OKP Holdings

Bonus issue and warrants

- OKP had on Monday proposed a bonus issue on a one-for-two basis (Bonus Issue) and a rights issue of warrants on a one-for-four basis (Rights Issue) to shareholders.
- The Bonus Issue will involve the issue of 82,430,470 new OKP shares on the basis of one (1) new OKP share for every two (2) existing OKP shares held. The bonus exercise will see OKP’s issued share capital, currently comprising 164,860,940 shares, rise to 247,291,410 shares.
- OKP is also proposing a Rights Issue of warrants on the basis of one (1) warrant for every four (4) existing ordinary shares held by entitled shareholders as at a books closure date to occur after the Bonus Issue books closure date. Each warrant will be issued at a consideration of 1 cent, with an exercise price of 20 cents and an exercise period of three (3) years.

Liquidity boosted; Generous discount

- The rights basis issued on the post-bonus enlarged share capital of 247.29m shares, will see the issue of up to 61.82m warrants at 1 cent each on the basis of one warrant for each four shares held.
- Generous discount given. The aggregate of the issue price and the exercise price of 21 cents for each warrant represents a 67% discount to the stock’s closing price of 64 cents last Friday and a discount of about 51% to the theoretical ex-bonus price of about 43 cents.
- Liquidity boosted. We also view this move positively as the increase in its issued capital base served to increase the liquidity of its shares in the market, and allow more investors to participate in the company’s growth potential.

Order book and funds are building up nicely

- Additional boost to war chest. We believe that the rights issue will generate further market participation through the exercise of the warrants, and as and when the warrants are exercised, the proceeds derived will expand and strengthen the capital base of OKP and provide additional resources and working capital required to support the business activities and operations of the group. The estimated net proceeds from the exercise of the warrants will amount to S$12.4m.
- To date, OKP has secured a total of 6 new contracts totaling S$170m from the public and private sectors, with order book based on secured contracts standing at S$316m, with several contracts completing in 2011. Current outstanding order book is in excess of S$270m.
- We believe that this amount amassed is to be deployed in anticipation of the additional projects that the group is targeting in the next six to 12 months, and we have raise our order book assumption for construction and maintenance projects by between 14-25% for FY10-11.

Potential business opportunities overseas to broaden its income base and drive 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. To recap, in Apr 09, OKP’s strategic vision of growing regionally was given a boost when it allotted and issue 15m new ordinary shares or such number of ordinary shares representing 10% of the issued and paid-up share capital to 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.

Recommendation – maintain BUY

- We are keeping our FY09 estimate unchanged, while we upped FY10-11 earnings by between 6.0-6.5% to reflect our new order book assumption. However, we are not adjusting 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.
- Maintained BUY rating with target price hoisted to S$0.86 (from S$0.72), on the back of earnings adjustment, set at 9x CY10 P/E and slight premium to peers. We like OKP for its projects visibility in the public sector, and its strong potential overseas expansion story. OKP offers excellent value trading at 8.1x CY10 P/E against its 3-year core earnings CAGR forecast of 27.5%.

Order book and funds are building up nicely

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Financial summary

<table>
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<tr>
<th>FyE Dec</th>
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<th>2008</th>
<th>2009F</th>
<th>2010F</th>
<th>2011F</th>
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<tr>
<td>Revenue (S$ m)</td>
<td>124.7</td>
<td>101.8</td>
<td>128.2</td>
<td>167.3</td>
<td>168.7</td>
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<tr>
<td>EBITDA (S$ m)</td>
<td>15.8</td>
<td>14.7</td>
<td>17.2</td>
<td>21.2</td>
<td>26.0</td>
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<tr>
<td>EBITDA margin (%)</td>
<td>12.7</td>
<td>14.4</td>
<td>13.4</td>
<td>13.5</td>
<td>14.0</td>
</tr>
<tr>
<td>Net profit (S$ m)</td>
<td>13.7</td>
<td>12.2</td>
<td>15.2</td>
<td>19.3</td>
<td>24.0</td>
</tr>
<tr>
<td>EPS (cts)</td>
<td>7.3</td>
<td>6.3</td>
<td>7.5</td>
<td>9.5</td>
<td>11.9</td>
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<td>EPS growth (%)</td>
<td>150%</td>
<td>-13%</td>
<td>19%</td>
<td>27%</td>
<td>25%</td>
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<td>P/E (x)</td>
<td>10.6</td>
<td>12.3</td>
<td>10.3</td>
<td>8.1</td>
<td>6.5</td>
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<td>Gross DPS (cts)</td>
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<td>1.5</td>
<td>2.0</td>
<td>2.3</td>
<td>3.3</td>
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<td>Dividend yield (%)</td>
<td>2.6%</td>
<td>1.9%</td>
<td>2.6%</td>
<td>2.9%</td>
<td>4.2%</td>
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<tr>
<td>P/NTA (x)</td>
<td>3.6</td>
<td>3.0</td>
<td>2.4</td>
<td>1.9</td>
<td>1.6</td>
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<td>ROE (%)</td>
<td>32.5%</td>
<td>23.6%</td>
<td>22.2%</td>
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<td>23.8%</td>
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<td>Net gearing (%)</td>
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<td>Net cash per share (S$)</td>
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<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
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<tr>
<td>P/CF (x)</td>
<td>9.0</td>
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<td>9.1</td>
<td>7.4</td>
<td>6.0</td>
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<td>Ev/EBITDA (x)</td>
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<td>4.8</td>
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<td>3.2</td>
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<td>% change in EPS estimates</td>
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Source: Company, CIMB-GK Research
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## RETAIL RESEARCH RECOMMENDATION FRAMEWORK

<table>
<thead>
<tr>
<th>STOCK RECOMMENDATIONS</th>
<th>SECTOR RECOMMENDATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BUY:</strong> The stock's total return is expected to be +15% or better over the next three months.</td>
<td><strong>OVERWEIGHT:</strong> The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next three months.</td>
</tr>
<tr>
<td><strong>HOLD:</strong> The stock's total return is expected to range between +15% and -15% over the next three months.</td>
<td><strong>NEUTRAL:</strong> The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly +15% or -15% over the next three months.</td>
</tr>
<tr>
<td><strong>SELL:</strong> The stock's total return is expected to be -15% or worse over the next three months.</td>
<td><strong>UNDERWEIGHT:</strong> The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next three months.</td>
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