

OKP Holdings Limited

Focus Still on Project Selection and Return

OKP Holdings Limited (OKP) released its 1Q FY12 results on 8 May. Net profit came in at S\$3.05m on revenue of S\$25.0m. Lesser revenue was recognized year-on-year due to the rapid completion of the S\$120m CTE widening project in spite of additional variation works. OKP has several large scale projects on its order book, e.g. two expressway projects with combined value of S\$137m and we understand that their progress remains healthy. The more recent S\$75.3m project to expand the CTE/TPE/SLE interchange awarded in Feb-12 is currently in the design phase and construction will ramp up in 3Q. While we had expected a more moderate 1Q, we further adjusted our revenue and net profit forecast to S\$117.5m and S\$17.3m for FY12F in view of the low base in 1Q. **Maintain Increase Exposure.**

Key Developments:

Healthy Order Book: Including the S\$75.3m design and build contract to expand the CTE/TPE/SLE interchange awarded in Feb-12, OKP's gross order book is now S\$323.8m. This project is expected to be completed by 2015. The other expressway project in OKP's order book is the design and build S\$61.7m TPE/Sengkang West Road and Seletar Aerospace Way project to be completed by Oct 2014. Another major ongoing project is the S\$46.8m contract to improve Alexandra Canal. OKP's ability to renew its order book following the completion of the mega CTE project suggests that the company will continue to see positive revenue recognition going forward.

Positive Pipeline of Bids: We understand that OKP is maintaining a healthy pipeline of bids that include projects from both PUB and LTA. OKP's press release quoted Group MD Mr Or Toh Wat, that OKP "shall continue to be selective about" its projects and focus on "projects that yield decent margins and bring acceptable returns". As such, we expect OKP to maintain its track record of high value projects.

Valuation: Our updated forecasts yield a valuation of S\$0.755, resulting in an attractive upside of 27.7%. Our model also incorporates a more conservative long term growth rate of 2.0%. Based on the former growth rate of 2.5%, we would have obtained a valuation of S\$0.783.

Increase Exposure

- Intrinsic Value S\$0.755
- Prev Close S\$0.590

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 recently formed a JV to enter the private property construction segment.

Financial Highlights

(Y/E Dec) S\$ m	FY10	FY11	FY12F
Revenue	139.9	109.8	117.5
Gross Profit	29.5	43.2	30.0
Earnings	17.0	26.6	17.3
EPS (S cts)	6.5	8.7	5.6

Source: Company, SIAS Research

Key ratios (FY12F)

PER	10.6
P/BV	2.0
Return on Common Equity	19.3%
Return on Assets	11.2%
Debt to Equity	0.77
Current ratio	1.7

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)

White (OKP)



Source: Bloomberg

52wks High-Low	S\$0.685 /S\$0.515
Number of Shares	305.61
Market Capitalization	S\$180.3m

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1Q FY12 Results Overview: Revenue declined by 24% to S\$24.9m from corresponding period in 1Q 2011 while net profit also declined by 41.6% to S\$3.05m. OKP's 4Q 2011 revenue was S\$23.2m. Therefore, 1Q 2012 revenue was actually 7.3% higher quarter-on-quarter, suggesting some incremental revenue contribution from newer projects. As mentioned, OKP has managed to refresh its order book following the completion of the S\$120m CTE widening project. Therefore, OKP presents low revenue risk at this point in time.

Gross margin was 21% in 1Q but it is still higher than the average of 20% between FY08 to FY10. We think that the company will strive hard to continue to raise its margin given its focus on design and build projects. We expect some margin recovery in 2H 2012 as OKP ramps up construction of its design and build projects on hand, namely the two design and build expressway projects. Operating expenses fell by 5.9% year-on-year, suggesting tight cost control measures by the company.

Figure 1: 1Q Results Summary

S\$'000	1Q FY12	1Q FY11	YoY %
Revenue	24,954	32,844	-24.0%
Gross Profit	5,244	8,764	-40.2%
Other income	749	138	442.8%
Other Expenses	(2,360)	(2,507)	-5.9%
PBT	3,633	6,395	-43.2%
PAT	3,053	5,232	-41.6%
Gross profit margin	21.0%	26.7%	
Net profit margin	12.2%	15.9%	

Source: Company data

More Projects Up for Grabs: According to OKP's press release, there are three projects including the expansion of KPE/TPE interchange, the expansion and reconstruction of Newton Flyover and the construction of New Lornie Road, to be awarded by LTA in 2012. Given OKP's market leadership position in the Singapore civil engineering sector, we believe OKP will study carefully any contract opportunities that arise and try to secure contracts that offer attractive return.

Besides, the S\$750m worth of drainage projects from PUB over the next five years will also offer ample opportunities for growth. We perused through the government procurement website GeBiz and noted that there is one high value project from PUB with a minimum required contractor grading of A1, which will be closed for tender on 21st June.

Strong Balance Sheet: OKP's net cash position declined slightly to S\$85m, or S\$0.275 per share, as it paid down its payables in 1Q FY12. Net current assets still stood at a healthy S\$63.7m, or S\$0.21 per share. Excluding its net current assets, OKP is only trading at 6.9x of our estimated FY12F earnings.

Figure 2: OKP's Gross Order Book

	List of On-going Construction Projects	Customer	S\$m	Commencement Date (Est.)	Completion Date (Est.)
1	Improvement to Alexandra Canal	PUB	46.8	Sep-2011	Mar-2014
2	Proposed Sewers from Tuas South Avenue 14 to Tuas South Avenue 12	JTC	4.9	Aug-2011	Jul-2012
3	Sewer extension works in Admiralty Road West, Andrews Avenue, Tung Po Avenue, Punggol Road and Cranwell Road areas	PUB	4.2	Mar-2011	Nov-2012
4	Construction of Condo	Angullia Development	41.8	Dec-2010	Apr-2013
5	Construction of Roads, Drains, Sewers and Ancillary Works at Cleantech Park (Phase 1). Road Widening Works at nanyang Avenue and Sewage Works Along Jalan Bahar	JTC	14.5	Oct-2010	Jun-2012
6	Widening of Old Choa Chu Kang Road from Sungei Tengah Road to Lim Chu Kang Road	LTA	28.5	Feb-2011	Feb-2014
7	Expansion of CTE/TPE/SLE Interchange	LTA	75.3	Mar-2012	Aug-2015
8	Design and build of interchange at TPE/Sengkang West Road/Seletar Aerospace Way (ER368)	LTA	61.7	Apr-2011	Oct-2014
		Subtotal	277.7		
	List of On-going Maintenance Projects				
1	Ad Hoc Repairs and Upgrading of North West Roads, Road Related Facilities and Road Structures in Central Sector for a Period of 39 months (RP180C)	LTA	19.4	May-2010	Aug-2013
2	Ad Hoc Repairs and Upgrading of Roads, Road Related Facilities and Road Structures in North West Sector for a Period of 39 months (RP180NW)	LTA	14.9	May-2010	Aug-2013
3	Proposed Desilting of Bukit Timah Phase 2 Diversion Canal (1100306)	PUB	6.0	Jul-2010	Oct-2011
4	Improvement to Roadside Drains 4 Contract 1A - Ang Mo Kio Ave 3, Tembeling Road and Ewe Boon Road areas (1110164)	PUB	3.4	May-2010	Nov-2012
5	Improvement to Roadside Drains 4 Contract 1B - Jalan Ma'mor, Hua Guan Avenue, Outram Road areas (1110237)	PUB	2.5	Jul-2010	Jan-2013
		Subtotal	46.1		
		Total	323.8		

Source: Company Announcements, SIAS Research

Forecasts and Valuation: We lowered our FY12F revenue and net profit forecast to S\$117.5m and S\$17.3m. Our economic profit model points to a updated intrinsic value of S\$0.755 per share. Based on the current price of S\$0.59, dividend yield in FY11 was 5.1%.

Figure 3: Economic Profit Valuation Model

S\$m	FY2012F	FY2013F	FY2014F
Revenue	117.5	126.9	137.1
EBIT	20.9	25.0	27.8
Tax on EBIT	-3.6	-4.2	-4.7
NOPLAT	17.4	20.7	23.1
Invested Capital	89.3	91.6	97.3
% of Debt	1.3%	1.2%	1.2%
% of Equity	98.7%	98.8%	98.8%
WACC (%)	10.4%	10.4%	10.4%
Capital Charge	-9.3	-9.6	-10.2
Economic Profit	8.0	11.2	12.9
Terminal Value			156.3
Discount Rate	0.9	0.8	0.8
Present Value	7.5	9.4	9.8
Book Value	88.2	Risk Free Rate	1.8%
Explicit Value	26.7	Beta	1.1
Terminal Value	118.9	Market RP	8.0%
Value of Equity	233.8	Cost of Equity	10.6%
Number of Shares (m)	309.1	Cost of Debt	1.8%
Value per share (S\$)	0.755	LT Growth	2.0%

The number of shares assumes the full conversion of all remaining warrants. OKP currently has only 3.55m warrants outstanding.

Source: SIAS Research

Figure 4: Financial Forecasts and Estimates

S\$m	FY2010	FY2011	FY2012F	FY2013F	FY2014F
Revenue	139.9	109.8	117.5	126.9	137.1
Gross Profit	29.5	43.2	30.0	35.5	38.4
Operating Profit	19.6	31.1	18.8	23.9	26.7
Profit Before Tax	20.4	32.2	20.8	24.9	27.7
PATMI	17.0	26.6	17.3	20.7	23.0
Total Current Assets	131.2	124.1	114.3	84.9	88.4
Total Non-Current Assets	21.9	24.2	45.4	61.3	77.2
Total Current Liabilities	82.8	59.1	68.3	49.2	60.5
Total Non-Current Liabilities	1.3	1.1	1.1	1.1	1.1
Total Equity	68.9	88.1	90.4	96.0	104.0
Cash from Operating Activities	39.1	5.5	26.8	3.3	34.6
Cash from Investing Activities	-8.0	-4.7	-24.5	-19.5	-19.5
Cash from Financing Activities	-8.3	-8.4	-15.1	-15.1	-15.1
Net change in cash	22.8	-7.6	-12.8	-31.3	0.0
Receivable Days	71	96	96	96	96
Payable Days	224	360	240	210	180
ROA	12.3%	17.6%	11.2%	13.5%	14.8%
ROE	26.5%	33.8%	19.3%	22.1%	23.0%
Debt-to-Equity Ratio	122.1%	68.4%	76.8%	52.4%	59.2%
Current Ratio	1.6	2.1	1.7	1.7	1.5
EPS (S\$ cents)	5.48	8.59	5.59	6.68	7.44
BV/Share (S\$)	0.22	0.29	0.29	0.31	0.34
P/E	10.76	6.87	10.56	8.83	7.93
P/B	2.64	2.07	2.02	1.90	1.75

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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