



OKP HOLDINGS | HOLD

MARKET CAP: USD 126M

AVG DAILY TURNOVER: USD 0.1M

2 May 2013
Company Update

1Q13 MISSES EXPECTATIONS

- **Gross margin falls from 21% to 15%**
- **Lower tax rate**
- **Cut FV to S\$0.46**

Contraction in gross margin

OKP's 1Q13 revenue grew 28.4% YoY to S\$32.0m but gross margin fell to 15.1% from 21.0% in 1Q12. While management has previously indicated that OKP's gross profit margin will shrink below the 22% it registered for FY12, the decline was greater than what we expected. Speaking with management, we understand that the contraction in gross margin was chiefly due to increased subcontracting costs and labour costs. The latter includes higher costs for skilled labour, due to increased competition to attract and retain engineers. Management is targeting to maintain gross margins at 15-20%.

1Q13 misses expectations

PATMI dropped 22.2% YoY to S\$2.4m. 1Q13 EPS of 0.77 S cents was lower than what we and the street expected, forming 18% of ours and 15% of the consensus FY13 estimates. The effective tax rate fell from 16.0% in 1Q12 to 13.2% in 1Q13 due to tax-deductible purchases under the Productivity and Innovation Credit plan, which will apply through 2015.

Healthy order book

To recap, OKP has announced two contracts YTD. The first is a S\$6.7m contract awarded by PUB for the dredging of Sungei Api Api. The second is a S\$10.2m contract, also awarded by the PUB, for the improvement of roadside drains. The contract mainly involves the construction of box drains/entrance culverts in the Joo Chiat district. As of 30 Apr, OKP's gross order book remains healthy at S\$393.5m, which is 12.3x 1Q13 revenue.

Maintain HOLD

Adjusted our forecasts for OKP's FY13 and FY14 performance and applying the same P/E multiple of 11x to FY13F EPS, we derive a FV of S\$0.46, slightly lower than our previous FV of S\$0.48. We maintain our **HOLD** rating on OKP.

Key financial highlights

Year Ended Dec 31 (S\$m)	FY11	FY12	FY13F	FY14F
Revenue	109.8	104.5	137.8	163.2
Cost of sales	-66.6	-81.0	-113.0	-132.2
Admin expenses	-11.9	-11.0	-11.0	-13.1
PATMI	26.6	12.4	13.0	16.5
EPS (S cents)	8.7	4.0	4.2	5.4
Cons. EPS (S cents)	na	na	5.2	5.7
P/NAV (x)	1.7	1.6	1.4	1.3
Gross profit margin (%)	39.3	22.4	18.0	19.0
ROE (%)	33.8	13.4	12.7	14.3
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

HOLD (maintain)

Fair value	S\$0.46
add: 12m dividend forecast	S\$0.020
versus: Current price	S\$0.505
12m total return forecast	-5%

Analysts

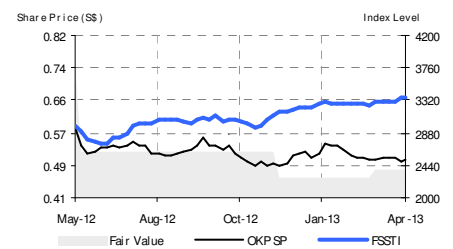
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Key information

Market cap. (m)	S\$155.8 / USD126.2
Avg daily turnover (m)	S\$0.1 / USD0.1
Avg daily vol. (m)	0.1
52-wk range (S\$)	0.485 - 0.635
Free float (%)	30.6
Shares o/s. (m)	308.4
Exchange	SGX
BBRG ticker	OKP SP
Reuters ticker	OKPH.SI
ISIN code	5CF
GICS Sector	Industrials
GICS Industry	Constr. & Eng.
Top shareholder	OKP Inv. - 54.7%

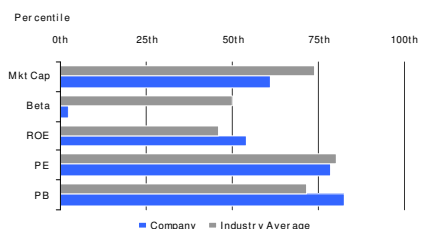
Relative total return	1m	3m	12m
Company (%)	0	-6	-14
STI-adjusted (%)	-2	-10	-31

Price performance chart



Sources: Bloomberg, OIR estimates

Industry-relative metrics



Note: Industry universe defined as companies under identical GICS classification listed on the same exchange.
Sources: Bloomberg, OIR estimates

OCBC Investment Research
Singapore Equities

Exhibit 1: Quarterly financial highlights

	1Q13	1Q12	% Chg	4Q12	% Chg
	(S\$m)	(S\$m)	(YoY)	(S\$m)	(QoQ)
Revenue	32.0	25.0	28.4%	27.5	16.6%
Other inc.	0.3	0.7	-60.1%	1.1	-73.0%
Cost of sales	-27.2	-19.7	38.0%	-21.4	26.8%
Admin expenses	-2.4	-2.2	8.0%	-2.8	-16.0%
Finance costs	0.0	0.0	-33.3%	0.0	0.0%
Other op. cost	0.0	-0.1	nm	-0.1	nm
Op. profit before share of JV/assoc. profit	2.7	3.6	-24.8%	4.2	-34.9%
Share of JV/assoc.	0.0	0.0	nm	0.0	nm
PBT	2.7	3.6	-24.8%	4.2	-34.9%
Tax	-0.4	-0.6	-38.1%	-0.2	50.2%
PAT	2.4	3.1	-22.2%	4.0	-40.0%
MI	0.0	0.0	0.0%	0.2	nm
PATMI	2.4	3.1	-22.2%	3.8	-37.4%

Source: Company financials

Company financial highlights

Income statement

Year Ended Dec 31 (\$m)	FY11	FY12	FY13F	FY14F
Revenue	109.8	104.5	137.8	163.2
Cost of sales	-66.6	-81.0	-113.0	-132.2
Other inc.	1.0	2.7	1.6	1.6
Admin expenses	-11.9	-11.0	-11.0	-13.1
Finance costs	-0.1	-0.1	-0.1	-0.1
Other op. cost	0.0	-0.2	0.0	0.0
PBT	32.2	14.8	15.3	19.5
Tax	-5.6	-2.2	-2.3	-3.0
PAT	26.5	12.5	13.0	16.5
PATMI	26.6	12.4	13.0	16.5

Balance sheet

As at Dec 31 (\$m)	FY11	FY12	FY13F	FY14F
Cash and cash equivalents	92.5	54.0	70.1	85.7
Trade and other receivables	29.4	30.9	40.8	48.3
Investment properties	1.7	4.8	4.8	4.8
Total assets	148.3	137.5	164.9	189.3
Current financial liabilities	0.6	0.5	0.6	0.6
Non-current financial liabilities	0.5	0.9	0.9	0.9
Total liabilities	60.3	41.1	56.7	65.7
Equity attrib. to co.'s eq. holders	88.2	96.3	108.2	123.6
Minority interests	-0.1	0.1	0.1	0.1
Total equity and liabilities	148.3	137.5	164.9	189.3

Cash flow statement

Year ended Dec 31 (\$m)	FY11	FY12	FY13F	FY14F
PBT	32.2	14.8	15.3	19.5
Total change in working capital	-25.9	-19.5	5.4	1.4
Cash tax paid	-3.4	-5.4	-2.3	-3.0
Cash flow from operations	5.5	-7.2	21.1	21.1
Cash flow from investing	-4.6	-24.7	-4.3	-4.3
Cash flow from financing	-8.4	-6.6	-5.8	-6.2
Change in cash	-7.6	-38.5	11.1	10.5
Opening balance	100.1	87.4	54.0	70.1
Other adjustments	0.0	5.0	5.0	5.0
Ending balance	92.5	54.0	70.1	85.7

Key rates & ratios

	FY11	FY12	FY13F	FY14F
EPS (S cents)	8.7	4.0	4.2	5.4
NAV per share (S cents)	28.9	31.4	35.1	40.1
PER (x)	5.8	12.5	12.0	9.4
P/NAV (x)	1.7	1.6	1.4	1.3
Gross profit margin (%)	39.3	22.4	18.0	19.0
Net profit margin (%)	24.2	11.8	9.4	10.1
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
Dividend yield (%)	5.9	3.0	4.0	4.0
ROE (%)	33.8	13.4	12.7	14.3
ROA (%)	17.6	8.7	8.6	9.3

Sources: Company, OIR forecasts

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