

25 October 2011

Maintain

**BUY**

Previous Rating: BUY

**Current Price: S\$0.56**  
**Fair Value: S\$0.64**

## OKP Holdings Limited

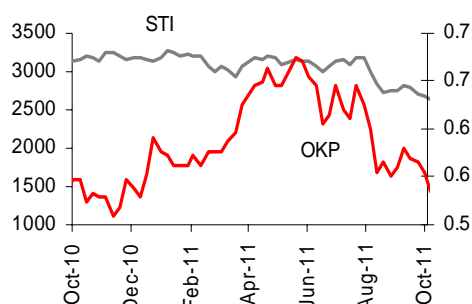
### Expect more down the road

**Lower top line, but improved profitability.** OKP reported S\$25.5m revenue for 3Q11 (30% lower than 3Q10 and 10% lower QoQ), due to the completion or near completion of existing projects and also, the low percentage of revenue recognised from a few newly-awarded projects. Despite the top-line decline, margins improved for the group. Gross and net margins came in at 32% and 19% respectively (vs. 3Q10's gross and net margins of 19.4% and 12.3%). OKP attributes the improved profitability to cost savings in design and build construction projects, better project management and tighter cost controls.

**Order book to sustain revenue.** While the top-line fall may have taken the gloss off OKP's improved margins, we believe this decline is temporary. As management stated, to which we also agree - this revenue decline is part of a transition phase. When the company begins on its newer projects, the revenue contribution during the initial stages will be small before it hits the "chunkier" portion further down the road. What remains a fact is that OKP holds a strong order book, with revenue visibility till 2014. We also believe that lower revenue recognition at this point does not automatically translate to risk of project delays. Given OKP's excellent track record, we believe that the company will successfully progress to the future stages of their contracts without delays and register stronger revenue growth as they progress further into various projects.

**Healthy prospects of order book additions.** Going forward, the public infrastructure construction space should remain fairly active - projects such as the North South Expressway and road improvement works in the Kallang area to facilitate the upcoming Sports Hub will be rolled out. We expect that OKP will continue to feature amongst the tender winners for various public infrastructure projects, thereby renewing their order book. Besides completing projects and adding to its order books, we also believe that its margins should remain healthy. As the Central Expressway project nears completion, the company added another design and build contract relating to Tampines Expressway. Future design and build contract wins will further improve margins.

**Maintain BUY.** We continue to like OKP for its 1) strong order book, 2) increased number of design and build contracts and 3) effective cost management. 3Q11 margins also continue to be strong and remain above construction peers' levels. Given these factors, we maintain our **BUY** rating and revised fair value estimate of S\$0.64 (vs. S\$0.65 previously to account for increase in shares), still based on 7x FY12 EPS of S\$0.092, implying 15% upside.



Reuters Code	OKPH.SI
ISIN Code	5CF
Bloomberg Code	OKP SP
Issued Capital (m)	305
Mkt Cap (S\$m / US\$m)	171 / 135
Major Shareholders	
Or Kim Peow Investment	55.3%
China Sonangol Int	14.2%
Free Float (%)	29.8%
Daily Vol 3-mth ('000)	495
52 Wk Range	0.489 - 0.685

S\$m	FY10	FY11F	FY12F	FY13F
Revenue	140	132	198	212
EBITDA	23	30	38	40
EPS (S\$)	0.064	0.074	0.092	0.097
P/E (x)	8.7	7.5	6.0	5.7
P/NTA (x)	2.5	2.0	1.7	1.5

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## OKP's Key Financial Data

<b>OKP's Results</b>	<b>3Q10</b>	<b>3Q11</b>	<b>% Chg</b>	<b>2Q11</b>	<b>% Chg</b>
<b>Year Ended 31 Dec (\$\$ m)</b>	<b>(\$\$ m)</b>	<b>(\$\$ m)</b>	<b>(YoY)</b>	<b>(\$\$ m)</b>	<b>(QoQ)</b>
<b>Revenue</b>	<b>36.6</b>	<b>25.5</b>	<b>-30%</b>	<b>28.3</b>	<b>-10%</b>
Cost of sales	-29.5	-17.2	-42%	-17.1	0%
<b>Gross profit</b>	<b>7.1</b>	<b>8.3</b>	<b>16%</b>	<b>11.2</b>	<b>-26%</b>
Other operating income	0.1	0.3	164%	0.2	51%
Expenses	-1.7	-2.7	63%	-3.0	-10%
Admin	-1.7	-2.8	68%	-3.0	-6%
Other	0.0	0.1	n.m	0.0	-278%
<b>Finance costs</b>	<b>0.0</b>	<b>0.0</b>	<b>-32%</b>	<b>0.0</b>	<b>0%</b>
Profit before tax	5.5	5.8	6%	8.3	-30%
Tax	-1.0	-1.0	-5%	-1.4	-33%
<b>Net profit</b>	<b>4.5</b>	<b>4.9</b>	<b>8%</b>	<b>6.9</b>	<b>-29%</b>

### OKP Holdings Limited

EARNINGS FORECAST					BALANCE SHEET				
Year Ended December 31 (\$\$m)	FY10	FY11F	FY12F	FY13F	Year Ended December 31 (\$\$m)	FY10	FY11F	FY12F	FY13F
Revenue	140	132	198	212	Bank and cash balances	100	105	124	131
EBITDA	23	30	38	40	Other current assets	31	34	42	33
Depreciation & amortization	-3	-3	-3	-3	Property, plant, and equipment	17	19	23	25
EBIT	20	27	34	37	Total assets	153	164	194	194
Net interest	0	0	0	0	Debt	2	1	1	1
Associates and JVs	0	0	0	0	Current liabilities excluding debt	82	78	91	76
Others	1	1	0	0	Total liabilities	84	80	93	78
Profit before tax	20	27	34	37	Shareholders equity	69	84	101	116
Income tax expense	-4	-5	-6	-7	Minority interests	0	0	0	0
PATMI	17	23	28	30	Total equity and liabilities	153	164	194	194
CASH FLOW					KEY RATES & RATIOS				
Year Ended December 31 (\$\$m)	FY10	FY11F	FY12F	FY13F		FY10	FY11F	FY12F	FY13F
Op profit before working cap. chg.	20	27	34	37	EPS (\$\$)	0.064	0.074	0.092	0.097
Working cap, taxes and int	19	-2	11	1	NTA per share (\$\$)	0.23	0.28	0.33	0.38
Net cash from operations	39	19	37	27	EBIT margin (%)	14.6%	20.7%	17.5%	17.3%
Purchase of PP&E	-6	-6	-7	-6	Net profit margin (%)	12.1%	17.1%	14.4%	14.2%
Other investing flows	-2	0	0	0	P/E (x)	8.7	7.5	6.0	5.7
Investing cash flow	-8	-5	-7	-6	P/NTA (x)	2.5	2.0	1.7	1.5
Financing cash flow	-8	-8	-11	-14	EV/EBITDA (x)	2.1	2.1	1.2	1.0
Net cash flow	23	5	19	7	Dividend yield (%)	9.0%	6.8%	8.6%	9.1%
Cash at beginning of year	72	100	105	124	ROE (%)	24.5%	26.8%	28.1%	25.8%
Cash at end of year	100	105	124	131	Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, OIR estimates

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