



OKP HOLDINGS | HOLD

MARKET CAP: USD 144M

AVG DAILY TURNOVER: USD 2M

9 May 2012
Company Update

DISAPPOINTING EARNINGS; DOWNGRADE TO HOLD

- **1Q12 PATMI plunged 42% YoY**
- **Slower revenue recognition, lower margins**
- **Management remains optimistic**

1Q12 PATMI plunged 42% YoY

OKP Holdings (OKP) last night reported that its 1Q12 revenue declined 24% YoY to S\$25.0m and PATMI plunged 42% YoY to S\$3.1m. Management said construction revenue fell 26% YoY to S\$20.7m because there was lower revenue recognition from a few newly-awarded construction projects. Furthermore, maintenance revenue slid 13% YoY to S\$4.3m also due to slower revenue recognition, caused by a number of maintenance projects which were reaching completion and the lack of new business wins during 1Q12. In addition, OKP's 1Q12 gross margin contracted by 5.7ppt to 21% because a more profitable project, which has since been completed, boosted its gross margin back in 1Q11.

Management remains optimistic

Management believes outlook for the construction sector will remain healthy over the next twelve months. However, management also highlighted that competition is likely to intensify and pricing is likely to turn aggressive, resulting in downward pressure on OKP's profit margins.

Lowering our full-year estimates

OKP's 1Q12 revenue and PATMI have respectively only met 17% and 12% of consensus full-year estimates, which by any account, is a disappointing set of results. Despite OKP's winning a S\$75.3m design-and-build project to expand the CTE/TPE/SLE interchanges from the Land Transport Authority, there is a lack of clarity in OKP's ramping up of revenue recognition of projects. Coupled with management's warning on possible margin pressure, we reduce our FY12F revenue and PATMI estimates of OKP by 39% and 35% respectively to S\$120.5m and S\$19.8m.

Downgrade to HOLD with new fair value of S\$0.53

We reduce our fair value estimate of OKP from S\$0.75/share to S\$0.53/share, by pegging our new EPS estimate to the same P/E multiple of 7.5x, and downgrade its rating to **HOLD**.

Key financial highlights

Year Ended Dec 31 (S\$m)	FY10	FY11	FY12F	FY13F
Revenue	139.9	109.8	120.5	126.5
EBITDA	20.5	31.8	24.2	28.3
Depreciation & amortisation	-0.4	-0.4	-0.4	-0.4
PATMI	17.0	26.6	19.8	23.3
EPS (S cents)	5.9	8.9	6.4	7.5
Cons. EPS (S cts)	na	na	8.6	9.9
EBIT margin (%)	14.4	28.6	19.8	22.0
Net profit margin (%)	12.1	24.2	16.4	18.4
ROE (%)	24.6	30.1	19.4	19.3
P/NTA (x)	2.3	2.1	1.8	1.5

HOLD (downgrade)

Fair value	S\$0.53
add: 12m dividend forecast	S\$0.02
versus: Current price	S\$0.59
12m total return forecast	-7%

Analysts

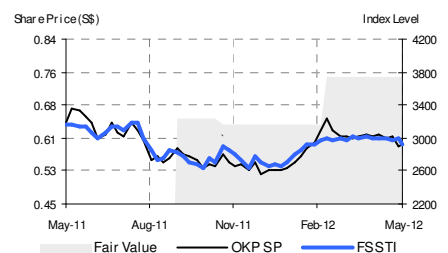
Eric Teo, CFA (Lead) • +65 6531 9806
erictteo@ocbc-research.com
Chia Junyang • +65 6531 9809
chiajy@ocbc-research.com

Key information

Market cap. (m)	S\$180 / USD144
Avg daily turnover (m)	S\$3 / USD2
Avg daily vol. (m)	4.0
52-wk range (S\$)	0.515 - 0.685
Free float (%)	30.0
Shares o/s. (m)	305.6
Exchange	SGX
BBRG ticker	OKP SP
Reuters ticker	OKPH.SI
ISIN code	5CF
GICS Sector	Industrials
GICS Industry	Constr. & Eng.
Top shareholder	OKP Inv. - 55.2%

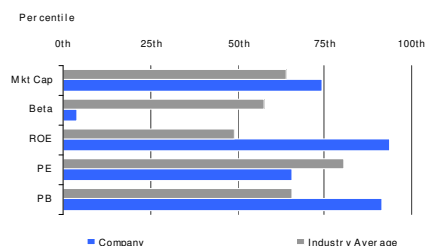
Relative total return	1m	3m	12m
Company (%)	0	-1	-4
STI-adjusted (%)	1	0	-2

Price performance chart



Sources: Bloomberg, OIR estimates

Industry-relative metrics



Note: Industry universe defined as companies under identical GICS classification listed in exchanges in Asia Pacific.
Sources: Bloomberg, OIR estimates

Exhibit 1: Quarterly financial highlights

	1Q11	1Q12	% Chg	4Q11	% Chg
	(S\$m)	(S\$m)	(YoY)	(S\$m)	(QoQ)
Revenue	32.8	25.0	-24.0%	23.2	7.6%
Cost of sales	-24.1	-19.7	-18.1%	-8.2	141.1%
Gross profit/(loss)	8.8	5.2	-40.2%	15.0	-65.1%
SG&A expenses	-2.3	-1.4	-37.1%	-3.8	-61.9%
Depreciation	-0.1	-0.1	-2.1%	-0.1	-5.1%
EBIT	6.4	3.7	-41.8%	11.2	-66.7%
Interest expense	0.0	0.0	-25.0%	0.0	3.8%
Interest income	0.1	0.1	61.1%	0.1	17.6%
Exceptional items	0.0	-0.1	942.9%	0.3	N/A
Profit/(loss) before taxation	6.4	3.6	-43.2%	11.6	-68.6%
Taxation	-1.2	-0.6	-50.1%	-2.1	-71.9%
Profit/(loss) after tax	5.2	3.1	-41.6%	9.5	-67.9%
Non-controlling interests	0.0	0.0	-66.7%	0.0	-97.6%
Shareholders' profit/(loss)	5.2	3.1	-41.7%	9.5	-68.0%

Sources: Company financials

Company financial highlights

Income statement

Year Ended Dec 31 (\$m)	FY10	FY11	FY12F	FY13F
Revenue	139.9	109.8	120.5	126.5
EBITDA	20.5	31.8	24.2	28.3
Depreciation & amortisation	-0.4	-0.4	-0.4	-0.4
EBIT	20.1	31.4	23.8	27.9
Net interest	0.0	0.1	0.2	0.3
Associates and JVs	0.0	0.0	0.0	0.0
Others	0.3	0.6	-0.1	0.0
Profit before tax	20.4	32.2	23.9	28.2
Income tax expense	-3.6	-5.6	-4.1	-4.9
PATMI	17.0	26.6	19.8	23.3

Balance sheet

As at Dec 31 (\$m)	FY10	FY11	FY12F	FY13F
Bank and cash balances	101.8	94.7	119.9	138.8
Other current assets	31.1	31.6	38.2	40.1
Property, plant, and equipment	17.0	18.7	19.7	21.1
Total assets	153.1	148.3	181.1	203.4
Debt	1.8	1.1	1.4	1.4
Current liabilities excluding debt	82.3	59.1	77.9	81.5
Total liabilities	84.2	60.3	79.3	83.0
Shareholders equity	69.0	88.2	102.0	120.6
Minority interests	-0.1	-0.1	-0.2	-0.2
Total equity and liabilities	153.1	148.3	181.1	203.4

Cash flow statement

Year Ended Dec 31 (\$m)	FY10	FY11	FY12F	FY13F
Op profit before working cap. chg.	23.0	34.6	27.1	31.5
Working cap, taxes and int	16.0	-29.3	8.1	-3.2
Net cash from operations	39.0	5.3	35.2	28.3
Purchase of PP&E	-6.4	-4.8	-1.5	-1.8
Other investing flows	0.0	0.0	0.0	0.0
Investing cash flow	-6.4	-4.8	-1.5	-1.8
Financing cash flow	-8.4	-7.6	-8.6	-7.5
Net cash flow	24.1	-7.1	25.2	18.9
Cash at beginning of year	77.7	101.8	94.7	119.9
Cash at end of year	101.8	94.7	119.9	138.8

Key rates & ratios

	FY10	FY11	FY12F	FY13F
EPS (S cents)	5.9	8.9	6.4	7.5
NTA per share (S cents)	25.3	28.3	32.8	38.9
EBIT margin (%)	14.4	28.6	19.8	22.0
Net profit margin (%)	12.1	24.2	16.4	18.4
P/E (x)	9.1	6.5	9.1	7.7
P/NTA (x)	2.3	2.1	1.8	1.5
EV/EBITDA (x)	2.8	2.7	2.5	1.5
Dividend yield (%)	9.5	5.1	3.8	4.5
ROE (%)	24.6	30.1	19.4	19.3
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

Sources: Company, OIR forecasts

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report hold **NIL** shares in the above security.

DISCLAIMER FOR RESEARCH REPORT

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. OCBC Investment Research Pte Ltd, OCBC Securities Pte Ltd and their respective connected and associated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally.

Privileged / confidential information may be contained in this document. If you are not the addressee indicated in this document (or responsible for delivery of this message to such person), you may not copy or deliver this message to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Investment Research Pte Ltd, OCBC Securities Pte Ltd and their respective connected and associated corporations shall not be understood as neither given nor endorsed.

RATINGS AND RECOMMENDATIONS:

- OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.
- OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon.
- As a guide, OIR's BUY rating indicates a total return in excess of 10% given the current price; a HOLD trading indicates total returns within +/-10% range; a SELL rating indicates total returns less than -10%.
- For companies with less than S\$150m market capitalization, OIR's BUY rating indicates a total return in excess of 30%; a HOLD trading indicates total returns within a +/-30% range; a SELL rating indicates total returns less than -30%.

Co.Reg.no.: 198301152E

Carmen Lee
Head of Research
For OCBC Investment Research Pte Ltd

Published by OCBC Investment Research Pte Ltd