

OKP Holdings Limited

Contract Wins Picking Momentum

OKP Holdings Limited's (OKP) 3Q FY10 results exceeded our expectations with 9M PATMI coming in at 81.0% of our FY10F estimate. We expect OKP to maintain its revenue and profitability in 4Q FY10 and revised our FY10F PATMI to S\$16.6m (previously S\$15.2m). We are excited about more contract wins to come given the strong pipeline of public sector projects available for bidding. **Maintain Increase Exposure call based on an intrinsic value of S\$0.830 (previous close: S\$0.555).**

Key Developments:

- We are not overly concerned about the 7.9% fall in 3Q FY10 revenue as compared to 2Q FY10. Our view is that the decline was probably the result of fewer contracts secured in early 2010. However, recent contract wins suggest a faster rate of order book renewal which will bolster FY11F revenue. We estimate that OKP already has S\$94.2m of next year's revenue in place.
- We expect OKP to win another road widening contract worth about S\$28.5m as it is the lowest bidder for this deal. We counted another 27 civil engineering contracts that have been announced or put up for bidding by LTA, PUB and JTC. We believe that OKP only needs another three contract wins of about S\$20m each to meet our revised FY11F revenue forecast of S\$159.8m. The tender of MRT contract 928, if successful, will also help to renew OKP's order book.

Outlook:

We now forecast 4Q FY10 revenue and PATMI of S\$35.0m and S\$4.3m respectively. We updated our valuation to obtain an intrinsic value of S\$0.830 per share, up two cents since our last update on the back of a broad based decline in cost of capital since our last update on OKP.

Increase Exposure

- Intrinsic Value S\$0.830
- Prev Close S\$0.555

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	8.7
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\$0.6325 /S\$0.4167[^]
 Number of Shares 264.9m
 Market Capitalization S\$147.0m
[^]Fractional prices due to bonus issue and warrants conversion

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Renewing Its Order Book

Rising pace of order book renewal. Just one day after the release of its 3Q FY10 results, OKP announced the award of a S\$22m contract from PUB to perform road raising works in the Orchard Road area. This is testament to OKP's project management ability as it will have to operate in a high human and vehicular traffic area and coordinate with stakeholders such as mall operators.

In the last three months, OKP has picked up its pace of contract wins, securing four out of the seven new contracts this year in the same period. We expect OKP to announce another contract win soon.

Our check on LTA tender information suggests that OKP will soon clinch another contract which will be worth about S\$28.5m. OKP is the lowest bidder for the contract from LTA to widen Old Choa Chu Kang Road from Sungei Tengah to Lim Chu Kang Road and hence, has a high chance of securing this deal.

In all, these contracts will bring OKP's total number of projects awarded in 2010 to eight (if the LTA contract is awarded before 2011), with a cumulative value of S\$116.1m, or 30.7% of our forecasted gross order book of S\$378.1m.

We like these contract wins as they point towards hastened order book renewal, just as OKP's mega contract to widen the CTE for S\$119.3m is about to be completed by the end of FY11F.

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	Widening of Old Choa Chua Kang Road	LTA	11.4
		Total	94.2

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.

Source: Company Announcements, LTA website, SIAS Research

Pipeline of available public projects remain strong. We counted at least 27 civil engineering contracts by LTA, PUB and JTC that will be awarded from now until August 2011. Projects that OKP does not have expertise in have been excluded from our count. The bulk of them pertain to improvement works to roadside drains as part of efforts by PUB to upgrade Singapore’s drainage infrastructure. Currently, OKP is carrying out similar works at the Opera and East View Garden Estates in the eastern region of Singapore for a contract value of S\$15.4m. The remaining six contracts by LTA and JTC mostly relate to road works which OKP should already be familiar with. We believe that there will be more contracts being put up for bidding, as only PUB releases upcoming tender information all the way until 2011.

Figure 2: Pipeline of Available Public Projects

No	Brief Description	Customer	Tender Closing Date
1	Interchange at TPE/Sengkang West Road/Seletar Aerospace Way	LTA	Oct-10
2	Road Diversion Work at Macpherson Estate and Ubi Avenue 2 for Downtown Line 3	LTA	Oct-10
3	Road Works at Junction of (1) Bukit Batok Road/ Brickland Road/ Bukit Batok West Avenue 5 (2) Jalan Ahmad Ibrahim / Jurong Pier Road	LTA	Oct-10
4	Temporary Road Widening Works at Kaki Bukit Estate for Downtown Line 3	LTA	Nov-10
5	Construction of Roads, Drains, Sewers, Soil Improvement and Ancillary Works at Tuas View Extension Phase 3B	JTC	Nov-10
6	Final Premix Surfacing, Reinstatement And Ancillary Works At One-North Phase 1E, Biomedical Grove (Part) and Fusionopolis Place	JTC	Nov-10

PUB listed a total of 62 forthcoming tenders for construction projects – some of which will only commence in Oct 2011. We counted only 21 projects, mainly pertaining to drainage improvement works that OKP has executed before.

Source: LTA and PUB websites, GeBiz, SIAS Research

MRT contracts: the new deal. OKP has been reported to be bidding for the Bedok Town Park station of the Downtown Line 3. The tender for this contract will close by the end of next month and we will most likely hear about the contract winner in 1Q 2011. Our view is that OKP is probably considering whether to bid for more than one contract.

Eyeing Angullia Park. In addition, we foresee that OKP may enjoy some spillover contracts from its partner's related company China Sonangol Land, which is developing a freehold site at Angullia Park.

This strong pipeline of upcoming projects confirms that OKP has a wide set of contract opportunities that cannot be discounted. Maintain Increase Exposure call on an intrinsic value of S\$0.830.

Figure 3: Results Overview – Surprise Margin Expansion

S\$m	1Q FY10	2Q FY10	3Q FY10	Growth	9M FY10	Prior FY10F	%	Revised FY10F
Revenue	33.9	39.8	36.6	-7.9%	110.3	139.8	78.9%	145.3
Gross Profit	5.8	6.6	7.1	8.0%	19.5	23.8	81.9%	26.3
EBIT	4.3	5.2	5.6	6.4%	15.1	17.5	86.1%	20.4
PATMI	3.5	4.3	4.5	5.3%	12.3	15.2	81.0%	16.6
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Gross Margin	17.1%	16.5%	19.4%	2.9%	17.7%	17.0%	0.7%	18.1%
EBIT Margin	12.6%	13.2%	15.2%	2.0%	13.7%	12.5%	1.2%	14.0%
Net Margin	10.3%	10.8%	12.3%	1.5%	11.2%	10.9%	0.3%	11.4%

Source: Company Announcements, SIAS Research

Figure 4: 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.

Source: SIAS Research

Figure 5: 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	7.5	13.2	9.2	8.7	8.6	7.4	6.8	6.1
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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