



## DMG & Partners Research CONSTRUCTION

Selena Leong  
+65 6232 3898  
selena.leong@sg.oskgroup.com

Terence Wong, CFA  
+65 6232 3896  
terence.wong@sg.oskgroup.com

### Construction

A road builder and contractor providing building construction and civil engineering services for public and private sectors.

### Stock Profile/Statistics

Bloomberg Ticker	OKP SP
STI	2,789.35
Issued Share Capital (m)	305.2
Market Capitalisation (S\$m)	167.9
52 week H   L Price (S\$)	0.685   0.49
Average Volume ('000)	377.6
YTD Returns (%)	-3.5
Net gearing (%)	Net cash
Altman Z-Score	3.27
ROCE/WACC	2.58
Beta (x)	0.93
Book Value/share (S\$)	25.77

### Major Shareholders (%)

Or Kim Peow and family	55.81
China Sonangol International	14.13
Ang Beng Tin	0.11
Oh Enc Nam	0.04
Chen Seow Phun	0.01

### Share Performance (%)

Month	Absolute	Relative
1m	0.00%	-6.41%
3m	-12.70%	0.55%
6m	-19.71%	-7.43%
12m	-0.90%	11.72%

### 6-month Share Price Performance



## 3Q11 Results Review

Private Circulation Only

# OKP HOLDINGS

<b>BUY</b>	<b>GO</b>
<b>Price</b>	<b>S\$0.55</b>
<b>Previous</b>	<b>S\$0.80</b>
<b>Target</b>	<b>S\$0.80</b>

## On track to a record year

OKP Holdings' (OKP) 3Q11 earnings grew 8.3% YoY to S\$4.9m, in line with our expectations. As the only listed road specialist in Singapore, OKP looks set to ride on the nation's building boom, benefiting from major public works like the S\$6-7b North-South Expressway. OKP's strategic tie up with China Sonangol (CS), which owns 14.1% of OKP, is a gateway to more potential projects. With a cash hoard of S\$95.8m (net cash of 31.1S¢ per share) and a financially strong partner like CS, OKP's construction earnings may be given an added boost with property development. With a record gross order book of S\$433.4m, FY11 looks set to be a banner year, with earnings likely to leap over 25% YoY. Maintain BUY and TP of S\$0.80, based on a target P/E of 6.4x (net cash).

**Record gross order book of S\$433.4m.** Currently, OKP has a healthy order book of S\$433.4m (S\$327.6m as at Dec 10), to be fulfilled by FY14. This lends some visibility to its earnings. Solid earnings over the years have allowed the contractor to build up on its cash hoard. With spare capacity to take on sizable projects coupled with a strong balance sheet, OKP is in the right position to ride the growth in the sector.

**Potential earnings booster from property development.** CS has acquired Amber Towers in the eastern part of Singapore and we believe OKP could be slated either to jointly develop the property together and/or go in as a contractor. We have not factored any earnings from its role as a potential developer.

**Positive sector outlook; maintain BUY.** Some projects in the pipeline include the new dual four-lane Lornie Road in Bukit Brown, road improvement works in the Kallang area to improve road connectivity for the upcoming Sports Hub, the North-South Expressway and the widening/ improvement of existing expressways. On the back of strong construction demand, we estimate earnings to hit S\$21.3m in FY11 (+25.8% YoY) and S\$23.7m in FY12 (+10.9% YoY). Based on a net cash target P/E of 6.4x FY12 earnings, we derive a TP of S\$0.80 (upside of 45.5%).

FYE Dec (S\$m)	FY08	FY09	FY10	FY11F	FY12F
Turnover	101.8	130.0	139.9	146.8	162.8
Net profit	9.5	14.4	17.0	21.3	23.7
% chg YoY	-13.4%	52.7%	17.4%	25.8%	10.9%
Consensus	-	-	-	-	-
EPS (S¢)	3.3	6.1	5.9	6.9	7.65
DPS (S¢)	2.0	3.0	5.0	5.0	5.0
Div Yield	3.6%	5.5%	9.1%	9.1%	9.1%
ROE	25.6%	29.2%	26.5%	28.9%	28.8%
ROA	12.3%	14.5%	12.3%	13.5%	13.8%
P/E (x)	16.4	9.1	8.5	7.9	7.2
P/B (x)	3.1	2.2	2.1	2.0	2.0

Source: Company data and DMG estimates

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**Results Table (\$m)**

<b>Year Ended Dec</b>	<b>3Q10</b>	<b>3Q11</b>	<b>% Chge YoY</b>	<b>2Q11</b>	<b>% Chge QoQ</b>	<b>Comments</b>
Revenue	36.6	25.5	-30.4%	28.3	-10.0%	Lower YoY with the completion/ substantial recognition of existing projects and a lower percentage of revenue recognised from a few newly awarded projects.
Cost of Sales	-29.5	-17.2	-41.6%	-17.1	0.5%	Increase YoY due to cost savings in certain design-and-build construction projects which yielded higher gross profit margins, better project management and tighter cost controls.
Gross Profit	7.1	8.3	16.2%	11.2	-26.0%	
Other income	0.2	0.3	57.1%	0.2	50.7%	Higher YoY due to increase in interest from bank deposits, interest from financial assets and gain on disposal of property, plant and equipment.
Administrative expenses	-1.7	-2.8	67.8%	-3.0	-5.9%	Increase YoY due to higher staff costs and higher directors' remuneration.
Other operating expenses	-0.1	0.1	-194.1%	0.0	-277.8%	Decreased YoY due to FX fluctuations with the strengthening US\$ against the S\$.
Operating Profit	5.6	5.9	5.5%	8.4	-29.8%	Down YoY with repayment of finance leases.
Finance expenses	0.0	0.0	-31.6%	0.0	0.0%	
Profit before income tax	5.5	5.8	5.8%	8.3	-29.8%	
Income tax expense	-1.0	-1.0	-4.9%	-1.4	-33.4%	
Minority Interests	0.0	0.0	N.M.	0.0	50.0%	
Net profit attributable to shareholders	4.5	4.9	8.3%	6.9	-29.1%	

Source: Company data

## FINANCIALS

Year End Dec (\$m)					
Income Statement					
	FY08	FY09	FY10	FY11F	FY12F
Revenue	101.8	130.0	139.9	146.8	162.8
Cost of sales	(80.5)	(106.6)	(110.4)	(111.6)	(123.7)
Other income	0.8	1.5	0.9	0.9	0.9
Operating Expenses	(9.7)	(7.6)	(9.8)	(10.4)	(11.6)
Other credits / (charges)	0.0	0.0	0.0	0.0	0.0
Finance costs (net)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)
Profit before tax	12.2	17.1	20.4	25.6	28.4
Tax	(2.7)	(2.7)	(3.6)	(4.3)	(4.8)
Profit including minority interest	9.5	14.4	16.9	21.2	23.6
Minority interest	0.1	(0.0)	(0.1)	(0.1)	(0.1)
Profit attributable to equity holders	9.5	14.4	17.0	21.3	23.7

Balance Sheet					
	FY08	FY09	FY10	FY11F	FY12F
Cash	35.4	77.7	100.1	109.1	122.4
Other current assets	27.5	28.1	31.1	32.6	35.8
Fixed assets	11.0	13.6	17.0	16.7	16.4
Non-current assets	2.9	2.9	4.9	4.9	4.9
Total assets	76.8	122.4	153.1	163.3	179.6
Current liabilities (excl. debt)	31.8	60.0	81.9	83.6	92.7
Debt	4.2	2.7	1.8	0.9	0.9
Other long term liabilities	0.1	0.2	0.4	0.4	0.4
Total liabilities	36.1	62.9	84.2	84.9	94.0
Shareholders equity	40.1	58.9	69.0	78.5	85.8
Minority interest	0.6	0.6	(0.1)	(0.2)	(0.3)
Total equity	40.7	59.5	68.9	78.4	85.6
Total equity and liabilities	76.8	122.4	153.1	163.3	179.6

Cash Flow					
	FY08	FY09	FY10	FY11F	FY12F
Operating cash flow before working capital changes	14.5	19.6	22.9	28.2	31.5
Working capital changes	3.9	27.6	18.7	(0.6)	5.3
Other operating cashflow	(2.6)	(2.5)	(2.6)	(4.6)	(5.1)
Net cash from operations	15.8	44.7	39.1	22.9	31.8
Net cash from investing activities	(0.2)	(5.0)	(8.1)	(2.6)	(2.9)
Net change in debt	(1.9)	(1.6)	(1.2)	(0.9)	0.0
Other financing cashflow	(3.2)	4.2	(7.0)	(5.4)	(15.5)
Net cash from financing activities	(5.1)	2.6	(8.3)	(6.3)	(15.5)
Net incr. in cash/cash equivalents	10.5	42.3	22.8	14.1	13.4
Cash at beginning of year	19.4	29.9	72.3	95.0	109.1
Cash at end of year	29.9	72.3	95.0	109.1	122.4

Margins	FY08	FY09	FY10	FY11F	FY12F
Gross profit	20.9%	18.0%	21.1%	24.0%	24.0%
Pre-Tax	12.0%	13.2%	14.6%	17.4%	17.4%
Net Profit	9.3%	11.1%	12.1%	14.5%	14.5%

Growth	FY08	FY09	FY10	FY11F	FY12F
Revenue	-18.3%	27.7%	7.6%	5.0%	10.9%
Pre-Tax	-11.0%	39.9%	19.5%	25.2%	10.9%
Net Profit	-13.4%	52.7%	17.4%	25.8%	10.9%
Tax rate	22.0%	15.6%	17.4%	17.0%	17.0%

Source: Company data and DMG estimates

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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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**DMG & Partners Research Pte. Ltd. (Reg. No. 200808705N)**

Kuala Lumpur	Hong Kong	Singapore	Jakarta	Shanghai
<b>Malaysia Headquarters</b> OSK Research Sdn. Bhd. 6 <sup>th</sup> Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : + (60) 3 9207 7688 Fax : + (60) 3 2175 3202	<b>Hong Kong Office</b> OSK Securities Hong Kong Ltd. 12th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : + (852) 2525 1118 Fax : + (852) 2810 0908	<b>Singapore Office</b> DMG & Partners Research Pte. Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211	<b>Jakarta Office</b> PT OSK Nusadana Securities Plaza CIMB Niaga, 14th Floor, Jl. Jend. Sudirman Kav.25, Jakarta Selatan 12920, Indonesia Tel : + (6221) 2598 6888 Fax : + (6221) 2598 6777	<b>Shanghai Office</b> OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66, No. 1266, West Nanjing Road Shanghai 200040 China Tel: +(8621) 6288 9611 Fax: +(8621) 6288 9633