

# CIMB-GK Paid Research Scheme

Contact: Gary Ng – +65 6210-8699 – gary.ng@cimb.com

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## OKP Holdings

 OKP SP  
BUY: TP: S\$1.19

 Price @23/09/09: S\$0.91  
52-week range (SGD): 0.13 – 0.91  
Market cap – S\$150m

### Looking forward to end-CY10

- Our Singapore Strategist had just raised FSSTI from 2,700 to 3,200, rolling forward to an end-CY10 target. Back in May, when we looked forward to FSSTI at 2,720 by early 2010, it was based on an implied 16x CY10 P/E. With EPS upgrades settling in over the past few months, our previous end-CY09 FSSTI target of 2,700 is now equivalent to just 14.5x CY10P/E.
- **We expect CY11 FSSTI earnings to grow 14%** as 1) the banks' loan provisioning recede significantly; 2) earnings from healthy property pre-sales this year and next year contribute; and 3) transport earnings recover as the return of demand balance out some of the over-supply situation.
- **Looking forward to end-CY10**, FSSTI trading levels at 3,200 will imply 15x CY11 P/E, just below the FSSTI 10-yr mean forward P/E of 16x. The FSSTI is now trading at 14.3x CY10 P/E and 12.5x CY11 P/E. Using a P/BV metric as cross-reference, our new end-CY10 FSSTI target of 3,200 also looks sensible at 1.96x P/BV.
- From trough-to-peak in the last two cycles, the FSSTI peaked out at 2.42x P/BV in 1999/2000 and 2.33x P/BV in Nov 07. Our expected total returns of 24.4%, comprising of capital upside of 20.8% and dividend yields of 3.6%, is higher than the cost of equity using local currency bonds.
- Even in a slow-growth global environment, Singapore should more than hold its own. Our economist expects 6% growth in 2010. Among the sectors, we like sectors that will benefit from low-interest rates and easier credit.

### The Sonangol connection

- We envision government spending in the US to barely keep the world's largest economy in a flat-growth trajectory. At the same time, Asia and Singapore's infrastructure spending and stimulus might not achieve its aim of spurring domestic spending since the propensity to save is generally entrenched in Asia.
- **That led us to believe that potential business opportunities for OKP lie overseas**, which we believe will serve to broaden its income base and underpin longer term profitability. More importantly, with Singapore projects reaching a saturation point, we speculate that the group could potentially make its foray to overseas market, which would mean higher margins due to the higher premium that the group required for outside Singapore projects.
- **The Sonangol connection.** OKP's strategic vision of growing regionally will be anchored by China Sonangol International (S) Pte Ltd, a subsidiary of China Sonangol International Limited, an overseas conglomerate which 4 specialises in Oil & Gas, minerals investment, explorations, crude oil supply and national infrastructure construction projects. We believe that OKP through this strategic tie-up could speed up market entry into new geographic markets. China Sonangol has a 10% equity stake in OKP Holdings.

### Earnings to take on higher visibility

- We took a step forward and attempted to work out a possible scenario for a strategic partnership between OKP and China Sonangol. We believe in due time, the group could announce a tie-up with China Sonangol, possibly a JV to undertake overseas infrastructure project for one of the African states, and the financial close for such project should be achieved some time in mid CY10, after which work may begin.
- **Minimal risk.** The project structure is sweetened by the fact that OKP could be the sole contractor for such project, while bearing a lower balance sheet risk by assuming a minority stake in the project JV. This will serve to cap the fund outflow OKP needs to inject into the projects at a lower level, and limit the debt exposure since the bulk of the project financing loan is saddled on the majority partner's book.
- Typically, these projects are always based on a 80 to 20 debt to equity financing ratio. We assumed that the debt financing will be arranged by the China Sonangol side.
- OKP's participation of such projects will provide a visible order book pipeline (out of Singapore). If execution is done perfectly, OKP could stand to win other fresh projects of such nature to be awarded out by other African states.

### Recommendation – maintain BUY

- **Awards of contract win overseas serve as re-rating factor.** We are keeping our estimate unchanged, and we have not adjusted the shares outstanding assumption yet as the record date, ex-date and payable date for the bonus issue will be determined and announced later on, as such the dilution is not immediate. Our earnings estimates have not factored in the potential catalyst of the possible overseas projects.
- **Maintain BUY** rating with target price hoisted to S\$1.19 (from S\$0.86), as we now roll over our target to reflect CY11 earnings, set at 10x multiples, still below the mid-cycle valuation, and discount to bigger peers who re-rated upon awards of overseas contracts. We like OKP for its projects visibility in the public sector, and its strong potential overseas expansion story. OKP offers excellent value trading at 7.7x CY11 P/E against its 3-year core earnings CAGR forecast of 27.5%.

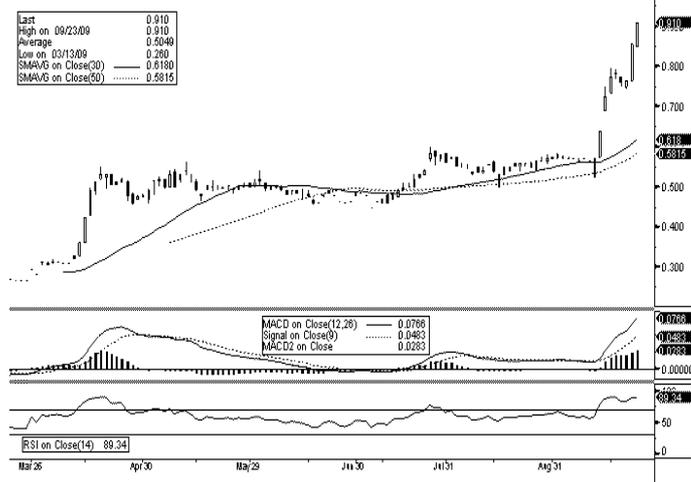
### Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (S\$ m)	124.7	101.8	128.2	157.3	185.7
EBITDA (S\$ m)	15.8	14.7	17.2	21.2	26.0
EBITDA margins (%)	12.7	14.4	13.4	13.5	14.0
Pretax profit (S\$ m)	13.7	12.2	15.2	19.3	24.0
<b>Net profit (S\$ m)</b>	<b>10.9</b>	<b>9.5</b>	<b>12.4</b>	<b>15.7</b>	<b>19.6</b>
EPS (cts)	7.3	6.3	7.5	9.5	11.9
EPS growth (%)	150%	-13%	19%	27%	25%
P/E (x)	12.5	14.4	12.1	9.5	7.7
Gross DPS (cts)	2.0	1.5	2.0	2.3	3.3
Dividend yield (%)	2.2%	1.6%	2.2%	2.5%	3.6%
P/NTA (x)	4.3	3.5	2.8	2.3	1.9
ROE (%)	32.5%	23.6%	22.2%	23.1%	23.8%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (S\$)	0.2	0.2	0.3	0.3	0.4
P/CF (x)	10.6	11.6	10.6	8.7	7.1
EV/EBITDA (x)	6.7	7.2	6.1	5.0	4.1
% change in EPS estimates			0.0%	0.0%	0.0%

Source: Company, CIMB-GK Research

## Technical chart

OHP SP Equity : OHP HOLDINGS LTD Daily 8/7/2009 - 8/23/2009



Source: Bloomberg

### • Technical BUY

- Yesterday the stock continued on its rally to close at its new 52-week highs at S\$0.91. Though trading volume was lower than the previous few bars, it has not yet signal weaker buying momentum.
- Both of its indicators remain in positive mode, suggesting that there could still be more upside. Overhead resistance at S\$0.98 and S\$1.05 is likely to be strong.
- Since there are no reversal patterns here, the stock is still on the up. A break below the S\$0.745 support would likely signal that the uptrend is over.

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**HOLD:** The stock's total return is expected to range between +15% and -15% over the next three months.

**SELL:** The stock's total return is expected to be -15% or worse over the next three months.

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