



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	2,708.13
Issued Share Capital (m)	304.7
Market Capitalisation (S\$m)	170.7
52 week H L Price (S\$)	0.685 0.451
Average Volume ('000)	750.4
YTD Returns (%)	-2.6
Net gearing (%)	Net cash
Altman Z-Score	3.27
ROCE/WACC	2.45
Beta (x)	0.97
Book Value/share (S\$)	25.19

Major Shareholders (%)

Or Kim Peow and family	55.9
China Sonangol International	14.15
Ang Beng Tin	0.11
Oh Enc Nam	0.04
Chen Seow Phun	0.01

Share Performance (%)

Month	Absolute	Relative
1m	-0.89%	2.11%
3m	-9.02%	3.05%
6m	-8.26%	3.15%
12m	16.84%	29.65%

6-month Share Price Performance



Initial Coverage

Private Circulation Only

OKP HOLDINGS

BUY	Initiate
Price	S\$0.555
Previous	-
Target	S\$0.80

King of the road

OKP Holdings (OKP), the only listed road specialist in Singapore, is 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 14.2% of OKP, is a gateway to more potential projects. OKP has already secured the building project of luxury condominium Angullia Park from CS, the developer. With a cash hoard of S\$98.6m (net cash of 31.9S¢ per share) and a financially strong partner like CS, OKP's already strong construction earnings may be given an added boost with property. With a record gross order book of S\$433.3m, FY11 looks set to be a banner year, with earnings likely to leap over 25% YoY. At current price, OKP trades at 8x prospective P/E, which is a justified premium to peers at ~6.5x, due to its leading position as a road specialist and its hefty cash position. Net of cash, OKP's FY11 and FY12 P/E falls to 3.4x and 3.1x respectively. Initiate with BUY and TP of S\$0.80, based on a target P/E of 6.2x (net cash).

A leading road specialist; strong gross order book of S\$433.3m. As at end Aug, OKP has a healthy order book of S\$433.3m (+39.8% since Feb 11), spread across 13 projects. The contracts will run till FY14, lending 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 and strong financial position, OKP is in the right position to ride on the road in Singapore.

Potential earnings booster from property development. CS has acquired Amber Towers and we think 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.

Valued at a justifiable premium to peers. On the back of strong construction demand, we estimate earnings to hit S\$21.3m in FY11. Based on net cash target P/E of 6.2x FY12 earnings, we derive a TP of S\$0.80 (upside of 44.1%).

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	-	-	-	22.0	26.9
EPS (S¢)	3.3	6.1	5.9	6.9	7.7
DPS (S¢)	2.0	3.0	5.0	5.0	5.0
Div Yield	3.6%	5.4%	9.0%	9.0%	9.0%
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)	16.5	9.2	8.5	8.0	7.3
P/B (x)	3.1	2.2	2.1	2.0	2.0

Sources: Company data and DMG estimates

DMG & Partners Securities Pte Ltd may have received compensation from the company covered in this report for its corporate finance or its dealing activities; this report is therefore classified as a non-independent report. Please refer to important disclosures at the end of this publication.

TABLE OF CONTENT

Company Background	3
Industry Outlook	5
Investment Merits	9
Investment Risks	12
Earnings Forecast	13
Valuation	16
Financials	18
Appendix 1: Organisation Structure	20
Appendix 2: Completed Contracts	21
Appendix 3: Awarded Contracts	22
Appendix 4: Management Profile	23
Disclaimer	24

COMPANY BACKGROUND

OKP Holdings Limited (OKP) is a home-grown infrastructure and civil engineering specialist in the construction of airport runways and taxiways, expressways, flyovers, vehicular bridges, urban and arterial roads. It has recently, developed a niche in the oil and gas-related infrastructure for petrochemical plants and oil storage terminals.

Founded in 1966, OKP first started its operations as a sole-proprietorship, known as Or Kim Peow Contractor, handling projects each valuing less than S\$50,000 in the public sector, involving the upgrading of mud tracks in the rural parts of Singapore to asphalt roads. Subsequently in August 1977, OKP broadened its scope to include the construction and maintenance activities of both roads and road-related facilities that it has today. Eng Lam Contractors Co Pte Ltd and OKP Technical Management Pte Ltd were later incorporated, to take over the road construction and road maintenance activities of Enc Nam Contractors & Company (a partnership between Mr Oh Enc Nam and Mr Oh Kim Poy) and to provide technical management services to road construction respectively.

In 2006, OKP diversified into the Oil & Gas sector and had since secured and completed numerous projects in the sector, forging a strong presence in the industry. Some of the notable projects include one relating to the S\$750m Universal Terminal (a massive petrochemical storage facility) on Jurong Island as well as the civil works relating to ExxonMobil's second multi-billion dollar petrochemical complex.

OKP was upgraded to the Main Board of the Singapore Stock Exchange in July 2008. Subsequently in 2009, it had a breakthrough and secured its single largest public sector project in its 44-year history – a \$119.3m contract from the Land Transport Authority (LTA) to widen the portion of Central Expressway (CTE) from Pan Island Expressway (PIE) to Braddell Interchange. Since then, OKP has been developing its two core business segments, Construction and Maintenance, in both the public and private sectors.

In line with its strategy in exploring overseas opportunities, one of OKP's wholly-owned subsidiary, OKP Technical Management Pte Ltd, entered into a joint venture agreement with CIF Singapore Pte Ltd, a subsidiary of China Sonangol, an overseas conglomerate engaged in oil, gas and minerals investments and explorations, crude oil supply and national infrastructure construction projects. The latter has lately become OKP's substantial shareholder. Or Kim Peow Contractors (Pte) Ltd also entered into a joint venture agreement with Soilbuild Group Holdings Ltd (previously listed on SGX) to form Forte Builder Pte Ltd. The latter was then awarded the \$83.5m contract from China Sonangol for the construction of luxury Angullia Park condominium in Orchard Road.

Today, as a Grade A1 (Or Kim Peow Contractors Pte Ltd) and A2 (Eng Lam Contractors Co. Pte Ltd) contractor in the Civil Engineering (CW02) category, the group tenders bids for civil engineering and infrastructure construction projects, contracts for the maintenance of roads and road-related facilities, and building construction-related works in both the public and private sectors and had been ranked one of the best 200 firms in the Asia Pacific region on the Forbes Asia's 'Best Under A Billion' List.

OKP has a strong track record in civil engineering works in Singapore, as reflected by the list of completed projects and projects awarded (refer to Appendix 2 and 3 respectively). The company has garnered a list of impressive clientele, both from the public and private sectors. Some companies it has serviced previously include Foster Wheeler, Worley Parsons, Far East Organisation and Rotary Engineering. From the public sector, it has won contracts from Civil Aviation Authority of Singapore, Jurong Town Corporation and Urban Redevelopment Authority, among others. Through its subsidiaries, OKP possess Building and Construction Authority (BCA) A1 and A2 licenses for CW01, which allows it to tender for contracts of unlimited value and S\$85m respectively. There are 43 companies in Singapore with an A1 license as compared to >100 prior to the industry consolidation in the 1990s.

Figure 1: OKP's list of clients

Public Sector Clients	Private Sector Clients
Civil Aviation Authority of Singapore	Foster Wheeler Asia Pacific Pte Ltd
Housing & Development Board	WorleyParsons Pte Ltd
Jurong Town Corporation	Far East Organisation
Land Transport Authority	Rotary Engineering
National Parks Board	
Public Utilities Board	
Urban Redevelopment Authority	

Source: Company data

We note that OKP has diversified its suppliers such that no one single supplier constitute more than 10% of total cost of work in 1H11.

Figure 2: OKP's major suppliers

	Name of Suppliers	Nature of transaction	% of total cost of works (from 1 Jan to 30 Jun 2011)
1	Megastone Holdings Pte Ltd	Supply of premix	8.8%
2	Samwoh Corporation Pte Ltd	Supply of premix	7.8%
3	Natsteel Holdings Pte Ltd	Supply of rebars	3.5%
4	Siem Seng Hing & Co Pte Ltd	Supply of deformed bars	2.9%
5	S.E Loh Trading Co	Supply of diesel	2.2%

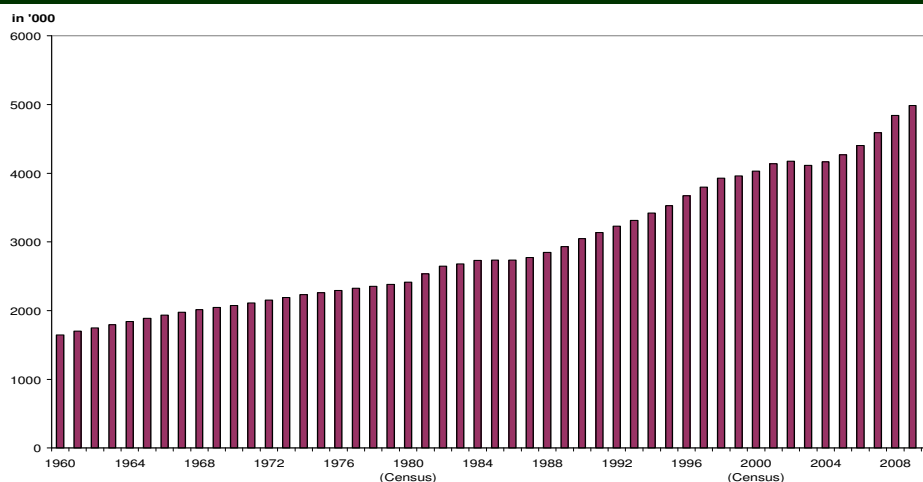
Source: Company data

INDUSTRY OUTLOOK

We are positive on the road works space in Singapore, with all the mega projects and routine maintenance/ upgrading works announced by the government. The upcoming projects will keep civil engineering companies busy for a while.

Where it all began - a growing population. The growth in the population of Singapore, as well as the growing affluence of the people, have led to greater traffic on Singapore roads. According to The Census of Population 2010 “Advance Census Release” report released by the Singapore Department of Statistics, Singapore’s total population was 5.08m as at end June 2010, a 66.7% surge since 1990 and 26% leap from a decade ago.

Figure 3: Resident population in Singapore

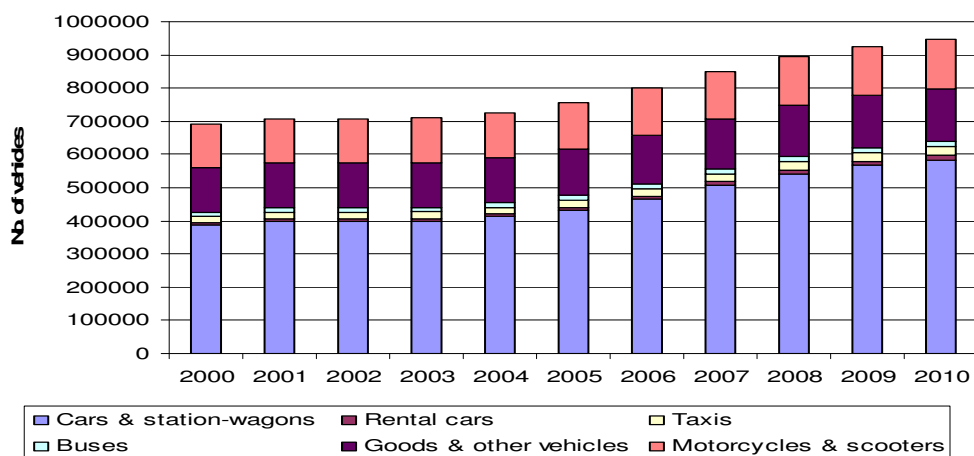


Source: Department of Statistics

We note that the number of permanent residents grew by at least 6% per year between 2005 and 2009. In addition, there was strong growth in the number of non-residents during the peaks of 2007 and 2008, when growth was 15% and 19% respectively.

Population increase + growing affluence = more private vehicles. With more people on the island, the total number of vehicles on Singapore’s roads has increased 36.5% over the last decade. Most notably, we see cars and station-wagons, which made up 61.8% of total vehicles in 2010 (55.8% in 2000), up from 386.8k in 2000. The additional 197.6k vehicles represents a 51.1% growth since 2000. Second in line was goods and other vehicles, adding another 22.8k vehicles on the streets (+16.9% between 2000-2010), followed by motorcycles and scooters which added 16.2k (+12.3%). Although rental cars made up only 1.4% of total numbers of vehicles in 2000, the category grew the fastest over the 10 year period, adding 4909 vehicles or equivalent to a growth of 58.2%. This supports our view that in spite of an established public transport system, car ownership remains high on the “wish list” among those residing in Singapore and this trend may continue to persist. Thus, while the growth in immigrants have slowed to a only 1% in 2010, we believe the “open-door” policy to foreigners will continue as low fertility rate among citizens and the economic drive to transform Singapore into a global city continues. Hence, we believe this trend in population growth and the resultant higher road usage will continue to be a source of increasing demand for roads; which spells good news for road builders.

Figure 4: Motor vehicles population by vehicle type

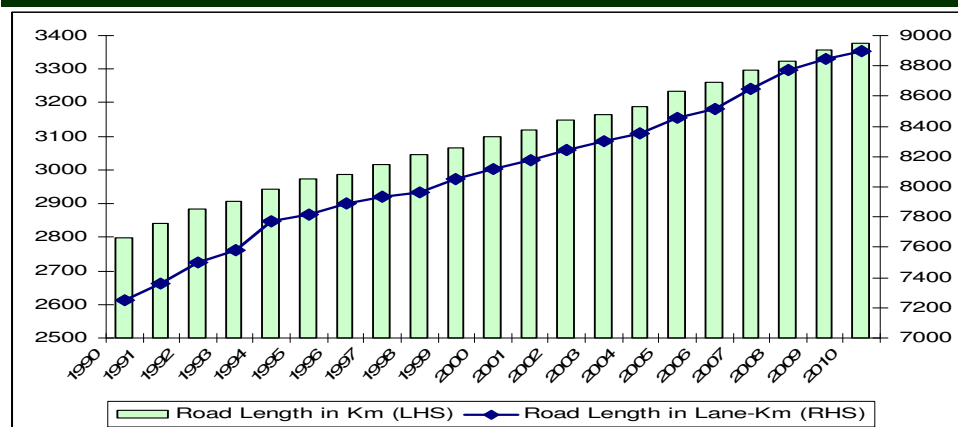


Source: LTA

Slower traffic with more vehicles on the road. Based on LTA's statistics gathered between 2002 and 2010, congestion within the CBD/ arterial roads has increased and the reverse has occurred for expressways. The average speed during peak hours of 8-9am and 6-7pm within the CBD/arterial roads has increased by 13.8% to 28 km/hour between 2002 and 2010, possibly due to the number of new ERP gantries that sprung up during the corresponding period – from 45 to 69 (+53.3%). The situation is the reverse for expressways, where speeds slowed by 3.9% to 62.3 km/hour. We believe this is positive for road builders like OKP as it implies that LTA has to widen existing roads or expressways to cater for growing congestion on Singapore roads. Some recent/ ongoing projects include the 1) widening of the Central Expressway from Pan Island Expressway to Braddell Interchange (OKP was awarded the S\$119.3m contract), 2) widening of Tampines Expressway (TPE) and Jalan Kayu (OKP secured the S\$61.7m project in April this year) and 3) widening of PIE between Clementi Ave 6 and Adam Road, to be completed by end 2011, Oct 2014 and 2014 respectively.

The solution - more roads, flyovers and other facilities. With more residents, there is a need for higher connectivity, implying more roads and public transport infrastructure (like the MRT system) need to be in place. We can see LTA attempting to ease increasing traffic congestion with increasing road length as the population grows. Road length jumped 20.7% between 1990 and 2010, from 2798 km to 3377 km. Road length in lane-kilometer grew 22.7% to 8895 km during the same period. Corresponding to the growing road length, more facilities for vehicular flyovers (+20% between 2000-2010), bridges (+4.9%) and underpasses and tunnels (+55.6%) have also been constructed. Thus, civil contractors like OKP will stand to benefit from this growing demand for civil engineering services.

Figure 5: Growth in road length



Sources: LTA and DMG compilation

Figure 6: Growth in public infrastructure facilities

	Flyovers	Vehicular Bridges	Vehicular Underpasses and Tunnels
1994	79	180	10
1995	83	196	12
1996	86	196	12
1997	93	200	14
1998	95	202	18
1999	95	202	18
2000	95	203	18
2001	95	203	18
2002	95	203	18
2003	98	205	21
2004	103	207	23
2005	104	208	24
2006	111	214	25
2007	111	214	27
2008	112	214	27
2009	114	213	28
2010	114	213	28
Growth since 2000	20.0%	4.9%	55.6%

Sources: LTA and DMG compilation

Upcoming mega road projects

1) The North-South Expressway

The Government has given the approval for the alignment of the North-South Expressway (NSE) between Admiralty Road West and Toa Payoh Rise. The NSE, announced under the Land Transport Master Plan, will be Singapore's eleventh expressway. One of the most challenging engineering undertakings to date, the NSE will serve the North-South corridor, bringing faster travel from residential estates such as Woodlands, Sembawang, Yishun, Ang Mo Kio, Bishan and Toa Payoh to the city centre.

To meet the long term growth in travel demand generated by developments in the North and North-Eastern sectors of Singapore, the dual three-lane carriageway will consist of a combination of viaduct and road tunnels to provide a new high speed road link. The NSE will also connect to existing expressways, such as the Seletar Expressway (SLE) and major arterial roads like Marymount Road. The NSE is estimated to be 15.9 km long and expected to cost S\$7-8b. Industry players are expecting LTA to call for tender in 2H 2012 and construction of the project to commence in 2013. This multi billion-dollar project will give civil works contractors something to look forward to.

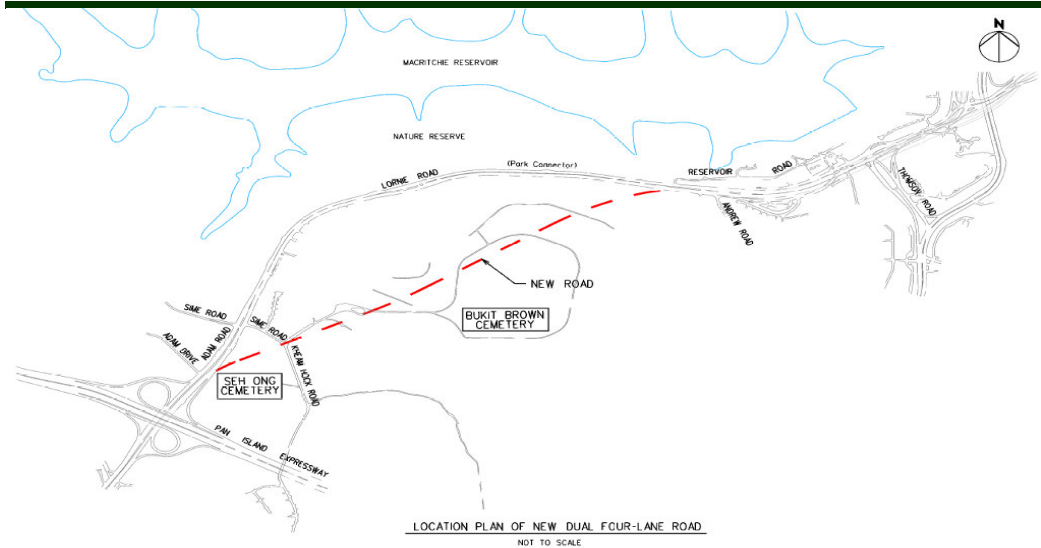
Figure 7: Route of North-South Expressway

Source: LTA

2) Construction of New Dual Four-Lane Road in Bukit Brown

With the future developments in the central and northern parts of the island, LTA estimates traffic demand along Lornie Road to increase between 20% and 30% by 2020 and that would be beyond the current capacity of Lornie Road. Therefore, to alleviate the congestion currently experienced along Lornie Road and the PIE during peak hours and to cater to expected growth in future traffic demand, the LTA will construct a new dual four-lane road in Bukit Brown. Construction of the new road is expected to begin in early 2013 and will be completed by 2016. While it is still early to estimate the cost of the project, our channel checks reveal that similar to the NSE and other massive projects like the Marina Coastal Expressway, the entire project is likely to be broken up into several packages and each package is estimated to be worth ~S\$50-60m.

Figure 8: Route of new road in Bukit Brown



Source: LTA

INVESTMENT MERITS

Not just king of the road. OKP is one of the leading road contractors in Singapore, in terms of capacity and technical competency. This is reflected by the shrinking number of bidders as the tender value for projects increases. According to management, a S\$30-40m contract would usually draw 10 to 15 companies tendering. Projects valued at ~S\$100m typically attract about five to six bidders. For the widening of CTE, OKP was the only contractor that submitted a bid (which it eventually secured at S\$119.3m). On the back of its strong track record in roads works, management estimates OKP's success rate of securing tenders is >50%. However, OKP is not just a leader in road works; it has a strong track record in other civil engineering works as well. This is reflected by its recent sizable S\$46.8m contract win in Aug from national water agency PUB, to reconstruct the open canal between Zion Road and Kim Seng Road. The Zion Road Bridge and Kim Seng Road Bridge will be reconstructed and three new underpasses crossing Zion Road and Kim Seng Road will also be constructed.

Strong net cash position with no debt. OKP has a clean balance sheet, with practically no borrowings (only S\$1.3m of finance lease relating to equipment purchases) and is in a net cash position of S\$97.2m or equivalent to 31.9S¢ per share. With cash making up 57.5% of its current share price of 55.5S¢, we believe that this could provide some support to the stock. In FY10, OKP paid out 62.4% of its earnings (equivalent to 9% dividend yield).

Deep pockets of strategic partner, China Sonangol. In April 2009, OKP teamed up with a strategic partner, China Sonangol International (S) Pte. Ltd. (China Sonangol), by issuing 15m new shares at a price of S\$0.45 per share to the latter. China Sonangol is a subsidiary of China Sonangol International Limited, an overseas conglomerate that specialises in oil, gas, and minerals investment and explorations, crude oil supply and national infrastructure construction projects with headquarters in Hong Kong. Following a bonus issue on a one-for-two basis and a rights issue of warrants on a one-for-four basis, China Sonangol bought another 15m shares from OKP's executive directors and shareholders at S\$0.66 per share. After exercising the warrants and the second batch of 15m shares purchase, China Sonangol's stake in OKP is raised from 9.23% to 14.15% currently. We believe the selling price of the shares at S\$0.66 per share (a premium of 16.8% to the closing share price prior to the announcement on 19 Aug) indicates the confidence China Sonangol has in the growth of OKP's business.

Potential pipeline of projects from China Sonangol. China Sonangol's venture into the Singapore property market has resulted in at least one new building contract for OKP. The latter is currently involved in the construction of a luxury condominium at Orchard Road, Angullia Park. This S\$83.5m project is undertaken by Forte Builder Pte. Ltd., a joint venture with Soilbuild and was awarded by a wholly-owned subsidiary of China Sonangol Land Pte Ltd, the owner of the development site. In April, China Sonangol acquired Amber Towers along Amber Road in an en bloc transaction. This could present some business opportunities for OKP, either in the form of construction project wins and/or as a co-developer with China Sonangol. In Indonesia, China Sonangol Land acquired the Entertainment X'nter (e'X) lifestyle shopping mall located in Menteng, Central Jakarta in Nov 2010. With a total leasable area of approximately 159,618 sqf, the mall is currently enjoying an occupancy rate of close to 100%. China Sonangol Land has plan to re-develop the 203,707 sqf site into a mixed-use development comprising of residential, office and serviced apartments in early 2013. We believe China Sonangol's global presence may allow OKP to extend its geographical footprint and achieve geographical diversification in terms of revenue streams.

Public sector catalyst – new road projects. As detailed in the industry outlook section, we believe the Singapore government would try to reduce congestion and in so doing, continue to spur construction activity through various projects such as the widening of expressways, adding new lanes along Lornie Road leading to PIE & the construction of NSE. These are all sizable infrastructure projects out for grabs. With OKP's strong track record, we believe it would be able to secure some contracts from the above mega projects.

Figure 9: Potential projects in the pipeline

Description Of Project	Customer	Financial Limit
1 Construction of the North-South Expressway	Land Transport Authority	-
2 Construction of Seng Kang West Road from Yio Chu Kang Road to TPE	Land Transport Authority	BCA B1 (up to \$40,000,000)
3 Enhancement of Braddell Road West Bound from CTE to Toa Payoh North Flyover	Land Transport Authority	BCA C1 (up to \$4,000,000)
4 Widening of Pan Island Expressway (PIE) from Clementi Avenue 6 to Bukit Timah Expressway (BKE)	Land Transport Authority	BCA A2 (up to \$85,000,000)
5 Road Works at Junction of (1) Bukit Batok Road/ Brickland Road/ Bukit Batok West Avenue 5 (2) Jalan Ahmad Ibrahim / Jurong Pier Road	Land Transport Authority	BCA C1 (up to \$4,000,000)

Source: LTA

Record gross order book of S\$433.3m, but can still do more. OKP has a robust gross order book of S\$433.3m, to be fulfilled by FY14. We understand this is the highest level reached since FY06. However, this does not imply that OKP's capacity is stretched to the limit. We understand that OKP has the capability to take on more jobs - up to twice its current gross order book.

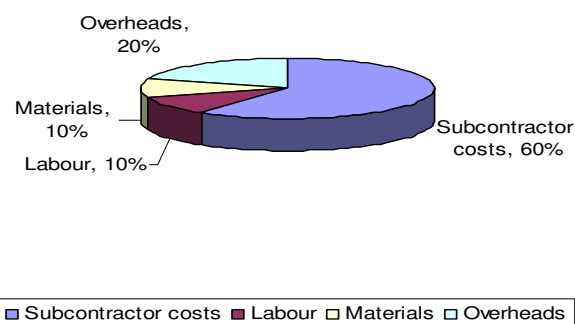
High collectability of receivables. Since the majority of OKP's revenue are derived from public sector agencies (88% of sales in FY10), the receipts of its receivables are fairly certain and there is an unlikely need to provide any material bad debt, even during a downturn. We understand that LTA is relatively prompt in its payments, typically paying OKP within 45 days post receipt of invoices.

Figure 10: Exposure to top five customers

	FY2007	FY2008	FY2009	FY2010	1H2011
	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue
FWP Joint Venture	41%	20%	18%	9%	16%
Rotary Engineering Limited	22%	6%	0%	0%	0%
Land Transport Authority	15%	39%	63%	73%	43%
Public Utilities Board	3%	17%	13%	11%	24%
Jurong Town Corporation	3%	9%	4%	4%	8%
Others	16%	9%	2%	3%	9%
	100%	100%	100%	100%	100%
Total revenue	124,660	101,825	129,982	139,856	61,140

Source: Company data

Able to pass on all costs increases to clients. OKP is fairly insulated from fluctuating raw material costs since most government contracts now include the BCA's indices for raw materials. OKP employs 744 employees as at Dec 2010, of which 89% are involved in site operations and the remaining 11% are management/ supervisory and finance and administration staff. 80% of its staff are foreigners working on site. With the government clamping down on the number of foreigners entering Singapore and hiking foreign workers' levy in recent years, there are concerns of OKP being hit by rising labour costs and a shortage of both skilled (such as experienced engineers) and lower skilled workers (whose job scope requires more manual labour and on site). Rising labour costs have been mitigated by OKP's continual efforts to train their workers. In addition, OKP targets to do 40% of all project work with its own staff, thus helping to keep rising labour costs in check. Hence, labour increases due to the levy hikes is on average, <1% of total labour cost of a project. Thus far, OKP has managed to pass on all the cost increases to its customers by increasing tender prices.

Figure 11: Breakdown in cost of sales

Sources: Company data and DMG compilation

Any MRT project secured is a bonus. OKP has set up a team of experienced staff to bid for the MRT projects. However, we understand that pricing for projects so far had been extremely competitive. Hence, we consider any MRT project win a wildcard that would be a boost to earnings and a potential re-rating catalyst.

INVESTMENT RISKS

LTA holds back projects. We think that the government is unlikely to withhold the various infrastructure projects as the growth in population and growing number of cars on the road and congestion in the MRT trains are all still causes for concern. In fact, during downturn the government may roll out more projects or push out more projects simultaneously, with its pump priming efforts to stimulate the economy.

Lumpiness of revenue. Due to OKP's nature of business, its revenue is dependent on the number of contracts secured and the percentage of completion of contracts at any point in time. Hence, there will be lumpiness in its revenue and earnings. It is not just the construction segment that is lumpy and driven by contract awardments, the maintenance segment of its business is also one-off in nature and secured through the open bidding process.

High geographical concentration of revenue. 100% of OKP's current projects/ order books are from Singapore. However, we do not think that it is a significant risk since the government has already announced the various mega infrastructure projects (like the MRT line, NSE) to be developed. While OKP does not have a significant presence overseas, it is not new to jobs abroad. It has completed the extension of an airport runway in the Commonwealth of Northern Mariana Islands worth US\$8.7m between Jan 06 and Jan 07. In addition, we believe OKP would be selective in the type of work they would perform, taking on jobs where they can value-add and not compete with its competitors on the margins front, for instance in project management.

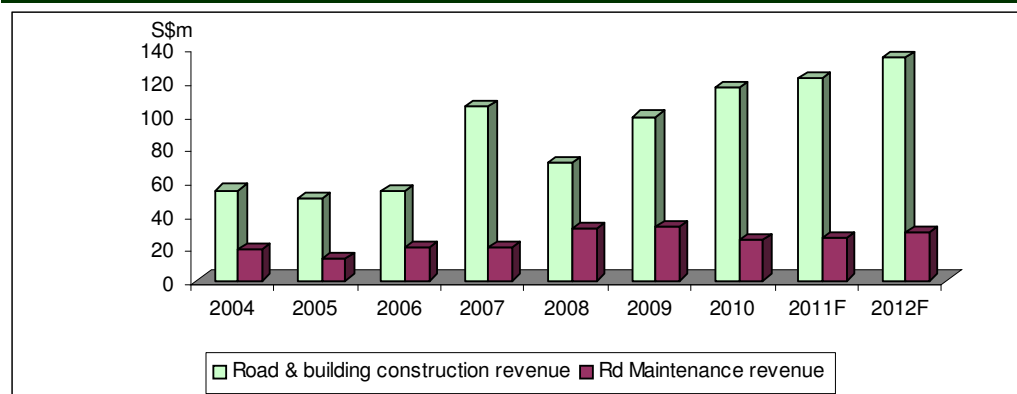
Land scarce Singapore. In Singapore where land is limited and road infrastructure relatively developed, it is not difficult to foresee that the time may come when no more new expressways/ roads can be built and maintenance work will eventually form the bulk of road work jobs available. However, with mega projects such as the NSE stretching till 2020, we believe that the medium term outlook remains positive for civil contractors. Moreover, OKP is a civil engineering company that has a strong track record in civil works other than constructing roads. It has demonstrated its ability in construction-related areas through its involvement in the Angullia Park project.

Potential write down of value of property. Should OKP have carried on with its plans to be a property developer and a downturn in Singapore's property market persists, there may be a write down in the value of property in the future.

EARNINGS FORECASTS

With OKP's 1H11 revenue coming in at S\$61.1m (-17% YoY due to the timing of projects' completion), we estimate FY11 revenue to hit S\$146.8m, of which S\$121.8m is derived from construction and S\$25.1m is from maintenance. This represents 82.9% of topline attributable to construction and 17.1% from maintenance, in line with last year's trend.

Figure 12: Revenue mix of OKP in dollars



Sources: Company data and DMG estimates

Figure 13: Revenue mix of OKP in percentage terms

	2004	2005	2006	2007	2008	2009	2010	Average
Construction revenue	74.4%	79.4%	72.9%	84.0%	69.6%	75.54%	82.9%	77.0%
Maintenance revenue	25.6%	20.6%	27.1%	16.0%	30.4%	24.46%	17.1%	23.0%
Total	100%	100%	100%	100%	100%	100%	100%	100.0%

Sources: Company data and DMG estimates

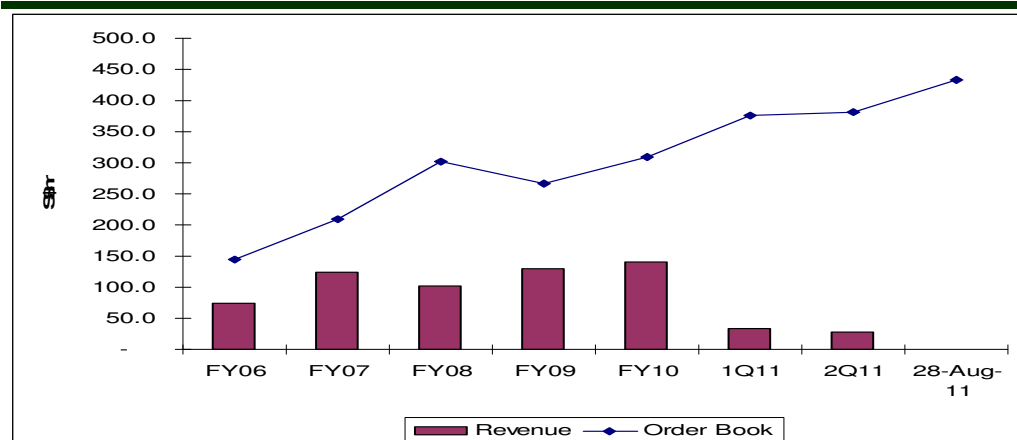
On closer examination of the relationship between OKP's gross order book and its revenue, OKP's average revenue to gross order book ratio has been ~0.5 since FY06.

Figure 14: Revenue to gross order books ratio

	FY06	FY07	FY08	FY09	FY10	Average
Revenue (S\$m)	73.3	124.7	101.8	130.0	139.9	113.9
Gross order book (S\$m)	143.6	209.2	302.5	266.6	309.9	246.4
Revenue to order book ratio	0.5	0.6	0.3	0.5	0.5	0.5

Source: Company data

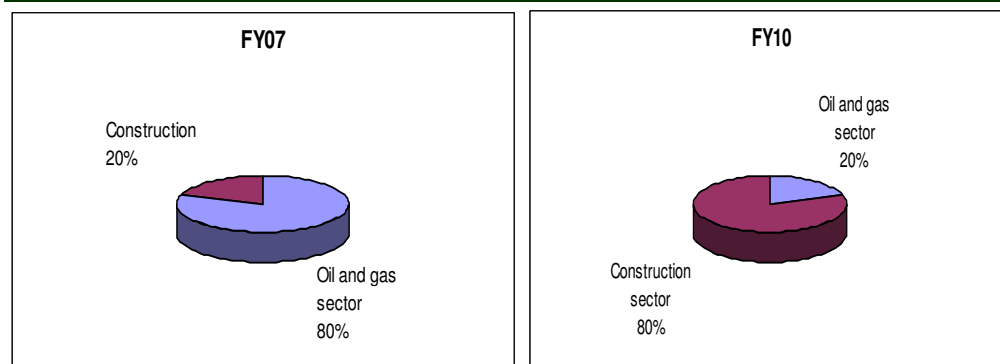
Figure 15: Gross order books and revenue trend



Source: Company data

To tap into the oil and gas sector, OKP entered into a joint-venture with Rotary Engineering. It bid and won the Universal Terminal contract worth S\$0.7m on Jurong Island in May 06. Subsequently, OKP secured a number of contracts on Jurong Island, one of the more significant ones being the S\$40m awarded by Foster Wheeler Asia Pacific Pte Ltd and WorleyParsons Pte Ltd in Jul 07. Thus, revenue from its oil and gas sector was boosted to ~S\$55m in FY07, making up ~80% of total revenue and the remaining arising from construction sector. Since then, revenue from the oil and gas sector has declined, contributing ~20% of top line in FY10 and construction making up the rest. We believe construction is likely to remain the key contributor to OKP's revenue until the oil and gas sector next up-cycle, or its property development contribution kicks in.

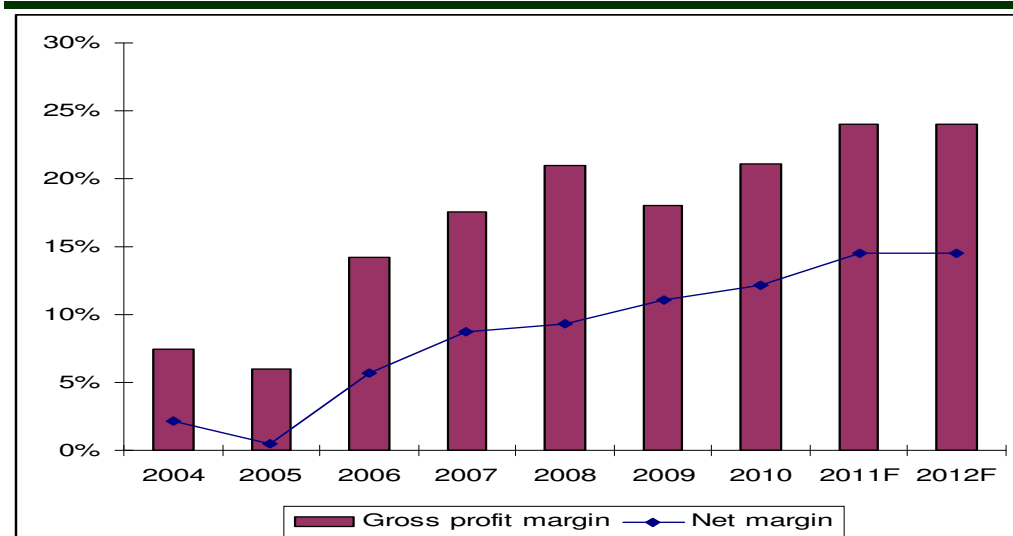
Figure 16: Shift in revenue stream from oil and gas contracts to construction



Sources: Company data and DMG compilation

Gross profit margins (gpm) for the construction and maintenance projects secured for projects in its current order books varies, with construction margins averaging between 15-20% and maintenance margins hovering between 12-15%. We have assumed a gpm of 24% in FY11. We think that this is reasonable in light of 1H11's gpm being lifted up by non-recurring variation orders in certain oil and gas contracts, coming in at 32.6% (1H10 gpm was 16.8%)

Figure 17: Uptrend in gross and net profit margin



Sources: Company data and DMG estimates

We believe OKP's FY11 earnings would still be driven predominately by construction rather than maintenance segment. Between FY06 and FY08, construction contributed ~90% of OKP's earnings, reflecting the impact of the significant investments poured into the oil and gas sector. This trend is now normalising, as we can see from FY09's and FY10's percentages, which saw construction earnings dropped to 69.9% and 77.8% of the respective

years' profits, down from the previous highs of 88.8% to 93.4% between FY06 and FY08.

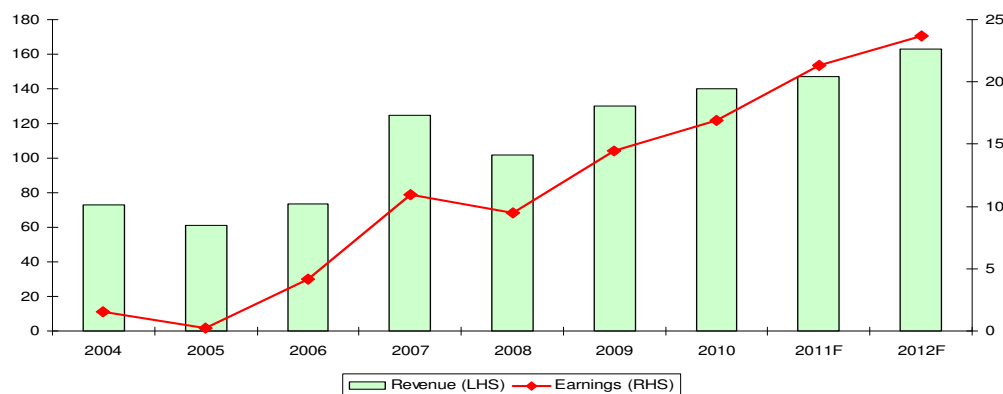
Figure 18: Earnings breakdown by segment

in %	FY06	FY07	FY08	FY09	FY10
Construction earnings	91.9	93.4	88.8	69.9	77.8
Maintenance earnings	8.1	6.6	11.2	30.1	22.2
Total	100	100	100	100	100

Source: Company data

We have not included any contribution from potential property development and MRT wins into our earnings estimates, as we view those as earnings boosters rather than making up the bread and butter of OKP earnings stream. Based on our assumptions, we project that OKP's earnings would hit S\$21.3m in FY11 and S\$23.7m in FY12.

Figure 19: Revenue and earnings trend



Sources: Company data and DMG estimates

We do not expect OKP to be overly aggressive with its capital expenditure spending as it currently has ample capacity to take on more jobs without having to invest substantially in machinery. In addition, OKP's own in-house equipment service centre in Sungei Kadut would ensure that its equipment is well maintained and the useful life of machinery is prolonged. We understand that 20% of OKP's equipment is fully depreciated and still in use. We estimate S\$2.9m per annum for the next two years in new equipment additions.

We expect OKP to grow its strong net cash position in FY11, with net cash per share coming in at 37.8S¢ (1H11: 31.9S¢). This assumes no land purchases by the company.

While OKP has no formalised dividend policy currently, its dividend payout ratio since FY06 has ranged from 20.6% to 62.4% with an average of 36.9%. In recent years, the minimum dividend declared was 1.5S¢ per share in FY06 and has been increasing each year to a record 5S¢ declared last year. This was in tandem with a record year of earnings and translates to an attractive yield of 9%. We forecast that OKP would likely be able to maintain its dividend payout level on the assumption that it does not require its cash to further its property development business.

Figure 20: Dividend payout history

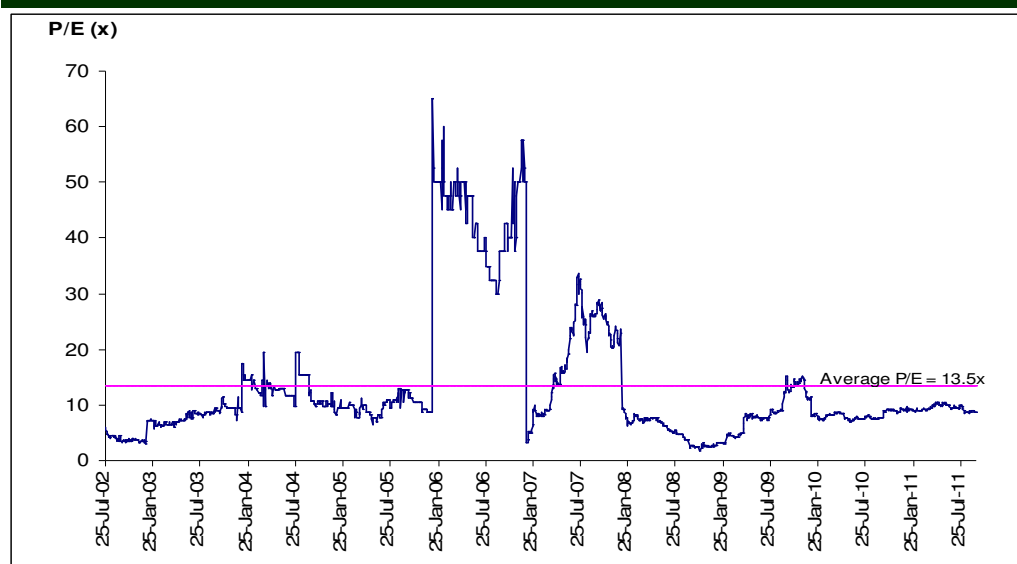
	2006	2007	2008	2009	2010	2011F	2012F
Dividend payout ratio	49.3%	20.6%	31.7%	20.8%	62.4%	67.1%	65.3%
DPS (S¢)	1.5	2.0	2.0	3.0	5.0	5.0	5.0
Dividend Yield	2.7%	3.5%	3.5%	5.3%	8.8%	8.8%	8.8%

Sources: Company data and DMG estimates

VALUATION

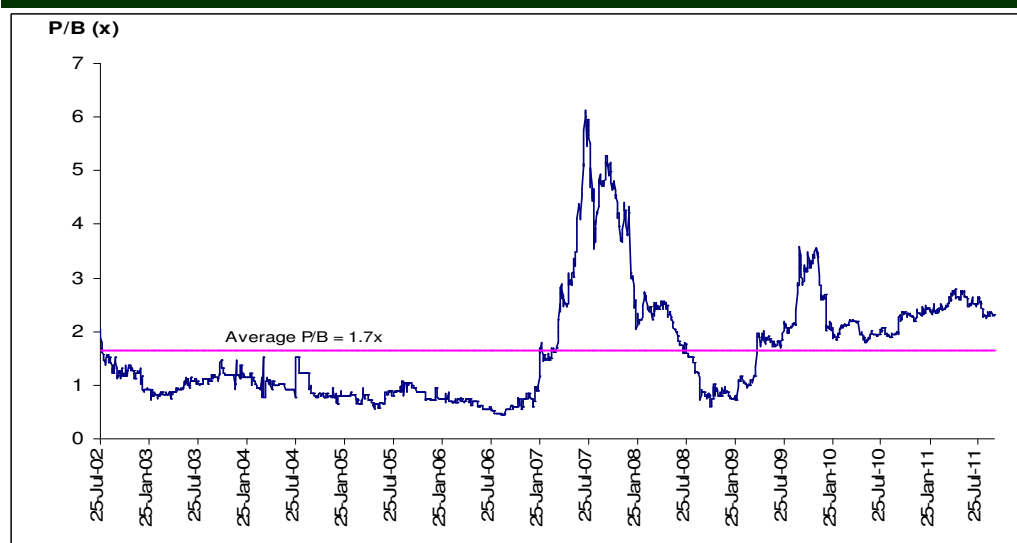
OKP has traded at a historical average of 13.5x P/E since its listing in 2002. If we were to exclude the strong market run in 2006-07, the average P/E comes off to 9.8x. Currently, it is trading at a prospective P/E of 7-8x. Stripping out the cash, the company is trading at a mere 3.4x FY11 and 3.1x FY12 P/E. It is further supported by strong yields of 9%. With a positive outlook for both the industry and the company, we initiate coverage on OKP with a BUY recommendation and a TP of S\$0.80 (based on 6.2x net cash FY12 P/E). This implies a potential upside of 44%.

Figure 21: Historical P/E ratio



Source: Bloomberg

Figure 22: Historical P/B ratio



Source: Bloomberg

Figure 23: Peers' comparison

	Last Close Price	Market Cap (S\$m)	Current Year Estimated P/E (x)	Next Year's Estimated P/E (x)	P/B (x)
BBR	0.21	64.6	3.1	2.7	0.7
CSC	0.101	124.1	24.5	15.0	0.7
Hong Leong Asia	1.545	577.6	5.6	5.3	0.8
KSH Hldgs	0.21	72.1	3.3	3.0	0.6
Lian Beng	0.375	198.7	3.7	3.3	1.1
Tat Hong	0.715	355.1	11.5	9.5	0.7
Tee International	0.265	91.7	5.6	4.6	1.5
Tiong Seng	0.188	144.0	4.7	4.5	0.8
UE E&C	0.335	90.5	2.4	2.4	0.8
Wee Hur	0.27	174.1	2.5	2.5	1.9
Yongnam	0.23	288.3	5.0	4.5	1.1
Average		198.3	6.5	5.2	1.0

Sources: Bloomberg and DMG estimates

FINANCIALS

Income Statement

Year Ended Dec (S\$m)	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

Year Ended Dec (S\$m)	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

Sources: Company data and DMG estimates

Cash Flow Statement

Year Ended Dec (\$m)	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

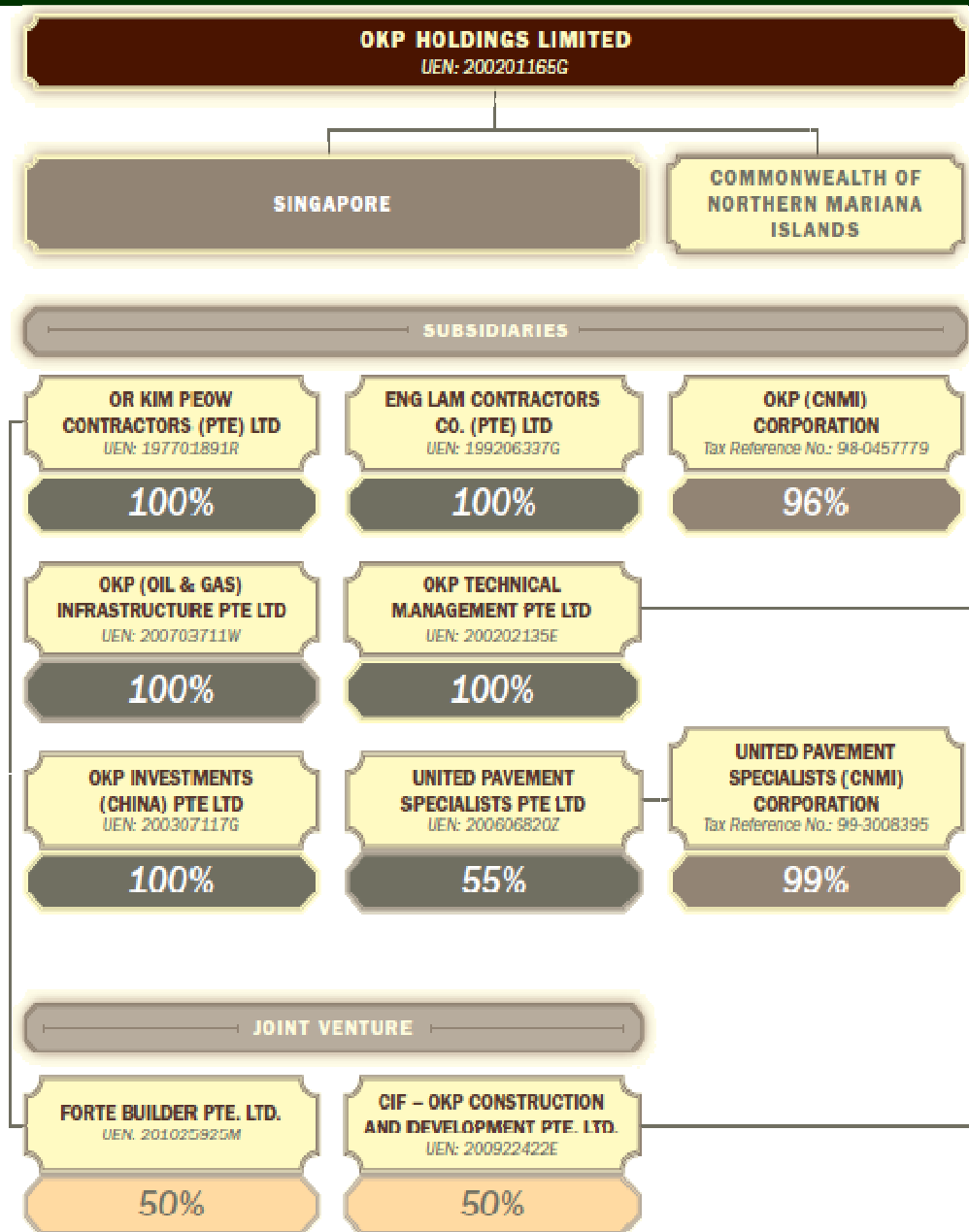
* excludes pledged deposits

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%

Sources: Company data and DMG estimates

APPENDIX 1: CORPORATE STRUCTURE



Source: Company data

APPENDIX 2: COMPLETED PROJECTS

Description Of Project	Customer	Date of Commencement	Date of Completion	Contract Value (\$)
Construction Projects				
1 Widening of Eunos Link and Jalan Eunos from Airport Road to Sims Avenue	Land Transport Authority	April 2008	October 2010	28,508,250
2 Proposed Road Raising works along Orchard Road (from Orange Grove Road to Cairnhill Road)	Public Board	November 2010	May 2011	22,000,000
3 Selected civil works at Jurong Island	FWP Joint Venture	January 2009	April 2011	21,700,000
4 Tanglin Halt Outlet drain at North Buona Vista	Land Transport Authority	December 2008	December 2010	20,827,000
5 Term Contract 7 for Construction of Covered Linkways, Cover to Pedestrians Overhead Bridges and Bus Shelters	Land Transport Authority	January 2008	July 2010	7,067,000
6 Proposed Development of: Sungei Pinang Park Connector along Sungei Pinang off Buangkok Drive Sungei Serangoon Park Connector along Sungei Serangoon off Sengkang East Drive and Tebing Walk AMK Ave 5 Park Connector from AMK Town Garden West to existing Buangkok Park Connector along AMK Ave 5	National Parks Board	June 2009	March 2010	5,667,000
7 Road works In City Centre (Phase 3)	Land Transport Authority	May 2009	May 2010	4,802,000
8 Land reclamation works at Jurong Island	Exxonmobil Asia Pacific Pte Ltd	August 2010	February 2011	1,088,500
Maintenance Projects				
1 Improvement to Roadside Drains III Western Sector Contract 3 - Chin Bee Road and Gul Circle	Public Board	May 2008	September 2010	13,937,000
2 Painting and cleansing of road related facilities in East sector for a period of two years	Land Transport Authority	April 2008	March 2010	13,327,000
3 Ad hoc repairs and upgrading of roads and road related facilities in central sector for a period of two years	Land Transport Authority	April 2008	April 2010	12,700,000
4 Proposed environmental improvement works at Siglap Village and Upper Serangoon Road and along the canal at Kampong Sireh	Urban Redevelopment Authority	May 2009	May 2010	3,387,000

Sources: Company data and DMG compilation

APPENDIX 3: AWARDED CONTRACTS

Description Of Project	Customer	Date of Commencement	Date of Completion	Contract Value (\$)
Construction Projects				
1 Widening of Central Expressway from Pan Island Expressway to Braddell Interchange	Land Transport Authority	January 2009	December 2011	119,270,000
2 Construction of a condominium housing development, one block of 36-storey residential flat developmental (total 54 units) with sky terraces, two basement carparks, a swimming pool and communal facilities at Augullia Park	Augullia Development Pte Ltd	December 2010	April 2013	83,500,000
3 Widening of Old Choa Chu Kang Road from Sungei Tengah Road to Lim Chu Kang Road	Land Transport Authority	February 2011	February 2014	28,527,000
4 Widening of Old Choa Chu Kang Road from Sungei Tengah Road	Land Transport Authority	February 2011	February 2014	28,500,000
5 Construction of roads, drains, sweres and ancillary works at Cleantech Park (Phase 1). Road widening works at Nanyang Avenue and sewage works along Jalan Bahar	Jurong Town Corporation	October 2010	June 2012	14,497,000
6 Final premiss surfacing, reinstatement and ancillary works at Tuas View Extension, Phase 1	Jurong Town Corporation	March 2010	June 2011	5,177,000
7 Sewer extension works in Admiralty Road West, Andrews Avenue, Tung Po Avenue, Punggol Road and Cranwell royal West	Public Utilities Board	March 2011	November 2012	4,217,000
8 Improvement to Roadside Drains IV Contract 1A (Ang Mo Kio Ave 3, Tembling Road and Ewe Boon Road Areas)	Public Utilities Board	May 2011	November 2012	3,373,300
9 Construction of Interchange at TPE/Sengkang West Road / Seletar Aerospace Way	Land Transport Authority	April 2011	Oct 2010	1,727,000
Maintenance Projects				
1 Ad hoc repairs and upgrading of roads, road related facilities and road structures in Central Sector for a period of 39 months	Land Transport Authority	May 2010	August 2013	19,400,000
2 Improvement to roadside drains EUP Batch 5 Contract 3 – Opera and East View Garden Estates	Public Utilities Board	January 2009	January 2011	15,397,000
3 Ad hoc repairs and upgrading of roads, road related facilities and road structures in North-West Sector for a period of 39 months	Land Transport Authority	May 2010	August 2013	14,900,000
4 Proposed desilting of Bukit Timah Phase 2	Public Utilities Board	July 2010	October 2011	5,967,000

Sources: Company data and DMG compilation

APPENDIX 4: MANAGEMENT PROFILE

Or Kim Peow, Chairman

Mr Or Kim Peow, PBM, is the founding member of the Group. He was appointed Group Chairman of OKP Holdings Limited on 15 February 2002 and has more than 51 years of experience in the infrastructure and civil engineering business. He is responsible for overseeing the overall management and strategic development of the Group. He founded the Group 44 years ago and was instrumental in growing and steering it through major changes in its history. Mr Or continues to be active, playing an advisory role in the Group's strategic development and planning.

Or Toh Wat, Managing Director

Mr Or Toh Wat, PBM, was appointed Group Managing Director of OKP Holdings Limited on 15 February 2002. Mr Or has more than 19 years of experience in the construction industry. He is responsible for setting the Group's corporate directions and strategies, and overseeing the day-to-day management and business development of the Group. Mr Or holds a Bachelor of Applied Science (Construction Management) with Honours from the Royal Melbourne Institute of Technology.

Or Kiam Meng, Executive Director

Mr Or Kiam Meng is an Executive Director of OKP Holdings Limited. He joined the Group in 1985 and has more than 25 years of experience in the construction industry. Mr Or was appointed a Director in March 2002 and he oversees the daily site management and operations of Or Kim Peow Contractors (Pte) Ltd.

Oh Enc Nam, Executive Director

Mr Oh Enc Nam is an Executive Director of OKP Holdings Limited. He was appointed a Director in March 2002 and has more than 31 years of experience in the construction industry since joining the Group in 1978. He is responsible for the day-to-day management and the overall operations of Eng Lam Contractors Co. (Pte) Ltd.

Or Lay Huat Daniel, Executive Director

Mr Or Lay Huat Daniel is an Executive Director of OKP Holdings Limited. He was joined the company in 2003 and was appointed a Director in August 2006. Mr Or is currently responsible for overseeing the day-to-day management, business development, investor relations and corporate communications of the Group. Mr Or holds a Bachelor of Commerce majoring in Corporate Finance from the University of Western Australia, Perth.

Ong Wei Wei, Financial Controller

Ms Ong Wei Wei joined OKP Holdings Limited in 2002. She oversees the Group's finance and corporate functions covering financial reporting, treasury, tax, legal and corporate secretarial duties and investor relations. Before joining the Group, she was a corporate advisory manager with an accounting firm. Ms Ong is a Certified Public Accountant of the Institute of Certified Public Accountants of Singapore. She is also a fellow member of the Association of Chartered Certified Accountants (United Kingdom), member of the Institute of Internal Auditors, Inc. (Singapore Chapter) and Singapore Institute of Directors.

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**DISCLAIMERS**

This research is issued by DMG & Partners Research Pte Ltd and it is for general distribution only. It does not have any regard to the specific investment objectives, financial situation and particular needs of any specific recipient of this research report. You should independently evaluate particular investments and consult an independent financial adviser before making any investments or entering into any transaction in relation to any securities or investment instruments mentioned in this report.

The information contained herein has been obtained from sources we believed to be reliable but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions and views expressed in this report are subject to change without notice.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities.

DMG & Partners Research Pte Ltd is a wholly owned subsidiary of DMG & Partners Securities Pte Ltd, a joint venture between OSK Investment Bank Berhad and Deutsche Asia Pacific Holdings Pte Ltd (a subsidiary of Deutsche Bank Group). DMG & Partners Securities Pte Ltd is a Member of the Singapore Exchange Securities Trading Limited.

DMG & Partners Securities Pte Ltd and their associates, directors, and/or employees may have positions in, and may effect transactions in the securities covered in the report, and may also perform or seek to perform broking and other corporate finance related services for the corporations whose securities are covered in the report.

As of the day before 30 September 2011, DMG & Partners Securities Pte Ltd and its subsidiaries, including DMG & Partners Research Pte Ltd, do not have proprietary positions in the subject companies, except for:

- a) Nil
- b) Nil

As of the day before 30 September 2011, none of the analysts who covered the stock in this report has an interest in the subject companies covered in this report, except for:

- | | |
|---------|---------|
| Analyst | Company |
| a) Nil | |
| b) Nil | |

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

Kuala Lumpur	Hong Kong	Singapore	Jakarta	Shanghai
Malaysia Headquarters OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : + (60) 3 9207 7688 Fax : + (60) 3 2175 3202	Hong Kong Office 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	Singapore Office DMG & Partners Securities Pte. Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211	Jakarta Office PT OSK Nusadana Securities Indonesia Plaza CIMB Niaga, 14th Floor, Jl. Jend. Sudirman Kav.25, Jakarta Selatan 12920, Indonesia Tel : + (6221) 2598 6888 Fax : + (6221) 2598 6777	Shanghai Office 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