

OKP Holdings Limited

2011 Results Almost in the Bag

OKP Holdings Limited (OKP) announced last week the award of an S\$83.5m contract for the construction of a condominium development at Angullia Park. This contract win affirmed our view that OKP's order book renewal process is proceeding smoothly. **Maintain Increase Exposure call based on an intrinsic value of S\$0.830 (previous close: S\$0.565).**

Key Takeaways:

Starting to benefit from partnership with strategic shareholder China Sonangol International (S) Pte Ltd: The development site at Angullia Park (River Valley Area) is owned by a subsidiary of China Sonangol Land Pte Ltd (CS Land). We had in our earlier update (Contract Wins Picking Momentum, dated 27 Oct 2010) foreseen that OKP might enjoy contract wins from the said development.

Building a new competency: The contract was awarded to a 50/50 JV between OKP and Soil-Build (Pte) Ltd – Forte Builder Pte Ltd. This JV will allow OKP to draw upon the expertise of an established player in property construction, and at the same time, build its own competency in this sector of the construction industry. We see this as a move by OKP to enter the 'building' sector and reduce reliance on infrastructure projects.

What's next? This contract win confirms that OKP is successfully renewing its order book. Had this JV been consolidated as a subsidiary, we estimate that it will have added about S\$17.9m to OKP's FY11F top-line.

OKP is the lowest bidder for a contract to widen a section of Old Choa Chu Kang Road with a tender amount of S\$28.5m. As such, it has a strong chance of winning this contract. The successful award of a Downtown Line 3 contract will also significantly boost OKP's order book. We project that OKP now needs only another S\$47.7m worth of contracts to meet our earnings expectations for FY11F – an achievable outcome.

Increase Exposure

- Intrinsic Value S\$0.830
- Prev Close S\$0.565

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\$ m	FY08	FY09	FY10F
Revenue	101.8	130.0	145.3
Gross Profit	21.3	23.4	26.3
Earnings	9.5	14.4	16.6
EPS (S cts)	4.2	6.1	6.4

Source: Company, SIAS Research

Key ratios (FY10F)

PER	8.8
P/BV	2.2
Return on Common Equity	25.8%
Return on Assets	13.1%
Gross Debt to Common Equity	3.9%
Current ratio	1.8

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)

White (OKP)



Source: Bloomberg

52wks High-Low S\$0.595 /S\$0.4167^
 Number of Shares 265.4m
 Market Capitalization S\$148.6m
 ^Fractional prices due to bonus issue and warrants conversion

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Contract Details: This contract involves the construction of a condominium development, comprising of one block of 36-storey residential flat of 54 units with sky terraces, two basement car parks, a swimming pool and communal facilities on Lots 1374V TS24, at Angullia Park (River Valley Area). The contract will commence on 22 December 2010 and is expected to be completed by 22 April 2013 – 28 months.

Figure 1: Order Book Analysis

No	Brief Description	Customer	Est. FY11F Revenue* (S\$ m)
1	Widening of CTE	LTA	39.8
2	Improvement to roadside drains	PUB	0.6
3	Tuas View Extension, Phase 1	JTC	2.1
4	Ad hoc repairs and upgrading of roads I	LTA	6.0
5	Ad hoc repairs and upgrading of roads II	LTA	6.0
6	Desilting of Bukit Timah Diversion Canal	PUB	4.0
8	Cleantech Park Phase 1	JTC	8.7
9	Orchard Road – Road raising works	PUB	15.7
10	Angullia Park Development	CS Land	17.9**
10	Widening of Old Choa Chua Kang Road	LTA	11.4
		Total	112.1
		FY11F Revenue Forecast	159.8
		Difference	47.7

Contracts awarded in 2010

→ Anticipated contract win.

*We allocate the value of each contract evenly across its term in our estimates. We also assume that the Old Choa Chu Kang Road project has a term of 30 months. Our listing above excludes a land reclamation works project awarded and expected to be completed in 2010.

**S\$83.5m x 50% / 28 months. Revenue from the construction of the Angullia Park development will not be recognized in OKP's income statement. OKP will recognize its share of profits from the Forte Builder JV instead. However, we present this contract as part of OKP's order book to acknowledge its positive impact on OKP's earnings.

Source: Company Announcements, LTA website, SIAS Research

Figure 2: Economic Profit Valuation Model

S\$ m	FY10F	FY11F	FY12F	FY13F	FY14F
Revenue	145.3	159.8	175.8	193.4	212.7
EBIT	20.4	20.6	23.9	26.3	29.0
Tax on EBIT	-3.2	-3.2	-3.7	-4.1	-4.5
NOPLAT	17.2	17.4	20.1	22.2	24.5
Invested Capital	62.4	72.7	79.7	87.7	96.6
% of Debt	4.3%	3.7%	3.4%	3.4%	3.4%
% of Equity	95.7%	96.3%	96.6%	96.6%	96.6%
WACC	10.50%	10.56%	10.59%	10.59%	10.59%
Capital Charge	6.6	7.7	8.4	9.3	10.2
Economic Profit	10.6	9.8	11.7	12.9	14.3
Terminal Value					180.8
Discount Rate	0.98	0.88	0.80	0.72	0.65
Present Value	10.4	8.6	9.3	9.3	9.3
Book Value	59.5			Risk Free	1.98%
Explicit Value	46.9			Beta	1.1
Terminal Value	117.9			Market RP	8.11%
Value of Firm	224.3			Cost of Equity	10.90%
Number of Shares (m)	269.8			Cost of Debt	1.95%
Value per share (S\$)	0.830			LT Growth	2.50%

Number of shares is based on the enlarged share capital after the exercise of warrants not owned by majority shareholders Or Kim Peow Investments Pte Ltd and China Sonangol International (S) Pte Ltd. These warrants will expire in January 2013.

Source: SIAS Research

Figure 3: Financial Forecasts and Estimates

	FY07	FY08	FY09	FY10F	FY11F	FY12F	FY13	FY14
Revenue	124.7	101.8	130.0	145.3	159.8	175.8	193.4	212.7
Gross Profit	21.8	21.3	23.4	26.3	27.2	29.9	32.9	36.2
Operating Profit	12.4	11.6	15.8	20.4	20.1	23.4	25.8	28.5
Net Profit	10.9	9.5	14.4	16.6	17.4	20.1	22.2	24.5
Attributable to Shareholders								
Total Current Assets	63.2	63.0	105.8	107.9	111.8	120.7	129.8	139.6
Total Non-Current Assets	13.7	13.9	16.6	22.1	26.1	30.7	36.3	42.9
Total Current Liabilities	40.1	33.3	61.2	58.6	59.4	64.9	70.7	77.4
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	70.0	76.9	85.0	93.9	103.7
Cash from Operating Activities	13.0	15.8	44.6	10.3	21.1	22.6	31.4	28.9
Cash from Investing Activities	-1.9	-0.2	-5.0	-7.9	-7.0	-8.3	-9.9	-11.7
Cash from Financing Activities	-0.8	-5.1	2.6	-6.1	-10.5	-12.1	-13.3	-14.7
Net change in cash	10.3	10.5	42.3	-3.6	3.7	2.2	8.2	2.4
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%	25.8%	23.9%	25.0%	25.0%	24.9%
ROA (%)	17.5%	12.3%	14.5%	13.1%	13.0%	13.9%	14.0%	14.0%
Debt/Equity	11.1%	10.3%	4.5%	3.9%	3.5%	3.2%	2.9%	2.6%
Current Ratio	1.6	1.9	1.7	1.8	1.9	1.9	1.8	1.8
EPS (S cents)	7.36	4.21	6.06	6.41	6.46	7.46	8.22	9.08
BV/Share (S cents)	21.3	25.6	23.1	25.7	28.3	31.3	34.6	38.2
PER	7.7	13.4	9.3	8.8	8.7	7.6	6.9	6.2
P/BV	2.7	2.2	2.4	2.2	2.0	1.8	1.6	1.5

Source: Company, SIAS Research

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value. Readers can consider increasing their exposure in their portfolio to a 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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