

OKP Holdings

Road warrior
OUTPERFORM

Maintained

S\$0.60

Target: S\$0.91

Mkt.Cap: S\$90m/US\$64m

Construction

OKP SP / OKPH.SI

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- Above expectations.** OKP's FY07 net profit of S\$10.9m rose 169% yoy, and was 22% above market and our estimate of S\$8.8m. Turnover hit a high of S\$124.7m, up 70% yoy from the S\$73.3m in FY06 with the completion of a few key construction projects. With a S\$0.6m revaluation gain from an investment property, pretax profit rose to S\$14.1m, up 164% yoy. Gross and net margins were stronger at 17.5% and 8.8% respectively, vs. 14.3% and 5.7% the previous year. OKP declared a one-tier tax-exempt first and final dividend of S\$0.02/share.
- Business review.** The civil & building division continued to power growth with revenue rising 95.9% yoy to S\$104.7m, boosted by oil & gas project completions on Jurong Island as well as road projects on the mainland. Operating profit for the division was S\$11.9m, up 165% yoy while margins improved to 11.4% in FY07 from 8.4% in FY06. The maintenance division's revenue was steady at about S\$20m, as expected, but operating margins improved to 4.2% from 2.0% in FY06. 2H07 gross margin of 16.1% was slightly weaker than 1H07's 19.8% mainly due to higher diesel prices.
- Maintain Outperform, but with new target price of S\$0.91 (from S\$1.21).** We have raised our FY08 forecast by 16%, moderated FY09 forecast by 1.5% and introduced FY10 forecasts. We roll forward our valuation to CY09 as well as use a lower P/E target of 8x (instead of 15x) to account for investors' lower risk appetite and OKP's lower trading liquidity. This translates to a new target price of S\$0.91.

Results comparison

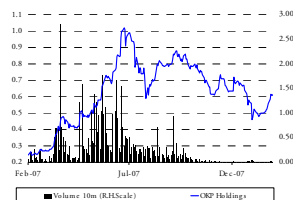
FYE Dec (\$\$ m)	2HFY07	2HFY06	yoy % chg	hoh % chg	FY07 Cum	FY06 Cum	yoy % chg	Prev. FY07F	Comments
Revenue	75.6	39.9	89.7	54.1	124.7	73.3	70.1	101.7	Above on increased construction activities
Operating costs	(67.5)	(34.8)	94.2	59.0	(110.0)	(66.9)	64.5	(89.6)	Above on higher diesel costs
EBITDA	8.1	5.1	59.0	22.3	14.7	6.4	129.0	12.1	
EBITDA margin (%)	10.7	12.7			11.8	8.7	34.6	16.6	Below on higher diesel costs
Depn & amort.	(1.2)	(0.7)	66.0	57.9	(1.9)	(1.5)	27.3	(1.5)	In line
EBIT	6.9	4.4	57.9	17.7	12.7	4.9	160.9	10.7	
Interest expense	(0.1)	(0.1)	45.1	17.5	(0.1)	(0.1)	30.5	(0.2)	
Interest & invt inc	1.1	0.3	248.4	169.3	1.5	0.6	162.3	0.7	Above due to revaluation gain
Associates' contrib	-	-	-	-	-	-	-	-	
Exceptionals	-	-	-	-	-	-	-	-	
Pretax profit	7.9	4.6	71.2	27.8	14.1	5.4	163.6	11.2	Above on completion of key projects
Tax	(1.0)	(1.2)	(13.7)	(51.7)	(3.1)	(1.3)	140.6	(2.2)	
Tax rate (%)	12.8	25.4			22.1	24.2	(8.7)	20.0	Due to non-tax deductible provisions
Minority interests	(0.0)	(0.1)	(49.4)	13.5	(0.1)	(0.1)	(10.2)	(0.1)	
Net profit	6.9	3.4	100.1	68.6	10.9	4.1	169.0	8.8	Above on completion of key projects
Core net profit	6.9	3.4	100.1	68.6	10.9	4.1	169.0	8.8	
EPS (cts)	4.6	2.3	100.1	68.6	7.3	3.0	144.7	5.9	
Core EPS (cts)	4.6	2.3	100.1	68.6	7.3	3.0	144.7	5.9	

Source: Company, CIMB-GK Research

Financial summary

FYE Dec	2006	2007	2008F	2009F	2010F
Revenue (S\$ m)	73.3	124.7	156.2	190.2	225.4
EBITDA (S\$ m)	7.1	16.2	19.1	23.0	27.4
EBITDA margins (%)	9.7%	13.0%	12.2%	12.1%	12.2%
Pretax profit (S\$ m)	5.4	14.1	17.0	20.9	25.4
Net profit (S\$ m)	4.1	10.9	13.8	17.1	20.7
EPS (S cts)	3.0	7.3	9.2	11.4	13.8
EPS growth (%)	1,376.4%	144.6%	26.6%	23.4%	21.2%
P/E (x)	20.1	8.2	6.5	5.3	4.3
Gross DPS (S cts)	1.1	2.0	2.5	3.5	4.3
Dividend yield (%)	1.8%	3.3	4.2	5.8	7.1
P/BV (x)	3.6	2.7	2.2	1.7	1.3
ROE (%)	19.7%	38.8%	36.8%	36.0%	34.2%
Net cash per share (S\$)	0.11	0.17	0.19	0.28	0.37
P/FCFE (x)	26.6	6.8	9.8	4.8	4.3
EV/EBITDA (x)	9.5	4.0	3.2	2.1	1.3
% change in EPS estimates			15.9%	(1.5%)	
CIMB/Consensus (x)			1.17	0.99	

Price chart



Source: Bloomberg

Source: Company, CIMB-GK Research, Bloomberg

Upcoming tender awards

Industry outlook remains positive. OKP has been tendering for a slew of public and private-sector projects. These include road development projects by the Land Transport Authority, where an estimated S\$10bn will be spent until 2018, as well as oil & gas projects. Given its past record, we reckon that it would have tendered for S\$150m-200m worth of contracts, including contracts from Exxon-Mobil and Shell on Jurong Island, where the SPT and Houdini projects have only just started, and civil engineering work needs to be done. Given the potential award of contracts on Jurong Island and by LTA in 1H08, OKP's FY08 growth is likely to be skewed towards the second half of the year, and will not be reflected so much in 1H08.

Figure 1: Sector comparisons

	Bloomberg	Price	Target	Mkt cap	Core	3-yr EPS	P/BV	ROE	Div		
	ticker	(Local)	price	(Local)	P/E (x)	CAGR	(x)	(%)	yield (%)		
	Recom.		(Local)	(US\$ m)	CY2008	CY2009	CY2008	CY2008	CY2008		
OKP	OKP SP	O	0.60	0.91	64	6.5	5.3	23.7	2.2	36.8	4.2
Lian Beng	LBG SP	O	0.56	1.32	211	8.2	4.9	138.2	2.8	38.9	1.4
Tat Hong	TAT SP	O	2.31	4.43	816	9.9	7.8	41.0	2.2	25.1	1.8
Tiong Woon	TWC SP	O	0.75	1.45	180	7.5	5.2	48.6	1.6	24.1	0.6
KSH	KSHH SP	O	0.45	0.77	56	5.8	3.9	32.9	1.4	26.2	4.1
CSC	CSC SP	O	0.31	0.57	248	7.0	5.5	85.7	2.3	36.8	1.0
Simple average						7.5	5.4	61.8	2.1	31.3	1.9

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB-GK Research

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OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

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STOCK RECOMMENDATIONS

OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.

NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

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