OCBC Investment Research

SINGAPORE Company Report MITA No. 022/06/2011

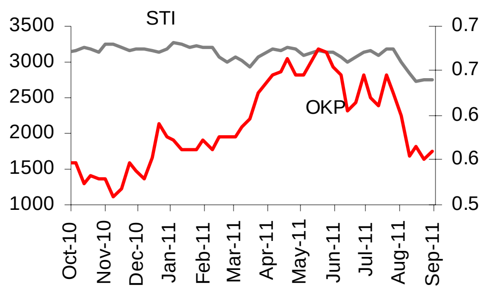
9 September 2011

Initiating Coverage

BUY

Current Price: S$0.575

Fair Value: S$0.65



Reuters Code	OKPH.SI
ISIN Code	5CF
Bloomberg Code	OKP SP
Issued Capital (m)	305
Mkt Cap (Sm / USm)	175 / 145
Major Shareholders	
Or Kim Peow Investment	55.3%
China Sonangol Int	14.2%
Free Float (%)	29.8%
Daily Vol 3-mth (‘000)	917
52 Wk Range	0.441 - 0.685

S$m	FY10	FY11	FY12F	FY13F
Revenue	139.9	142.8	197.6	211.7
EBITDA	23.4	29.8	37.6	38.2
EPS (S$)	0.064	0.072	0.093	0.095
P/E (x)	9.0	8.0	6.2	6.1
P/NTA (x)	2.5	2.0	1.7	1.5

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OKP Holdings Limited

Initiate with BUY - Excellent revenue visibility

Established road infrastructure construction firm. OKP Holdings has an impressive track record of wide ranging infrastructure projects for prominent customers, such as Land Transport Authority (LTA), Jurong Town Corporation (JTC) and Public Utilities Board (PUB). To date, they have completed more than S$250m (excluding mega contract for CTE) worth of roads and civil engineering projects for LTA, and continues to win sizable public infrastructure tenders.

Excellent revenue visibility. The company's current order book is c.S$370m, and will stretch till end of 2014. Given OKP's highly selective tendering process and solid execution track record (ZERO delays in its operating history), the projects can reasonably be expected to be profitable and well managed. OKP's market share for public infrastructure projects in recent years has been healthy, and we believe it will continue to remain so. On top of its firm foothold in the public space, OKP believes revenue can be broader based in future, with expansion into property construction, oil and gas and even MRT lines projects possible.

Healthy balance sheet will give strategic flexibility. As of end-2Q11, OKP's cash holdings make up c.57% of its market capitalisation. The company has virtually no debt and operates on a net cash basis. Such a "war chest" will give OKP's management flexibility in pursuing different avenues of growth, such as property construction and even property development, given its partnership with China Sonangol. The effective management of Property, Plant and Equipment (PPE) has also allowed the company to stretch the useful lives of their machineries, thereby reducing unnecessary capex and thus saving cash for OKP.

Strong margins vis-a-vis peers plus undemanding valuations - initiate with BUY. Relative to construction peers, OKP's operating and net margins lie above industry averages. We expect its superior margins to continue, because: 1) recent wins on its order books hold clauses which protect OKP against significantly higher material prices; 2) increased number of Design & Build contracts in the pipeline should yield bigger margins; and 3) the fact that the company has factored in labour costs trends when tendering for projects. Despite its sound performance, the company's forward P/E for 2011 and 2012 lies below industry averages, making valuations undemanding. We assume that OKP will continue to enjoy similar market share of future public infrastructure projects, adding ~S$156m of new contracts each year for both FY12 and FY13. We also forecast EPS of S$0.093 and S$0.095 for FY12 and FY13, respectively. Applying the industry average of 7x forward P/E to FY12 EPS, we derive a fair value of S$0.65, implying 13% upside. Initiate with **BUY**.

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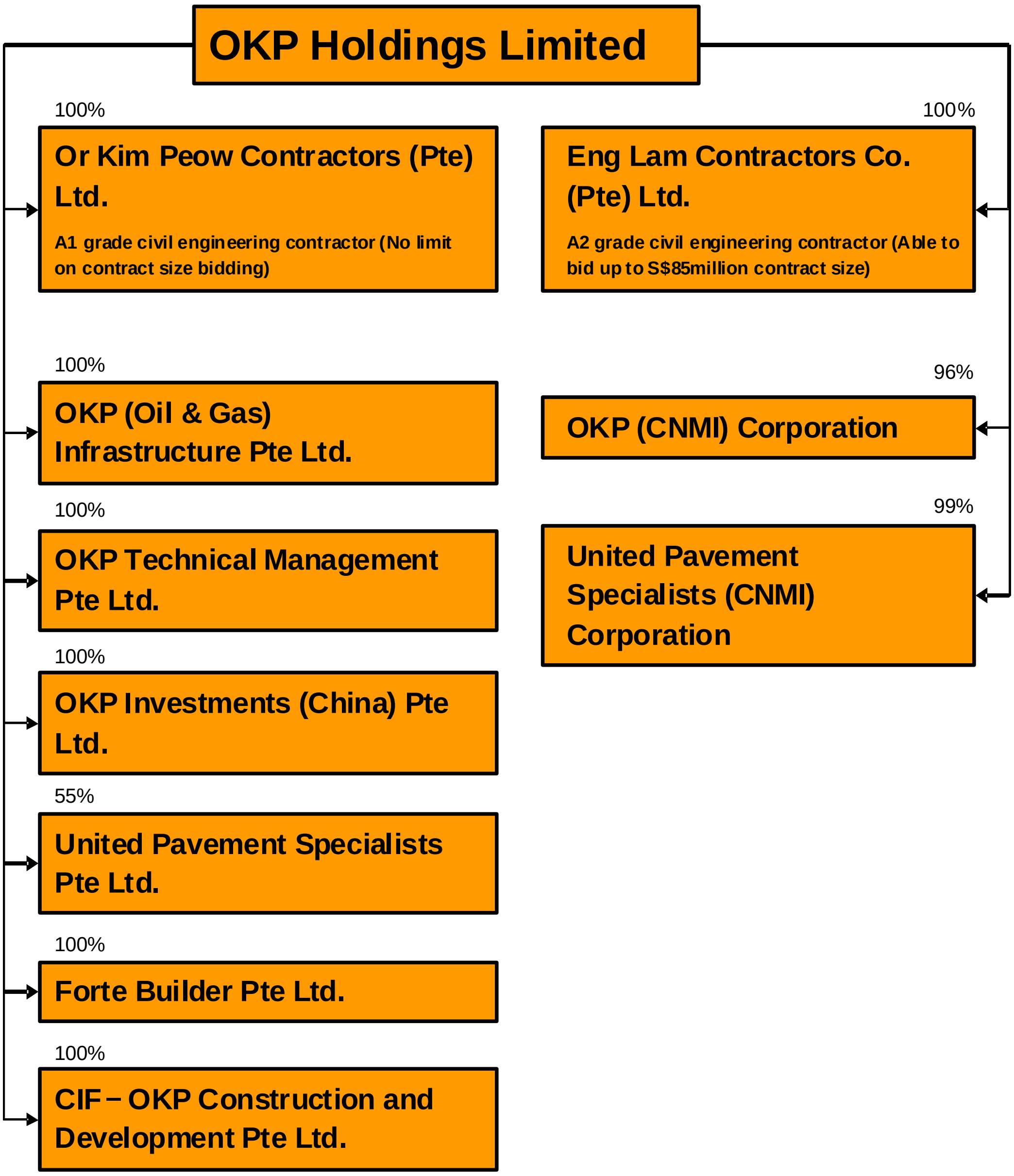
Section A: Company background

OKP Holdings is a home grown civil engineering firm, with operations dating back to 1966. Mr. Or Kim Peow, founder and Chairman of the Company, initially established Or Kim Peow Contractors, a fully owned subsidiary to undertake civil engineering projects, and over the years, the firm grew substantially. Or Kim Peow Contractors (Pte) Ltd. is now an A1 grade contractor eligible for unlimited contract size tendering, whereas, another fully owned subsidiary in Eng Lam Contractors (Pte) Ltd. is an A2 grade contractor eligible for contracts tender up to S$85million in size.

Exhibit 1: OKP Holdings' Group Structure



Source: Company

Under the company's belt is an impressive track record of numerous and wide ranging infrastructure projects for prominent customers, such as Land Transport Authority (LTA) of Singapore, Jurong Town Corporation (JTC) and Public Utilities Board (PUB). Types of infrastructure projects include building of vehicular bridges, widening of expressways, construction of runways and various road maintenance works.

Exhibit 2: OKP Holdings' Group Structure

Completed projects:

Widening of Eunos Link and Jalan Eunos From Airport Road to Sims Avenue

Source: Company

Tanglin Halt Outlet Drain at North Buona Vista

Source: Company

Ongoing projects:

Widening of Central Expressway from Pan Island Expressway to Braddell Interchange

Source: Company

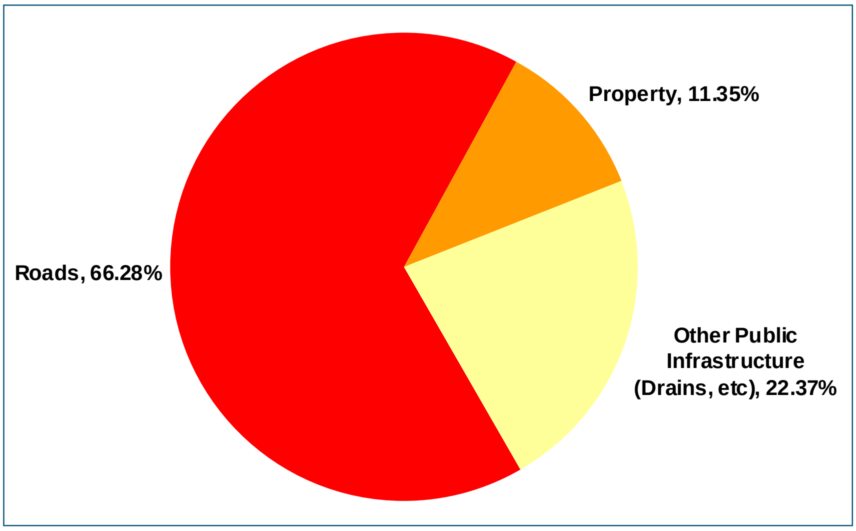
Ad Hoc Repairs and upgrading of roads, road related facilities and road structures in Central Sector for period of 39 months

Source: Company

The company's revenue stream consists of new construction contracts revenue and maintenance revenue. Approximately 20% of OKP's revenue come from maintenance contracts and act as an important buffer in the event of lower construction demand. However, construction revenue remain a staple for the company and new contracts will continue to remain an important driver of growth for OKP.

The company's biggest contract win to date is the S$119.3m contract to widen the Central Expressway (CTE) from Pan Island Expressway (PIE) to Braddell Interchange. Winning this sizeable contract is a testament of its leadership position within the public infrastructure space and OKP's order book currently stands at approximately S$368m (assuming 50% share of revenues for Angullia Park development).

Exhibit 3: FY10 revenue breakdown



Source: Company, OIR estimates

Besides its dominance within the infrastructure space, OKP is also building its track record and expertise elsewhere. Since 2006, the company has forged a presence within the Oil & Gas space, by winning projects relating to Jurong Island's S$750m petroleum storage facility and land reclamation works contract from ExxonMobil. In addition, the company also won the contract for construction of private residential housing from Angullia Development Private Limited in the prime district of Singapore.

Section B: SWOT Analysis

Exhibit 4: SWOT Quadrants

Strengths	Opportunities
Excellent track record within Singapore's public infrastructure space	Further expansion for Oil & Gas industry
Strong balance sheet, limited debt	Property construction and Property development
Effective management of Operational Assets	
Selective tendering	
Weaknesses	**Threats**
No experience in MRT projects	Increasing competition
Competition for middle managers	

Strengths:

Strong track record within Singapore's public infrastructure space. As the leader within the public infrastructure space, OKP has completed 23 and 12 projects since 2003, for LTA and PUB respectively. LTA remains OKP's biggest customer - completed projects add up to worth of more than S$250m, not including the biggest contract of all for the widening of CTE/ PIE on Braddell Interchange. Throughout their long operating history, they have suffered ZERO delays. This excellent track record comes into play and ensures that OKP remains in the forefront for future road infrastructure projects.

Selective tendering. OKP is highly selective in submitting tenders for projects - it only tenders for projects for which it is certain of its own execution capabilities and success. According to management, last year's tenders' success rate reached c.94%. This reduces OKP's operational risk and chances of project delays, both of which can be costly disruptions to projects.

Weaknesses:

No track record for MRT projects. With the Singapore government investing heavily (more than S$20b) in the various MRT lines - for example, the Thomson Line, OKP's lack of track record so far within this space might cost the firm to miss out on the public spending boom in this area. Despite having no experience, OKP will continue to explore opportunities on this front, as it recognizes that it is too big a pie to ignore. Possible entry into the fray may be through JVs with other firms initially.

Competition for middle managers. Project managers and engineers remain an important part of OKP's operations. The homegrown firm faces competition from other engineering firms and even other industries for talent. This shortage inevitably, puts pressure on OKP's costs as the company competes with others to attract and retain talent to the firm.

Opportunities:

Oil and Gas industry. OKP's oil and gas business gained prominence, after completion of projects for customers such as ExxonMobil. The management believes the company is well placed to win further oil and gas downstream (storage facilities) related projects in future due to the high standards that were put in placed through working with oil majors such as ExxonMobil.

Property industry. OKP's recent win of the construction contract for Angullia Park and its partnership with China Sonangol announces OKP's arrival onto the property scene in a prominent way. The development nests within one of the most sought after residential districts in Singapore and OKP will undertake the project together with Soil-Build (Pte) Ltd. With the partnership, OKP should be well placed to win more residential property construction projects. China Sonangol's recent acquisition of Amber Towers is a possible area for further collaboration for both. OKP also does not rule out moving beyond being a property construction contractor into property development itself, citing its good relations with China Sonangol and strong balance sheet (sizeable cash holdings).

Threats:

Increasing competition. Competition from overseas construction or engineering firms for local infrastructure projects has increased over the years. For contracts of a bigger size, OKP sees significant competition from Australian, Korean and Chinese engineering firms. The MRT projects space is filled with opportunities; however, it is also fiercely contested. Apart from MRT lines, OKP's leadership position within the roads infrastructure space is not impregnable. Recent awards of the Marine Coastal Expressway (MCE) contracts shows the competition (Korean firms are notable winners for MCE), and that has kept OKP out of the fray thus far. Competition from these firms may eventually filter down to mid-size contracts (those around S$100m in value) as they expand their footprint in Singapore. Such increased competition could have negative impacts on OKP's ability to win contracts and decrease margins as well.

Section C: Industry outlook

According to Building Construction Authority's (BCA) estimates, the amount of private and public construction contracts available for the next two years (2012 to 2013) will range between S$21b and S$28b. This pales slightly, in comparison to 2011's full year forecasts of between S$24b and S$30b.

While BCA expects lower construction demand overall, the industry impacts different construction firms differently. We examine the construction fields which are more relevant to OKP.

Roads to be remain primary driver. While BCA is less bullish on construction demand over the next two years, the public sector - specifically the roads works space will still see some significant projects rolled out. Examples are the North South Expressway (NSE) project and Marina Coastal Expressway (MCE) project. Having missed out on the (MCE) so far, OKP will be keen to participate on the bigger 21km NSE project. The NSE project is expected to be completed only by 2020, with total costs ranging from S$7b to S$8b.

Smaller projects like the ongoing works for Outer Ring Road System (ORRS) and New Sentosa Gateway Tunnel will also be carried out in phases, stretching till as far as 2015. In addition, LTA will put up road maintenance contracts dependant on road conditions. These government projects are congruent with OKP's track record and experience and therefore, we expect to see OKP feature among the tenders' winners.

Other public works will provide extra spurt. Besides roads infrastructure, Public Utilities Board (PUB) of Singapore will chip in with its share of public spending with infrastructure upgrading on drains and canals. Several projects are under the planning phase by PUB and they include:

- Estate upgrading programme to convert/ upgrade ~67km of old roadside drains which have structurally deteriorated. Project involves estates such as, Thomson Ridge Estate, Seletar Estate, Sembawang Spring Estate and Charlton Park Estate.
- Drainage improvement programme to improve and enlarge some 60km of old roadside drains and also to convert/upgrade some 150km of old roadside drains into sturdy drains in older private residential estates. Project involves estates such as Marymount Road and Benoi Sector area.

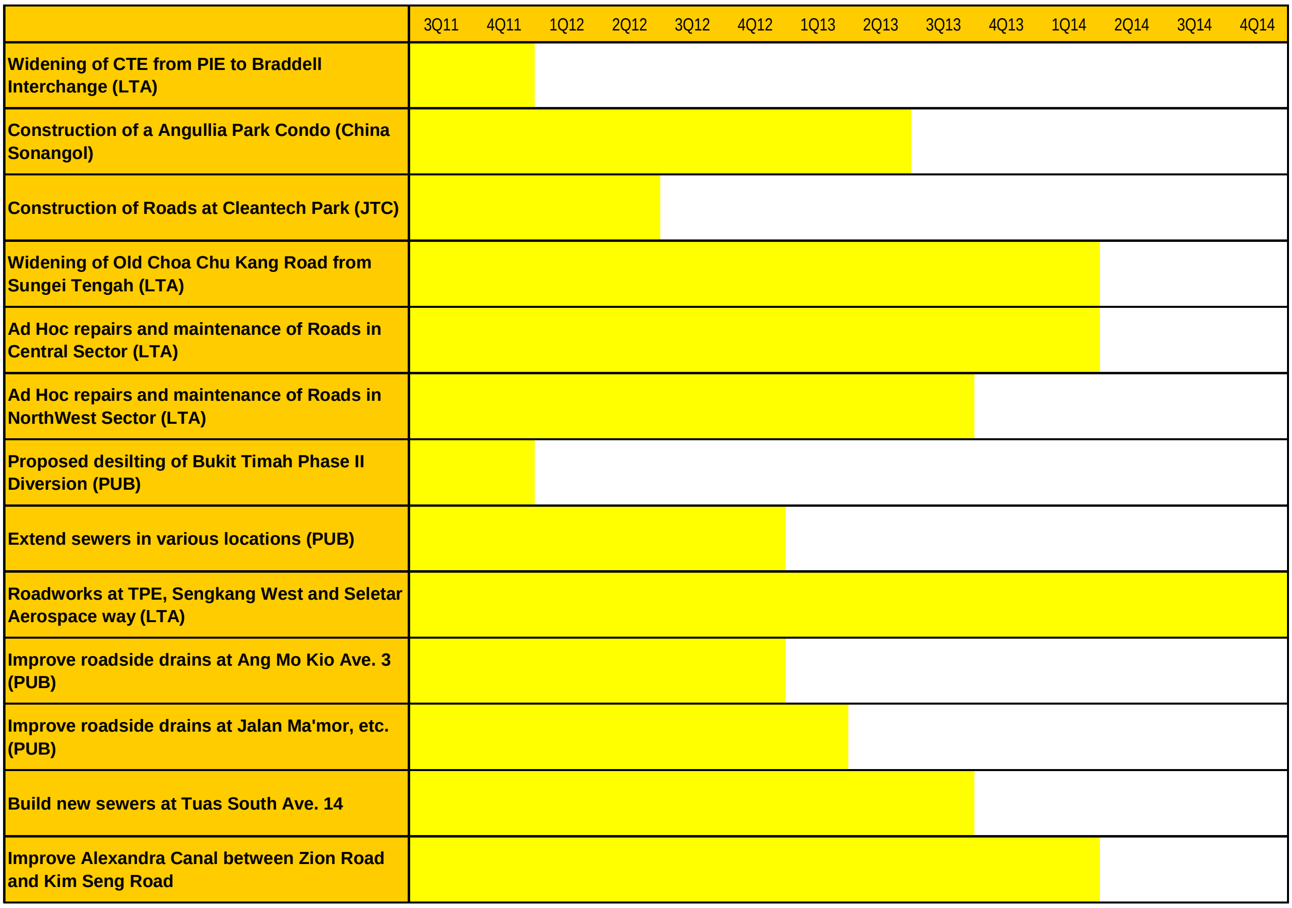
Recent wins for OKP include the improvement works on Alexandra Canal between Zion Road and Kim Seng Road, worth about S$48m. Besides this latest tender win, the company had previously completed S$98m of contracts for PUB. This strong track record is beneficial to OKP future tender prospects. OKP currently holds ~S$62m worth of orders for such drainage or sewerage works.

MRT lines will be the biggest pie of them all. The Singapore Government plans to make significant investments in MRT projects. These expected projects will be for new lines, such as the Thomson Line, Eastern Region Line and also additions to existing lines. While the government has cited that it plans to invest ~S$20b into MRT lines development, we are also aware that OKP has not accumulated any significant experience in MRT projects. This may discount the firm's prospects of winning any projects from this area, but any progress in this area will provide further upside on an already strong order book.

Section D: Financial analysis

Commendable revenue CAGR of 17.5%. OKP's revenues grew significantly over the past five years, registering CAGR of 17.5%. The growth is due to sizeable contract wins since 2008. The company's ongoing contracts are worth a total of approximately S$370m and are from mainly LTA and PUB. As mentioned before, the mega contract win for CTE from LTA helped its recent years' revenue growth significantly, but the project's contribution will slow as it is its end (already close to 90% completed).

Exhibit 5: Revenue timeline

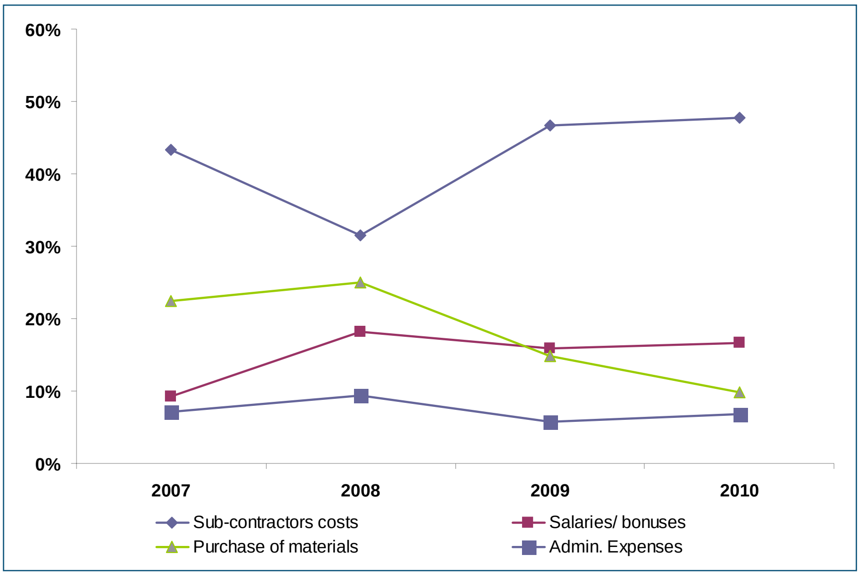


Source: Company, OIR estimates

Going forward, OKP's revenue visibility will still be good. Contracts pipeline shows that OKP's current order book will last till end of 2014.

Major cost components. While revenue grew in an undeniable upward trend, the major cost components on OKP's P&L had mixed directions over the past four years. The biggest cost component over the past four years was sub-contractors costs, taking up approximately 45% of revenue, and it increased significantly since 2008. As OKP does not undertake certain construction activities, such as piling, there will be sub-contractors requirements. Other significant cost components would be salaries and materials costs, taking up about 16% and 15% of revenue respectively, while administrative expense was only 7% of revenue.

Exhibit 6: Trends of major cost components



Source: Company, OIR

Other than sub-contractors costs, other cost components have declined since 2008. Despite increases in OKP's largest cost component, their operating and net margins still improved. Management attributed the cost savings to several factors. For example, recent contract wins hold clauses which allow the company to renegotiate prices in the event of materially higher material costs, protecting OKP's margins. In addition, for design & build projects, like the mega win for CTE, gives OKP autonomy and flexibility in design, project management and labour management, helping to boost margins further. In the near future, the margins may continue to be sustained with OKP's TPE project (another design & build project). Lastly, OKP has also factored in likely trends of labour costs when budgeting for tenders, therefore, the impact of future labour costs changes are largely priced in.

Strong balance sheet with net cash position. OKP has a strong balance sheet - virtually no debt on its books with a building cash pile. Since 2007, cash and cash equivalents' proportion on its balance sheet have increased and as of the end of last quarter, net cash of 97m on OKP's books is equivalent to c.57% of its ~S$170m market capitalisation.

Such a strong cash position is likely to improve further. This is helped by the company's effective management of its operating assets. While several of its machineries have been fully depreciated, they are still being gainfully and safely employed by the company for certain projects. Management believes that these help to reduce unnecessary capex and therefore retains cash in the company, as well as preserving the margins.

Section E: Valuation and Recommendation:

Public infrastructure to remain key driver. Public sector contracts remain an important growth driver for OKP. NSE, a mega infrastructure project (with construction expected to take till 2020) and various PUB projects under planning will be areas that continue to support and renew its order books going forward. With OKP's outstanding track record, experience with design and build contracts, we expect the company to continue to feature amongst the tenders winners.

Positive developments in Oil & Gas and Property. As mentioned, OKP feels it is well placed for further growth in areas besides road construction. The management's confidence about its oil and gas prospects grew after it successfully completed projects for oil major like ExxonMobil, whereas the entry of China Sonangol as a major shareholder lifts expectation of further collaboration in the property segment. We feel that the increased likelihood of more property construction projects through this partnership is positive for OKP. But we remain uncertain about the prospects of venturing into property development, especially at this time when developers face growing macro uncertainty. We acknowledge that this partnership will bring new opportunities but, not without its risks.

Potential MRT wins will provide significant upside surprise. MRT contracts have not featured on OKP's order books, due to the lack of a track record and highly competitive bidding from major overseas engineering competitors. However, OKP will continue submitting tenders for MRT projects. If successful, the company's market share of public contracts should increase exponentially and any win will provide significant upside surprise to our estimates and OKP's share price.

Revenues visibility and strong margins vis-à-vis peers. We like OKP's order book visibility and given its healthy market share in its recent history, we forecast the company will win ~S$156m of new contracts in each of the next two years, on top of its current projects. We also assume that projects will, on average, take approx. 1.5 years to complete, in line with historical trends. Relative to its peers (both Construction firms and Equipment providers), OKP's operating and net margins lie above the industry average. Yet, from a multiples perspective, OKP's forward P/E or CY11 and CY12 are trading below industry averages, making valuations undemanding.

Exhibit 7: Peer comparison

Company name	Share price S$	Mkt cap S$m	Calendar Year 2011 P/E (x)	Calendar Year 2012 P/E (x)	LFY P/B (x)	Calendar Year 2011 P/Sales (x)	LFY ROE (%)	Operating Margins (%)	Net Margins (%)	Debt/ Equity ratio
OKP Holdings Ltd	**0.575**	**175.2**	**8.0**	**6.2**	**2.5**	**0.4**	**24.7%**	**14.7%**	**12.2%**	**Net Cash**
Tiong Seng Holdings Ltd	0.192	147.1	4.8	4.6	0.7	0.4	9.6%	4.2%	8.5%	Net Cash
CSC Holdings Ltd	0.108	132.7	18.8	17.3	0.7	0.4	2.7%	3.8%	1.5%	19%
Wee Hur Holdings Ltd	0.270	174.1	2.5	2.5	1.9	0.4	23.2%	17.9%	14.0%	42%
Lian Beng Group Ltd	0.360	190.7	4.0	3.6	1.0	0.4	25.5%	11.1%	9.5%	Net Cash
BBR Holdings Ltd/Singapore	0.225	69.2	3.5	3.3	0.9	0.2	24.3%	7.1%	9.5%	18%
Tat Hong Holdings Ltd	0.660	327.8	11.1	9.2	0.6	0.5	4.5%	10.8%	4.5%	61%
Yongnam Holdings Ltd	0.230	288.3	5.0	4.6	1.2	0.8	23.1%	22.0%	16.2%	49%
Tiong Woon Corp Holding Ltd	0.225	83.6	18.8	11.3	0.4	0.7	10.4%	0.2%	16.1%	48%
High			**18.8**	**17.3**	2.5	0.8	25.5%	22.0%	16.2%	60.8%
Average			**8.5**	**6.9**	1.1	0.5	16.4%	10.2%	10.2%	39.5%
Low			**2.5**	**2.5**	0.4	0.2	2.7%	0.2%	1.5%	18.0%

Source: Company, Bloomberg, OIR estimates. As of 8th Sep. 2011

Exhibit 8: Dividend payout trend

	2008	2009	2010
DPS (S$)	0.020	0.030	0.050
EPS (S$)	0.042	0.058	0.064
Div. payout ratio	48%	51%	78%

Source: Company, OIR estimates

Initiate with BUY and S$0.65 fair value. Given OKP's track record, strong margins and growth potential, we feel that applying 7x P/E multiple (above pure construction peers' average, but in line with overall sector average) to value OKP is reasonable. Based on our forecast FY2012 EPS of S$0.093, we hence derive a fair value of S$0.65, implying **13% upside potential**. And because of its still-ample cash balance, OKP has been paying out some pretty attractive dividends over the past three years (historical 3-year median ~51%); basing on the median payout ratio, we estimate that dividend yields could come in around 6% in FY11 and 8% FY12. Therefore, we initiate coverage with a **BUY** on OKP Holdings.

OKP Holdings Limited

EARNINGS FORECAST Year Ended December 31 (S$m)	FY10	FY11F	FY12F	FY13F
Revenue	139.9	142.8	197.6	211.7
EBITDA	23.4	29.8	37.6	38.2
Depreciation & amortization	-2.8	-3.2	-3.1	-3.1
EBIT	20.6	26.7	34.5	35.1
Net interest	0.0	-0.1	0.0	0.0
Associates and JVs	0.0	0.0	0.0	0.0
Others	-0.2	-0.1	0.0	0.0
Profit before tax	20.4	26.6	34.5	35.1
Income tax expense	-3.6	-4.7	-6.1	-6.2
PATMI	17.0	21.9	28.4	28.8

BALANCE SHEET Year Ended December 31 (S$m)	FY10	FY11F	FY12F	FY13F
Bank and cash balances	100.1	111.1	130.2	136.0
Other current assets	31.1	34.2	42.4	33.0
Property, plant, and equipment	17.0	19.1	22.5	25.2
Total assets	153.1	169.4	200.0	199.1
Debt	1.8	1.3	1.3	1.3
Current liabilities excluding debt	81.9	81.1	94.6	79.3
Total liabilities	84.2	83.0	96.4	81.2
Shareholders equity	68.9	86.4	103.6	118.0
Minority interests	-0.1	-0.1	-0.1	-0.1
Total equity and liabilities	153.1	169.4	200.0	199.1

CASH FLOW Year Ended December 31 (S$m)	FY10	FY11F	FY12F	FY13F
Op profit before working cap. chg.	20.1	26.4	34.5	35.1
Working cap, taxes and int	16.0	-8.5	-0.9	-12.1
Net cash from operations	39.1	21.2	36.8	26.1
Purchase of PP&E	-6.4	-5.5	-6.5	-5.8
Other investing flows	3.4	0.3	0.0	0.0
Investing cash flow	-3.0	-5.1	-6.5	-5.8
Financing cash flow	-8.3	-5.0	-11.2	-14.5
Net cash flow	27.8	11.1	19.1	5.8
Cash at beginning of year	72.3	100.1	111.1	130.2
Cash at end of year	100.1	111.1	130.2	136.0

KEY RATES & RATIOS	FY10	FY11F	FY12F	FY13F
EPS (S$)	0.064	0.072	0.093	0.095
NTA per share (S$)	0.23	0.28	0.34	0.39
EBIT margin (%)	14.7%	18.7%	17.5%	16.6%
Net profit margin (%)	12.1%	15.3%	14.4%	13.6%
P/E (x)	9.0	8.0	6.2	6.1
P/NTA (x)	2.5	2.0	1.7	1.5
EV/EBITDA (x)	8.8	6.5	4.7	4.5
Dividend yield (%)	6.9%	6.4%	8.3%	8.4%
ROE (%)	24.6%	25.4%	27.4%	24.5%
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:
The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS AND RECOMMENDATIONS:
OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.
- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/-10% from the current price; Sell = More than 10% downside from the current price.
- For companies with less than S$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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