OKP Holdings Limited

On the Road to Success

*We initiate coverage on OKP Holdings Limited (OKP) with an **Increase Exposure** rating based on an intrinsic value of S$0.870. OKP's strong project execution skills and industry presence will enable the company to expand its portfolio of capabilities and markets, pushing forward its objective of being a leading civil engineering company.*

Fundamental Drivers:

- 1Q10 revenue grew by 14.5% YoY as a result of higher recognition from existing projects. Net attributable profit increased by 10.1%. Operating margins were unchanged. The slight decrease in margin from 10.7% in 1Q09 to 10.3% in 1Q10 was mainly due to lower foreign exchange gains.
- Rich gross order book of S$306.1m forms a strong revenue base for FY10F and FY11F. Each new contract going forward will contribute significantly towards top-line growth.
- OKP is financially and operationally ready to take on larger projects following its S$119.3m contract to widen the Central Expressway. It has close to zero bank borrowings and maintains a workforce of more than 700 management and field staff.
- OKP is pursuing new market opportunities via complementary acquisitions and/or strategic alliances. This will over time create a diversified revenue base for OKP, widening its opportunities for new contracts.

Value Catalysts:

- ➢ We believe that OKP is looking to enter the market for MRT stations and tunnel construction, having applied to be a pre-qualified contractor for such projects. This follows the government's intent to bring total rail network to 278km by 2020. We believe that market entry will probably be facilitated via a JV in line with company's strategy to form strategic alliances.
- ➢ OKP's involvement in the ExxonMobil Singapore Parallel Train project opens the door for potential future maintenance contracts as an in-house contractor, which could contribute S$5m to S$10m of revenue per year.

Increase Exposure

- Intrinsic Value S$0.870
- Prev Closing S$0.465

Main Activities

OKP Holdings Limited is a civil engineering company specializing in road and expressway construction. It has also diversified into the oil and gas infrastructure sector and had formed a JV to enter the African market in 2009.

Financial Highlights			
(Y/E Dec) S$'mn	**FY09**	**FY10F**	**FY11F**
Revenue	130.0	139.8	167.5
Gross Profit	23.4	25.9	31.0
Earnings	14.4	15.2	18.2
EPS (cts)	6.1	5.9	6.7

Source: SIAS Research Estimate

Key ratios (FY10F)	
PER	7.9
P/BV	1.7
ROE	22.7%
Debt/Equity	3.6%
Current ratio	2.0

Source: SIAS Research Estimate

Indexed Price Chart

Green (FSSTI)
White (OKP)

Source: Bloomberg

*52wks High-Low**	*64.1 cts/ 29.4 cts*
Number of Shares	*264.57 m*
Market Capitalization	*S$123.02 m*

**Adjusted for bonus issue*

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1Q10 Results on Track

OKP Holdings Limited (OKP) caught our attention with its strong FY09 results. FY09 net profit came in 52.7% higher at S$14.4m against revenue growth of 27.7% to S$130m. Growth was led by the construction segment as new contracts drove revenue up by 38.5%. We took the opportunity to meet OKP's management following the release of its 1Q10 results on 10 May 2010 and were left impressed with the company's plans going forward despite a subdued first quarter.

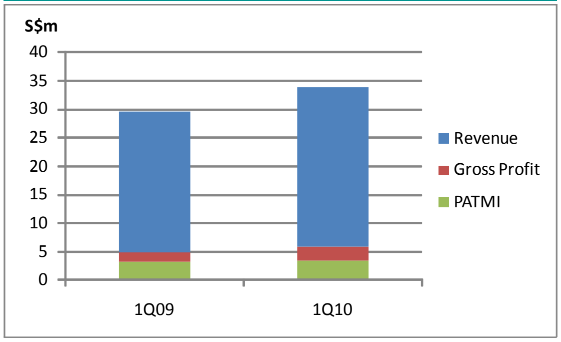
Looking good ahead. 1Q10 top-line growth of 14.5% YoY was driven by higher revenue recognition from existing projects rather than by new contracts. The increase in revenue led to profit growth of 10.1% YoY. The slower growth came on the back of fewer contract wins over the last ten months. Going forward, OKP will see opportunities arising from forthcoming projects like the LNG Terminal, Fusionopolis 2A and industrial facilities at Seletar Aerospace Park. As such, we expect more contract wins over the second half of 2010, which will contribute towards FY11F results.

Putting in place 2010 revenue. To date, OKP has a gross order book of S$306.1m that will last to August 2013. We estimate that OKP's existing order book will contribute revenue of S$98.2m in FY10F and S$52.9m in FY11F. The management guided flat to moderate revenue growth for FY10F. We believe that this is a highly achievable outcome given OKP's track record. The mean contract size of its current order book is about S$12.7m, excluding the S$119.27m project to widen the Central Expressway. This implies that OKP need only garner three more average sized short term contracts to achieve its 2010 revenue objective.

Three-pronged strategy. FY11F top line is targeted to be around S$160m to S$170m, implying growth of 23.1% to 30.8%. We believe that FY10F will be only a temporary setback for OKP as its core strategy remains sound, being backed by multiple growth drivers. OKP intends to

(a) Focus on its edge in civil engineering to maintain its leading position in Singapore;
(b) Grow its presence in the Oil and Gas (O&G) sector and hence diversify its revenue base;
(c) Explore new business opportunities via strategic alliances and acquisitions to complement its capabilities.

Fig1: 1Q10 Results



Source: Company

Fig2: Ongoing Projects

Project	Vendor	Completion Date	Value (S$m)
Construction			
Construction of road facilities	LTA	Jul-10	7.1
Widening of Eunos Link and Jalan Eunos	LTA	Oct-10	28.5
Tanglin Halt Outlet Drain	LTA	Dec-10	20.8
Widening of CTE from PIE to Braddell	LTA	Dec-11	119.3
Selected Civil Works at Jurong Island	FWP JV	Jun-10	21.7
Development of three park connectors	NPB	Mar-10	5.7
Road works in City Centre (Phase 3)	LTA	May-10	4.8
Road works at Tuas View Extension, Phase 1	JTC	Jun-11	5.2
Maintenance			
Painting and cleansing of road facilities	LTA	Mar-10	13.3
Ad Hoc repairs and upgrading of roads I	LTA	Apr-10	12.7
Improvement to roadside drains I	PUB	Sep-10	13.9
Improvement to roadside drains II	PUB	Jan-11	15.4
Improvement works at Siglap Village	URA	May-10	3.4
Ad Hoc repairs and upgrading of roads II	LTA	Aug-13	19.4
Ad Hoc repairs and upgrading of roads III	LTA	Aug-13	14.9

Source: Company

Growing from Strength to Strength

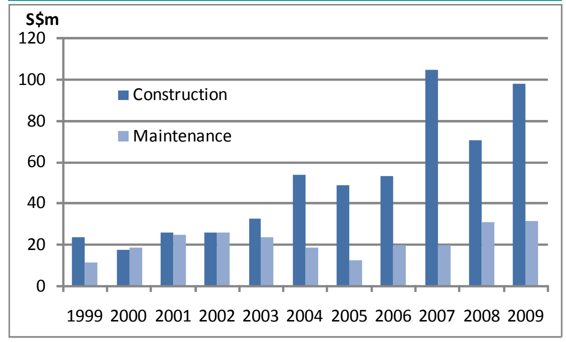
Expertise in road infrastructure. OKP Holdings Limited (OKP) is a civil engineering company specializing in road construction and maintenance. Established in 1966, OKP has a 43-year history in the construction business and was only listed in July 2002. Projects undertaken include the construction of airport runways, the widening of expressways and the building of vehicular bridges, urban and arterial roads. Key clients include government agencies such as the Land Transport Authority (LTA), the Housing Development Board (HDB), JTC Corporation (JTC) and the Public Utilities Board (PUB). As a road infrastructure specialist, OKP was also the first contractor to resurface roads in the Marina Bay district for the Singapore Formula One race in 2008. The job required the first time use of a special asphalt mix in Singapore, testifying towards OKP's capabilities in the industry.

Going upscale. OKP is currently widening the Central Expressway (CTE) from Pan Island Expressway (PIE) to Braddell Road. At a contract value of S$119.3m, it is OKP's largest contract to date. Construction commenced in January 2009 and will be completed by December 2011. We believe that this contract win has whetted OKP's appetite for similar large scale projects given an acceptable rate of return. According to the management, OKP has the financial and operational capacity to individually undertake projects of more than S$200m in value. It makes sense to bid for larger contracts to reap economies of scale as each project will still take up supervisory and engineering effort.

Proven project management skills. This CTE project will add an additional lane to a 2.7km section of the expressway, stretching from PIE to Braddell Road. It is a relatively complex operation which involves the widening of four existing vehicular bridges as well as the construction of two new flyovers and related road works. As such, this design-and-build contract is testament of OKP's expertise in project management. Particularly, OKP has to exercise care not to obstruct traffic on the heavily congested CTE, while ensuring minimal noise pollution and environmental disruptions during construction. OKP's capabilities in these areas are likely to be highly valued going forward since future infrastructure projects will probably be constructed in built-up areas where it is critical to minimize inconvenience to residents.

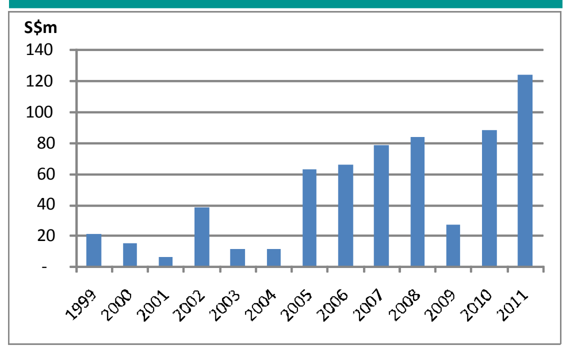
Moreover, OKP is recognized for its standards in occupational safety and health management, having been awarded a Certificate of Excellence for high safety standards in the minor category (contract value of less than S$20m) by LTA in 2009. These standards should be easily applied to larger projects.

Fig4: Revenue by Segment



Source: Company

Fig5: OKP Construction Segment Order Book, by Year of Completion



Source: Company

Fig6: Widened CTE Vehicular Bridge

Source: Land Transport Authority

OKP is also ISO 9000, ISO 14000 and OHSAS 18000 certified. The ISO 9000 accredits OKP's quality management standards, while the ISO 14000 certifies a firm's management system to control the environmental impact of their activities. The OHSAS 18000 certification audit checks on the occupational health and safety management system of the company. These certifications are also the management and development criteria for firms to be awarded with the two highest grading of A1 and A2 by the Building and Construction Authority (BCA).

No tendering limit. In public tenders, vendors typically stipulate the minimum grade that participating bidders must possess. OKP's key subsidiaries, Or Kim Peow Contractors (Pte) Ltd and Eng Lam Contractors Co (Pte) Ltd, have a BCA grading of A1 and A2 respectively. As such, Or Kim Peow Contractors can bid for contracts of unlimited value in tenders, while Eng Lam Contractors can participate in tenders of less than S$85m in value. As a whole, OKP's financial strength, manpower and track record easily exceed the minimum criteria set by BCA. Yet, only 36 out of 780 other civil engineering contracts share a similar grade. This further affirms OKP's leadership position in the industry.

Operationally ready. OKP is backed by a workforce of 659 site operations staff, such as site inspectors, supervisors and general staff, and 67 management and supervisory staff, which includes engineers and quantity surveyors. Staff strength almost doubled since 2005, implying that it has similarly increased the number and scale of projects that it can undertake over the same period of time. According to the management, OKP also has a fleet of more than 50 excavators and machinery to support large scale construction activity. In 2009, OKP further widened its onsite capabilities with the purchase new machinery, such as a rough terrain crane with a maximum load of 70tons, a long lowbed trailer to transport machinery and materials as well as a recycle crawler crusher.

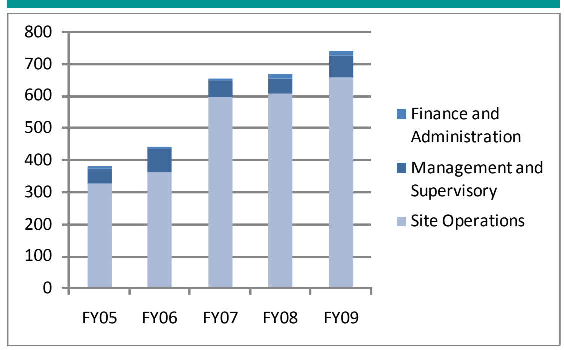
Strong financials. We noted that OKP had cash balances of S$85.5m and no bank borrowings, except for finance leases amounting to S$2.4m, as of end 1Q10. In addition, majority shareholders such as Or Kim Peow Investments Pte Ltd and China Sonangol International (S) Pte Ltd hold 39.3m warrants that can be converted into shares over the next three years to inject additional capital of S$7.9m into OKP. On an enlarged share capital base of S$68.6m, OKP will be in a good position to leverage on its balance sheet in order to fund larger projects or to invest in new ventures.

Fig7: BCA Registration Requirements for A1 Tendering Limit under the Civil Engineering Category (CW02)

	OKP Holdings Limited	BCA Requirements
Minimum Paid Up Capital	S$23.9m	S$15m
Minimum Net Worth	S$59.5m	S$15m
Management & Development Expertise	67 managerial and supervisory staff, include managers, engineers and quantity surveyors.	24 technical and professional staff, ISO 9001: 2008, ISO 14000, OHSAS 18000/SS506 Part 1
5-year Track Record	Cumulative 5-year construction revenue of S$376m	S$150m contract value

Source: Company, Building Construction Authority

Fig8: OKP Staff Strength, by Function



Source: Company

Tight control and management. We also like how OKP has improved its productivity in recent years, translating to higher margins. Value added per employee, as defined by revenue and other income less purchase of goods and services grew from a low of S$34,000 in FY05 to S$60,000 in FY09. Value added per dollar of gross fixed assets grew from S$0.76 to S$1.45 over the same period of time. Likewise, net profit margin grew from 0.5% to 11.1% in the last five years. FY06 to FY09 also saw record profit margins each year. OKP achieved these statistics despite operating in the mature Singapore construction industry. As such, OKP comes across as a well managed business that has kept a close eye on costs over the years.

Against these strengths, OKP turned towards horizontal expansion, choosing to apply its competencies to new industries such as the O&G sector as well as in overseas markets where there is demand for transport infrastructure. Within the Singapore infrastructure market, we believe that a number of multi-billion dollar projects will provide OKP with ample opportunities to build its order book despite a maturing road network.

Opportunities on the Road Ahead

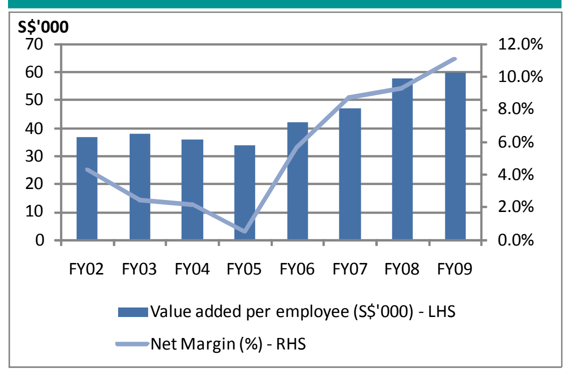
Slowing road growth. Construction demand in Singapore fell to S$21bn in 2009. The Building and Construction Authority (BCA) estimates demand to range from S$21bn to S$27bn for 2010 and to average S$18bn to S$25bn annually over 2011 and 2012. Civil engineering projects will account for 55% of public sector projects, with MRT line and expressway construction accounting for the bulk of demand. The Ministry of Transport will spend S$4.5bn from April 2010 to March 2011, with S$2.9bn demarcated for MRT projects and S$1.6bn set aside for road construction and improvement.

Since 1990, road length in Singapore has been growing at an average rate of 1.1% lane-km per year. Over the next 15 years, road growth will slow to 0.5% annually according the Land Transport Authority (LTA). However, S$400m to S$600m will still be set aside each year for the maintenance and construction of roads, excluding expressways. We estimate that OKP has a 10% to 15% share of this market, which will provide a steady flow of revenue for the company.

Fig9: New Rough Terrain 70 tonne Capacity Crane Bought in 2009

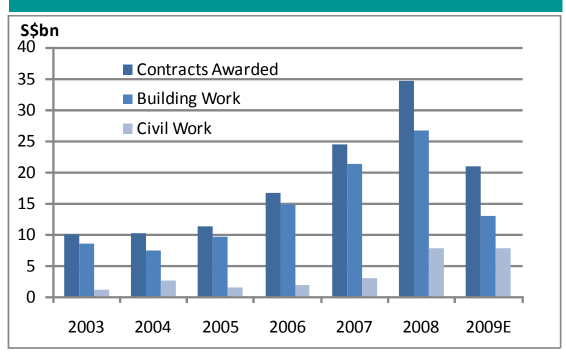
Source: Company

Fig10: Productivity and Margin



Source: Company

Fig11: Construction Demand



Construction demand is defined as the total value of contracts awarded in a year.

Source: Building and Construction Authority, SIAS Research Estimate

Fig12: Selected Future Road Projects

Project Title	Minimum Financial Category	Estimated Value	Closing Date for Tender	Tender Status
North-South Expressway	Undergoing preliminary engineering investigation works and advanced consultancy study			
Proposed Road Infrastructure at Changi East Development	Undergoing preliminary engineering investigation works			
Tuas Extension Road Network	Undergoing detailed engineering design			
Design and Construction of Eco-Bridge across BKE linking Nature Reserves	B2(up to $13,000,000)	<S$10m	07-Jun-2010	Published
Access Road to Changi North Industrial Park	B1(up to $40,000,000)	S$27.09m	26-May-2010	Published
Access Road Connecting from International Business Park to Boon Lay Way	B1(up to $40,000,000)	S$15m	24-May-2010	Published
Construction and Completion of Sentosa Gateway Tunnel along Sentosa Gateway	A1(>$85,000,000)	S$30m	10-May-2010	Closed
Upgrading and Re-roofing Works of Pedestrian Overhead Bridges	C2(up to $1,300,000)	<S$1m	10-May-2010	Closed
Access Road Connecting Faber Walk to Commonwealth Avenue West	B2(up to $13,000,000)	<S$10m	26-Apr-2010	Closed
Widening of Jalan Terusan	B2(up to $13,000,000)	S$4m - S$5m	14-Jan-2010	Closed

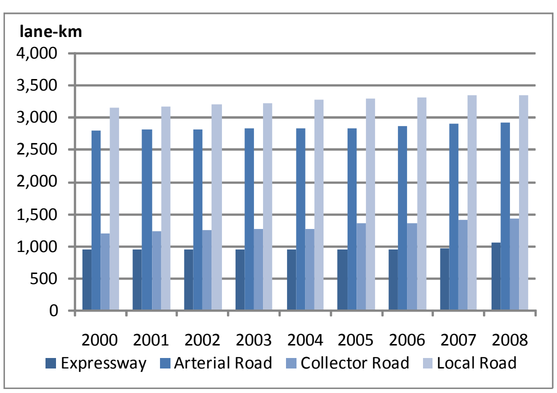
Closed projects are no longer available for tender, but have not been awarded.
Source: Land Transport Authority, Ministry of Transport, SIAS Research Estimate

Moving beyond LTA. As a defensive measure against slowing road network growth, OKP is increasingly biding for contracts from other government agencies such as JTC and the National Parks Board (NPB). LTA manages public roads in Singapore, which excludes roads in housing and industrial estates. These roads will come under the purview of other agencies such as JTC and HDB. For example, OKP recently secured a S$5.2m contract from JTC for construction and maintenance works at Tuas South Avenue 12 and 14. Last year, OKP won the contract to build three park connectors, including jogging and cycling tracks for NPB. Park connectors, like roads, may also be surfaced with asphalt. In May 2009, OKP was awarded its first contract, worth S$3.4m, from the Urban Redevelopment Authority (URA) to carry out improvement works.

Fig13: Pasir Ris Park Connector

Source: National Parks Board

Fig14: Roads maintained by LTA



Source: Land Transport Authority

Arterial roads are high capacity roads, just below an expressway level of service, often designed to carry traffic between neighbourhoods.

Collector roads are built mainly to feed traffic from local to arterial roads and also provide access to adjacent land sites.

Local roads or access roads are smaller than collector roads and are built to provide accessibility to various properties.

Roads maintained by LTA exclude those in Jurong Island, Sentosa Island, airports, seaports, universities, military areas etc.

Rail projects. The management has expressed interest in pursuing contracts for the new MRT lines and for the North-South Expressway, in line with our expectation that OKP now wants to take on higher value projects. The government intends to double the length of our MRT rail network from 138km to 278km by 2020 at a budget of S$20bn. Based on the timeline for the construction of the Downtown Line (DTL) Stage 2 project, we expect LTA to award at least 15 contracts for the DTL Stage 3 line over the next 12 to 24 months. Thus far, the LTA is prequalifying contractors for 11 DTL Stage 3 projects covering 10 MRT stations and associated tunnels. During the prequalification process, applicants are screened for their financial and technical capabilities, before being shortlisted to bid in upcoming tenders. Other MRT projects in the pipeline include the Thomson Line and the Eastern Region Line. In all, these lines should be ready by 2020 at a cost of about S$20bn.

Fig15: Downtown Line

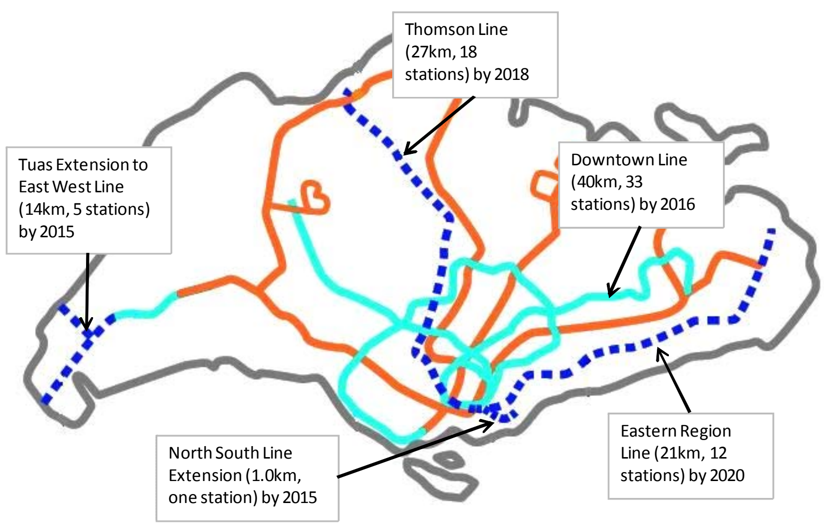
Downtown Line	Stage 1	Stage 2	Stage 3
Route length	4.3km	16.6km	19.1km
No of stations	6	12	15
Expected completion date	2013	2015	2016

Stage 1: Civil Contracts

Construction Contracts	Value(S$m)
Landmark Station	230
Bayfront Station	463
Tunnels between Promenade Station & Marina Bay	103
Cross Street Station	225
Chinatown Station	160
Promenade Station	231
Bugis Station	582

Source: Land Transport Authority

Fig16: Rail Network



Source: Land Transport Authority

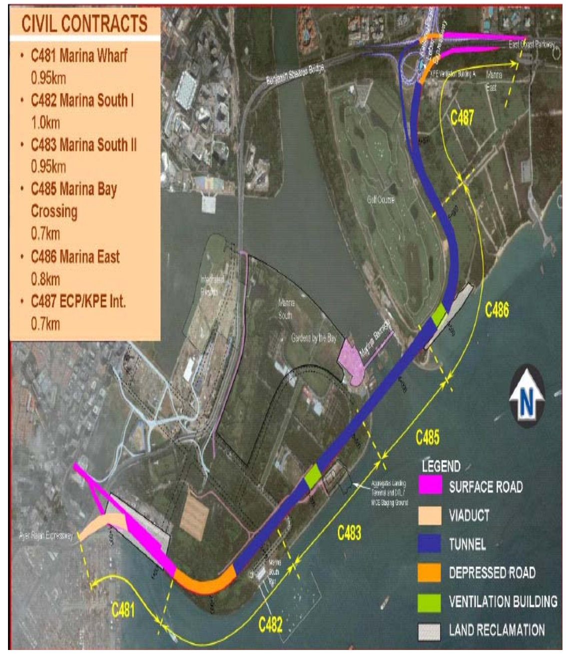
North-South Expressway. Over the next 10 years, we will also see the construction of two major expressways – the 5km Marina Coastal Expressway (MCE), to be opened by 2013, and the 21km North-South Expressway (NSE), to be completed by 2020. While contracts for the MCE have already been awarded, the NSE contracts worth a total of S$7bn -S$8bn remain up for grabs. The Kallang-Paya Lebar Expressway took seven to eight years to complete, from prequalification to quality inspection and testing. Likewise, we expect the LTA to start prequalifing contractors and awarding contracts for the NSE sometime in 2012 and 2013.

Like MRT lines, the entire route is usually split into several sections - each built by an individual contractor. There should also be at least 10 contracts up for tender, since the shorter Central Expressway at 16km had 11 sections. While the exact route has not been confirmed, the NSE will probably pass through Woodlands, Ang Mo Kio and the central region, intersecting with other expressways such as the SLE, PIE, CTE and ECP along the way.

As a result of these multi-billion dollar infrastructure developments, we anticipate a consistent flow of high value (>S$100m) projects over the next five to ten years. Meanwhile, we will see fewer low value (<S$100m) contracts in an already high urbanized environment

Sharing the load. Our main concern lies with OKP's lack of expertise in tunneling operations. Many future projects will be built underground. In turn, the management highlighted that they may form joint ventures with industry players who possess such expertise. Indeed, we observed that a significant number of MRT projects are being performed by joint ventures between local and foreign companies. Accordingly, the construction work is usually performed by the local company, while the foreign partner does the tunneling part of the project. As such, any project win will probably follow a similar split of work load. Nonetheless, OKP remains a highly competitive contractor given its strength in project management and its track record in Singapore. Any award of these contracts to OKP will be catalysts for upward share price movement in the future.

Fig17: Marina Coastal Expressway



Source: Land Transport Authority

Fig18: Tunnel Boring Machine

Source: Taisei Corporation

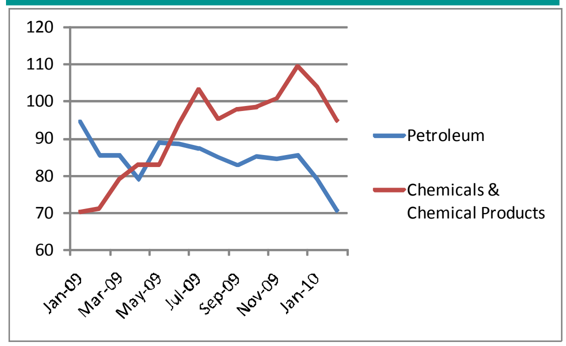
Higher margins from O&G deals

To diversify its revenue base, OKP also performs civil engineering works for the local O&G sector. O&G projects are particularly lucrative to OKP because of its higher margins of about two to five percentage points more than that of transport infrastructure packages. In addition, the shorter duration of O&G jobs frees up manpower and machinery for use in new projects, leading to faster order book renewal. OKP is currently working on a S$21.7m project to perform civil works at Jurong Island for the Foster Wheeler/Worley Parsons Joint Venture (FWP JV), having completed a $40m related project for FWP JV in 2008.

The FWP JV was formed in 2006 for the Singapore Parallel Train (SPT) project by ExxonMobil Chemical Asia Pacific (EM). The SPT consists of a steam cracker ethylene complex and plants to produce ethylene and propylene derivatives. The SPT will be integrated with existing EM plants which will also be expanded to boost ethylene production in Singapore to 2m tonnes per annum.

Entry into the O&G construction industry is challenging. Contractors will have to pass stringent safety requirements and quality assurance checks. In the case of EM's projects, site workers will have to be trained by in-house staff. With the completion of the SPT next year, OKP is pursuing efforts to be the in-house contractor for EM at Jurong Island. We believe that is achievable as OKP was recognized as the contractor of the month twice in 2007 by FWP JV. This will provide OKP with a steady flow of maintenance revenue as well as the first right of refusal to future contracts from EM. If successful, this job may contribute about S$5m to S$10m of revenue to the maintenance segment each year.

Fig19: Industrial Production Index (2007=100)



Source: Company

Fig20: Jurong Island

Source: Economic Development Board

Growing beyond Singapore Roads

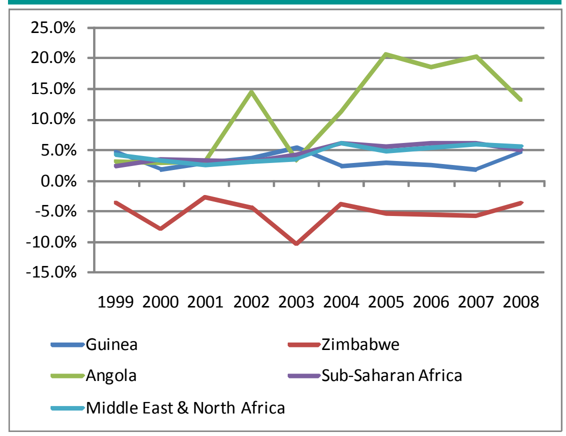
A strategic partner and investor. Last December, OKP formed an alliance with China Sonangol International (S) Pte Ltd (CSIS), a subsidiary of China Sonangol International Limited (CSIL) by issuing 15m new shares to CSIS and forming a 50%:50% joint venture CIF-OKP Construction and Development Pte Ltd (CIF-OKP) with CSIS. CSIL is a conglomerate in the resources investment, exploration and large scale infrastructure construction businesses in Africa, particularly Angola. Infrastructure works by CSIL in Angola include public housing schemes in more than 10 provinces and a number of highway construction projects. With an initial focus on African countries, such as Angola, Guinea and Zimbabwe, the venture will undertake the design, construction and execution of urban development projects. As a result of the share placement exercise, CSIS owns about 9% of OKP.

OKP first ventured into foreign markets in 2005 when it incorporated an overseas subsidiary known as OKP (CNMI) Corporation. CNMI refers to the Commonwealth of the Northern Mariana Islands, north of Guam in the Western Pacific Ocean. Its decision to enter the CNMI market was well thought out - meant to capitalize on demand for airport infrastructure amidst lackluster competition. OKP went on to clinch a S$14.3m project to extend the runway for Rota International Airport. The project started in January 2006 and was completed in March 2007.

We believe that this partnership with CSIS, if successful, will provide OKP with a consistent flow of overseas projects over time. According to the management, the joint venture is still in an early stage and they wanted to ensure adequate market research and preparation before committing towards new projects. As such, they have been making multiple trips to the continent, even though the CIF-OKP entity itself remained largely inactive up till end 1Q10.

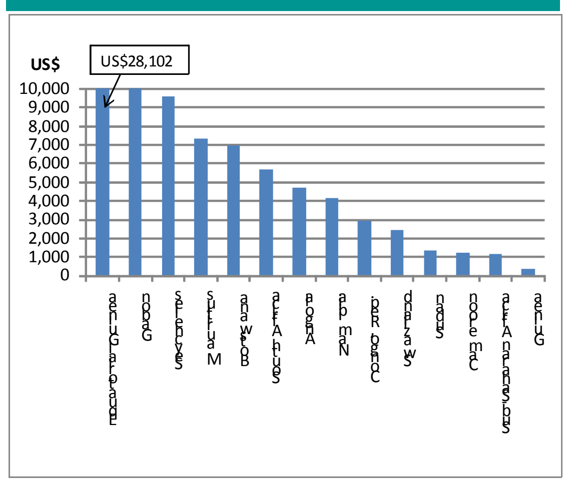
Moreover, OKP is still actively seeking partnerships to enter new markets. We believe that new alliances will diversify OKP's revenue base and set it apart from peers in the local industry.

Fig21: Africa GDP Growth, at constant 2000 US$



Source: World Bank

Fig22: Africa GDP per capita, 2008, at current US$



Source: World Bank

Forecasts and Valuation

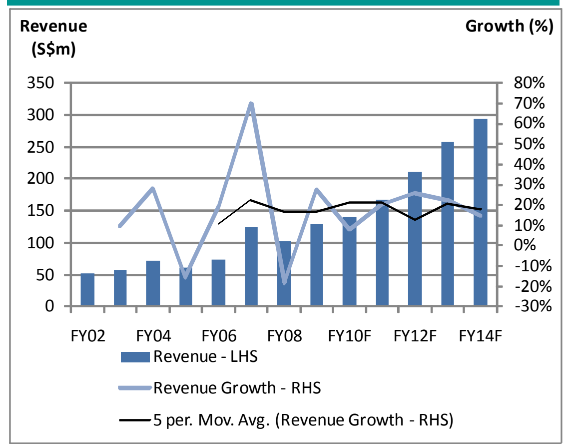
We estimate that there will be at least 50 major construction contracts available for bidding from 2010 till 2020 as a result of the government's plans to extend Singapore's MRT and expressway networks. Particularly, we believe that LTA will start awarding contracts for the DTL Stage 3 line within the next 12-month horizon. Further anchored by plans for overseas expansion, we are sanguine of OKP's prospects and forecast revenue to double to S$294.3m by 2014, implying a five-year CAGR of 17.8%.

Gross margin was dragged down from 20.9% in FY08 to 18% in FY09 by higher costs from the set up of several new projects. We expect gross margin to average out to 18.5% going forward. However, net margin is projected to rise to 11.2% - 11.3% by FY11F from FY09's 11.1% as a result of operating leverage where growth in admin costs will lag that of revenue. Our net profit forecasts are conservative with return on assets (ROA) averaging at 13.2% over the next five years, against a mean of 14.8% over the last three years. Return ratios on earlier financial periods were not meaningful as OKP has since entered the O&G industry.

We opine that OKP will continue to clinch new projects in the future based on its standing in the industry and its exposure to multiple growth drivers. In addition, OKP has in the past demonstrated that it is able to form joint ventures to expand into new markets and we are confident that OKP will repeat its success in the future. We believe that our intrinsic value of S$0.870 reflects OKP's potential to be a leading transport infrastructure and civil engineering company in Singapore and other countries.

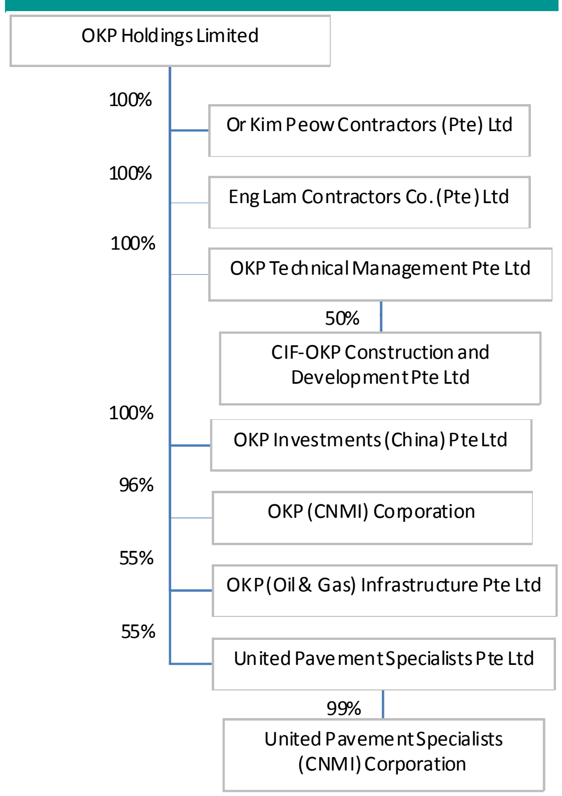
To date, OKP has 44.5m warrants outstanding that can be converted into a similar number of shares at an exercise price of S$0.20, representing a discount of 57% from the current share price of S$0.465. Upon conversion, OKP's outstanding number of shares will grow by 16.8%. Or Kim Peow Investments Pte Ltd and CSIS currently own 63.13% of OKP and 88.3% of unexercised warrants. We based our EPS forecasts on an enlarged share capital of 269.8m shares to account for the conversion of the 6.1m warrants not owned by Or Kim Peow Investments Pte Ltd and CSIS. The exercise of these warrants is most likely contingent on further investments beyond OKP's current JV. Accordingly, we do not factor them into our projections.

Fig23: Revenue and Growth Estimates



Source: SIAS Research Estimate

Fig24: Corporate Structure



Source: Company

Adopting an economic profit valuation method and applying a WACC of 10.48% to 10.57% with 2.5% terminal growth rate, we arrive at an intrinsic value of S$0.870. Our intrinsic value implies a FY10F PER of 14.8X on a FY10F P/BV of 3.1X. Based on OKP's FY09 book value per share, our intrinsic value sets a P/BV of 3.7X, which is higher than the industry average of 1.3X. However, we value OKP at a premium compared to its peers as its ROA is 1.9X that of its industry peers on debt of only 4.5% to equity. The industry average debt to equity level is 73.9%. OKP does not have any bank borrowings, but we consider its finance lease liabilities as debt. OKP's return on equity will be further enhanced should it decide to leverage on capital base.

We have also done a sensitivity analysis of terminal growth and cost of equity on OKP. Under the extreme condition of 1.5% terminal growth and 11.5% cost of equity, we arrive at an intrinsic value of S$0.728, which still implies a premium of 56.5%. ***Increase exposure with an intrinsic value of S$0.870.***

Fig23: Economic Profit Valuation

	FY10F	FY11F	FY12F	FY13F	FY14F
Construction (S$m)	108.0	132.5	172.3	215.4	247.7
Maintenance (S$m)	31.8	35.0	38.5	42.3	46.6
Revenue (S$m)	139.8	167.5	210.8	257.7	294.3
EBIT (S$m)	18.1	21.5	28.2	34.4	39.2
Tax on EBIT (S$m)	-2.8	-3.4	-4.4	-5.4	-6.1
NOPLAT (S$m)	15.2	18.2	23.8	29.0	33.1
Invested Capital (S$m)	78.8	93.2	112.0	140.0	159.5
% of Debt	3.4%	2.9%	2.4%	2.4%	2.4%
% of Equity	96.6%	97.1%	97.6%	97.6%	97.6%
WACC	10.48%	10.53%	10.57%	10.57%	10.57%
Capital Charge (S$m)	8.3	9.8	11.8	14.8	16.9
Economic Profit (S$m)	7.0	8.4	12.0	14.2	16.2
Terminal Value (S$m)					206.2
Discount Rate	0.95	0.86	0.78	0.70	0.64
Present Value (S$m)	6.7	7.2	9.3	10.0	10.3
Book Value (S$m)	60		Risk Free	2.47%	
Explicit Value (S$m)	43.5		Beta	1.03	
Terminal Value (S$m)	131.2		Market RP	8.07%	
Value of Firm (S$m)	234.3		Cost of Equity	10.78%	
Number of Shares (m)	269.8		Cost of Debt	1.95%	
Value per share (S$)	0.870		LT Growth	2.50%	

Source: SIAS Research Estimate

Fig24: Peer Comparison

Peers	PER	P/BV	ROE	ROA	Debt/Equity
Yongnam Holdings Ltd	7.0	1.5	23.9%	8.6%	84.8%
Lian Beng Group Ltd	6.7	1.1	14.8%	5.1%	98.0%
Hock Lian Seng Holdings Ltd	5.3	1.9	39.5%	14.2%	0.0%
Koh Brothers Group Ltd	8.9	0.7	6.9%	1.9%	160.6%
Lum Chang Holdings Ltd	3.8	0.8	9.2%	4.6%	21.5%
Tiong Seng Holdings Ltd	3.8	1.6	51.5%	11.3%	42.5%
Average	5.9	1.3	24.3%	7.6%	67.9%
OKP	7.7	2.0	29.2%	14.5%	4.6%

Source: SIAS Research Estimate

Fig25: Sensitivity Analysis

		Cost of Equity				
		9.5%	10.0%	10.5%	11.0%	11.5%
Terminal Growth	1.5%	0.996	0.917	0.847	0.784	0.728
	2.0%	1.039	0.953	0.877	0.809	0.749
	2.5%	1.089	0.994	0.911	0.838	0.773
	3.0%	1.146	1.040	0.949	0.870	0.800
	3.5%	1.213	1.095	0.994	0.906	0.830

Source: SIAS Research Estimate

Fig26: Financial Forecast and Estimate

	FY07	FY08	FY09	FY10F	FY11F	FY12F	FY13	FY14
Revenue	124.7	101.8	130.0	139.8	167.5	210.8	257.7	294.3
Gross Profit	21.8	21.3	23.4	25.9	31.0	39.0	47.7	54.4
Operating Profit	12.4	11.6	15.8	17.6	21.0	27.7	33.9	38.7
Net Profit	10.9	9.5	14.4	15.2	18.2	23.8	29.0	33.1
Attributable to Shareholders								
Total Current Assets	63.2	63.0	105.8	116.7	131.3	160.1	202.1	246.7
Total Non-Current Assets	13.7	13.9	16.6	18.7	21.0	23.8	26.9	30.5
Total Current Liabilities	40.1	33.3	61.2	57.8	60.4	73.0	89.1	104.3
Total Non-Current Liabilities	2.7	2.8	1.7	1.5	1.5	1.5	1.5	1.5
Total Equity	34.2	40.7	59.5	76.1	90.5	109.3	138.4	171.5
Cash from Operating Activities	13.0	15.8	44.6	10.5	15.7	29.4	39.3	46.5
Cash from Investing Activities	-1.9	-0.2	-5.0	-4.6	-5.3	-6.1	-7.0	-8.1
Cash from Financing Activities	-0.8	-5.1	2.6	1.3	-3.8	-4.9	0.0	0.0
Net change in cash	10.3	10.5	42.3	7.2	6.7	18.3	32.3	38.4
Receivable Days	83.7	111.0	73.1	73.1	73.1	73.1	73.1	73.1
Payable Days	158.2	118.7	248.7	200.0	183.7	183.7	183.7	183.7
ROE (%)	38.8%	25.6%	29.2%	22.7%	22.0%	24.0%	23.6%	21.4%
ROA (%)	17.5%	12.3%	14.5%	11.8%	12.6%	14.2%	14.1%	13.1%
Debt/Equity	11.1%	10.3%	4.5%	3.6%	3.0%	2.5%	2.0%	1.6%
Current Ratio	1.6	1.9	1.7	2.0	2.2	2.2	2.3	2.4
EPS (S cents)	7.36	4.21	6.06	5.89	6.74	8.83	10.76	12.27
BV/Share (S cents)	21.3	25.6	23.1	28.0	33.3	40.3	51.1	63.3
PER	6.3	11.0	7.7	7.9	6.9	5.3	4.3	3.8
P/BV	2.2	1.8	2.0	1.7	1.4	1.2	0.9	0.7

Source: SIAS Research Estimate

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value higher level.

Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

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