x)	1.95	1.75	1.62	1.60	1.47
P/CF (x)	3.2	14.7	na	5.1	7.7
EV/EBITDA (x)	1.44	1.68	6.17	5.53	3.25
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Ours vs consensus EPS (%)				(30.6)	(8.4)

Source: Company data, OSK-DMG Estimates

SWOT Analysis

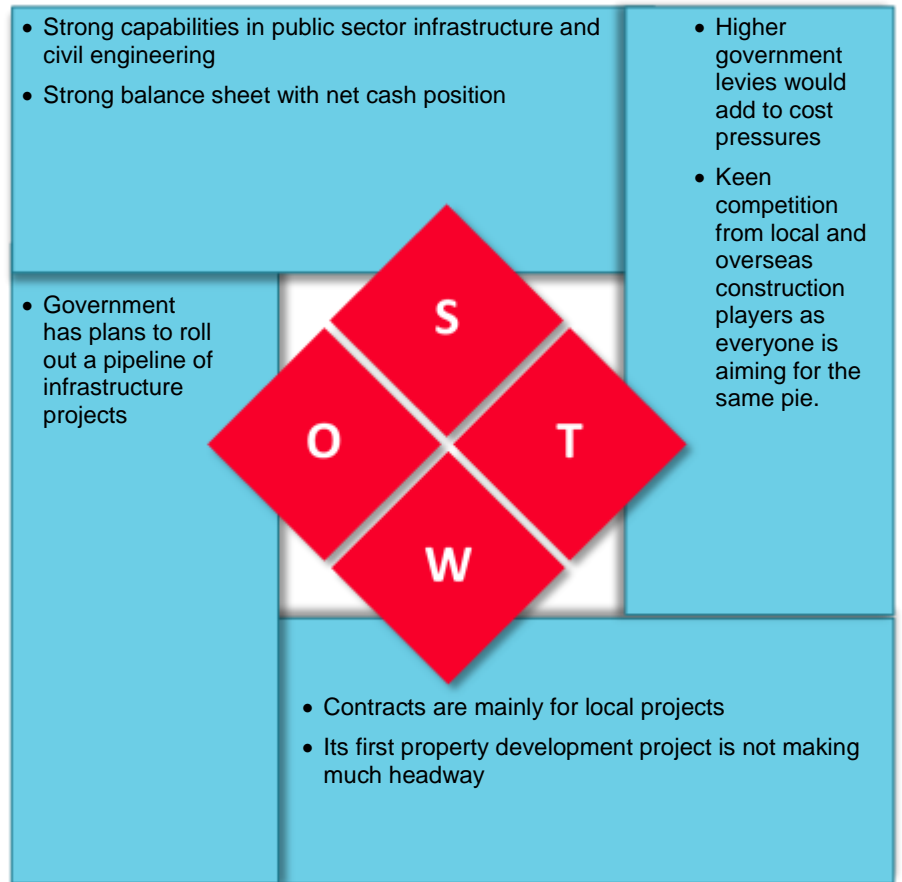
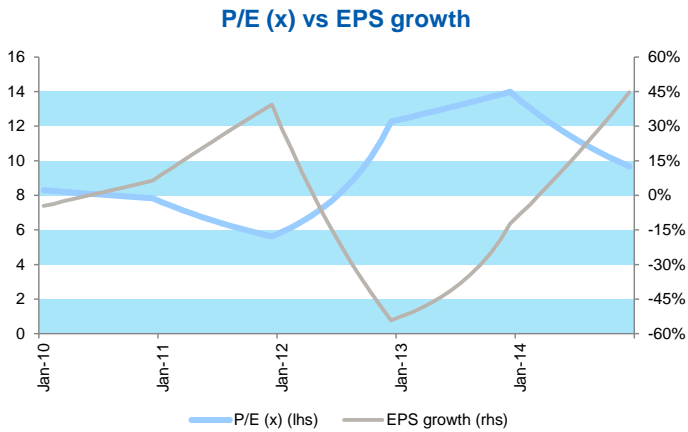
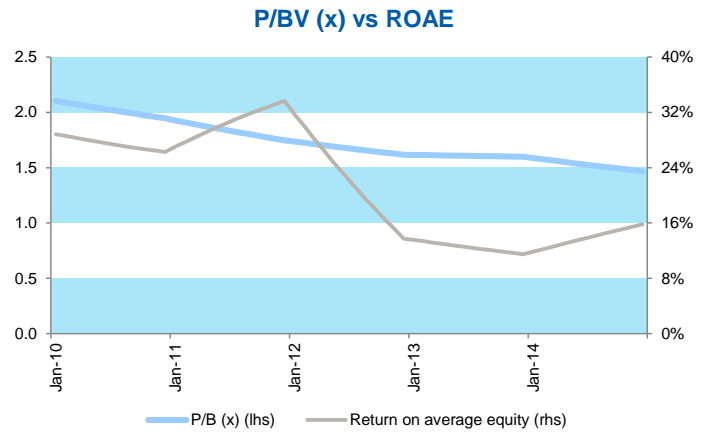


Figure 1



Source: Company data, OSK-DMG Estimates

Figure 2



Source: Company data, OSK-DMG Estimates

Company Profile

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

Financial Exhibits

- ◆ Order book expected to last till 2015, which would help support revenue growth.

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)	(106)	(111)
Gross profit	29	43	23	23	31
Gen & admin expenses	(10)	(12)	(11)	(13)	(14)
Other operating costs	(0)	(0)	(0)	(0)	(0)
Operating profit	20	31	12	10	17
Operating EBITDA	23	34	15	14	21
Depreciation of fixed assets	(3)	(3)	(3)	(4)	(4)
Operating EBIT	20	31	12	10	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	14	20
Taxation	(4)	(6)	(2)	(2)	(3)
Minority interests	(0)	(0)	0	(0)	(0)
Profit after tax & minorities	17	26	13	11	16
Net income to ord equity	17	26	13	11	16
Recurring net profit	17	26	13	11	16

Source: Company data, OSK-DMG Estimates

Cash flow (SGDm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Operating profit	20	31	12	10	17
Depreciation & amortisation	3	3	3	4	4
Change in working capital	19	(26)	(19)	16	(1)
Other operating cash flow	3	5	2	2	5
Operating cash flow	45	13	(2)	33	25
Interest received	0	0	0	(0)	(0)
Interest paid	(0)	(0)	(0)	(0)	(1)
Tax paid	(3)	(3)	(5)	(2)	(3)
Cash flow from operations	42	10	(8)	30	20
Capex	(6)	(5)	(4)	(4)	(4)
Other new investments	(2)	(1)	(5)	-	-
Other investing cash flow	0	1	(16)	-	-
Cash flow from investing activities	(8)	(5)	(25)	(4)	(4)
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)
Cash flow from financing activities	(8)	(8)	(7)	(5)	(6)
Cash at beginning of period	78	100	93	54	71
Total cash generated	26	(3)	(39)	21	10
Implied cash at end of period	103	97	54	75	81

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	71	81
Accounts receivable	28	29	31	36	40
Other current assets	3	2	5	5	5
Total current assets	131	124	90	112	126
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	173
Short-term debt	1	1	1	0	0
Accounts payable	78	53	37	58	61
Other current liabilities	4	6	2	2	3
Total current liabilities	83	59	39	61	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	63	67
Share capital	28	36	37	37	37
Retained earnings reserve	41	52	58	59	68
Other reserves	0	0	1	1	1
Shareholders' equity	69	88	96	97	106
Minority interests	(0)	(0)	0	0	0
Other equity	(0)	0	0	0	(0)
Total equity	69	88	96	97	106
Total liabilities & equity	153	148	138	160	173

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)	(15.5)	65.9
Net profit growth (%)	16.5	57.4	(52.1)	(12.3)	44.7
EPS growth (%)	6.4	39.4	(54.2)	(12.3)	44.7
Bv per share growth (%)	9.0	11.3	8.1	1.1	8.9
Operating margin (%)	14.1	28.5	11.7	8.0	12.0
Net profit margin (%)	12.0	24.1	12.1	8.6	11.3
Return on average assets (%)	12.2	17.6	8.9	7.5	9.7
Return on average equity (%)	26.3	33.7	13.7	11.5	15.8
Net debt to equity (%)	(142.5)	(103.8)	(54.5)	(71.9)	(75.0)
DPS	0.06	0.03	0.02	0.02	0.02
Recurrent cash flow per share	0.16	0.03	(0.02)	0.10	0.07

Source: Company data, OSK-DMG Estimates

- ◆ Higher government levies, salaries and sub-contracting costs would lead to margin compression.

1Q13 Results Review

Figure 3 Quarterly Results

Year Ended Dec(S\$m)	1Q13	1Q12	% Chge YoY	4Q12	% Chge QoQ	Comments
Revenue	32.0	25.0	28.4%	27.5	16.6%	Higher revenue was due to more projects being in the active stages of construction.
Cost of Sales	(27.2)	(19.7)	38.0%	(21.4)	26.8%	Higher government levies and salaries led to higher labour cost, coupled with higher sub-contracting costs.
Gross Profit	4.8	5.2	-7.7%	6.0	-19.6%	
Other income	0.3	0.7	-60.1%	1.1	-73.0%	
Administrative expenses	(2.4)	(2.2)	8.0%	(2.8)	-16.0%	
Other operating expenses	-	(0.1)	-100.0%	(0.1)	-100.0%	
Operating Profit	2.8	3.7	-25.0%	4.2	-34.7%	
Finance expenses	(0.0)	(0.0)	-33.3%	(0.0)	0.0%	
Share of associate	-	-	#DIV/0!	(0.0)	-100.0%	
Profit before income tax	2.7	3.6	-25.0%	4.2	-34.9%	
Income tax expense	(0.4)	(0.6)	-38.1%	(0.2)	50.2%	
Minority Interests	(0.0)	(0.0)	0.0%	0.2	n.m.	
Net profit	2.4	3.1	-22.5%	3.8	-37.4%	PATMI was dragged down by higher labour cost
GPM	15.1%	21.0%		21.9%		
PATMI margin	7.4%	12.3%		13.8%		

Source: Company data

Recommendation Chart



Source: OSK-DMG Estimates, Bloomberg

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

Source : OSK-DMG Estimates, Bloomberg

DMG & Partners Research Guide to Investment Ratings

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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