

CIMB-GK Paid Research Scheme

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

29 July 2009

OKP Holdings

 OKP SP
BUY: TP: S\$0.72

 Price @28/07/09: S\$0.585
52-week range (SGD): 0.13 – 0.585
Market cap – S\$96.4m

1H09 Result Review

FYE Dec (\$\$ m)	2QFY09	yoy % chg	qoq % chg	2QFY09 Cum	yoy % chg	Prev. FY09F
Revenue	31.9	42.4	7.6	61.5	20.7	126.7
Operating costs	(27.4)	40.2	7.6	(52.9)	18.3	(110.8)
EBITDA	4.4	57.8	7.4	8.6	38.4	15.8
EBITDA margin (%)	13.9			14.0		12.5
Depn & amort.	(1.1)	89.5	93.6	(1.7)	60.7	(1.6)
EBIT	3.4	49.7	(6.2)	6.9	33.9	14.2
Interest expense	(0.1)	6.3	-	(0.1)	14.6	(0.3)
Interest & invt inc	1.1	404.7	451.8	1.3	207.9	1.1
Associates' contrib	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-
Pretax profit	4.4	81.7	17.5	8.1	46.9	15.1
Tax	(0.7)	59.3	38.8	(1.3)	16.0	(2.7)
Tax rate (%)	17.0			15.8		18.0
Minority interests	(0.0)	(97.5)	(133.3)	(0.0)	(95.7)	(0.1)
Net profit	3.6	91.0	13.8	6.8	58.0	12.3
Core net profit	3.6	91.0	13.8	6.8	58.0	12.3
EPS (cts)	2.4	91.0	13.8	4.5	58.0	8.2
Core EPS (cts)	2.4	91.0	13.8	4.5	58.0	8.2

Source: Company, CIMB-GK Research

- 1H09 results was ahead of our expectation. 2Q09 and 1H09 net profit of S\$3.6m (+91.1% yoy) and S\$6.8m (+58.2% yoy) formed 29.5% and 55.4% of our previous FY09 estimates respectively.
- A huge chunk of the revenue (71% or S\$43.8m) was attributable to the construction segment (+8.1% yoy). Maintenance segment also saw a healthy growth of 70% yoy to S\$17.7m in the 1H09.
- Gross profit increased by 12.6% yoy to S\$9.6m in 1H09, attributable to revenue generated from more projects. We are also not at all concern about the slight dip in gross margin to 15.6% in 1H09 (versus 16.8% 1H08), as it is inevitable that higher costs are accrued during the initial stages of some projects which commenced during the period. We would like to point out that over the course of a project cycle, gross margin would even out at the tail-end.
- 1H09 pre-tax profit increased to S\$8.1m (+46.9% yoy) due mainly to an increase in gross profit and other income coupled with a decrease in administrative expenses and partially offset by an increase in finance costs.

Strong sector outlook not abating

- 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 S\$272m.
- The government will spend around S\$54bn to improve our current land transport networks which will be completed over the next 10 to 15 years. With the generally more optimistic outlook, coupled with the strong pipeline of committed public sector projects, we believe the outlook for the construction industry will remain favourable for the next foreseeable twelve months.

Recommendation – maintain BUY

- We adjusted our maintenance segment growth assumption for FY09-10 to 5-8% from the previous 3-5%. As such, our FY09-11 estimates are lifted slightly up by between 1.1-1.5%.
- Maintained BUY rating with target price upped to S\$0.72 (from S\$0.71), on the back of earnings adjustment, still set at 8x CY10 P/E. We like OKP for its projects visibility in the public sector. OKP offers excellent value trading at 6.4x CY10 P/E against its 3-year core earnings CAGR forecast of 24%. Payouts of 25-30% offer yields of 3.4-5.6% for FY09-11.

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (\$\$ m)	124.7	101.8	128.2	147.9	173.9
EBITDA (\$\$ m)	15.8	14.7	17.2	20.1	24.5
EBITDA margins (%)	12.7	14.4	13.4	13.6	14.1
Pretax profit (\$\$ m)	13.7	12.2	15.2	18.2	22.6
Net profit (\$\$ m)	10.9	9.5	12.4	14.8	18.4
EPS (cts)	7.3	6.3	7.5	9.0	11.2
EPS growth (%)	150%	-13%	19%	20%	24%
P/E (x)	8.0	9.2	7.7	6.4	5.2
Gross DPS (cts)	2.0	1.5	2.0	2.3	3.3
Dividend yield (%)	3.4%	2.6%	3.4%	3.9%	5.6%
P/NTA (x)	2.7	2.3	1.8	1.5	1.2
ROE (%)	32%	24%	22%	22%	23%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (\$\$)	0.17	0.24	0.27	0.34	0.43
P/CF (x)	6.7	7.4	6.8	5.8	4.8
EV/EBITDA (x)	3.2	3.5	3.0	2.5	2.1
% change in EPS estimates			1.1%	1.5%	1.3%

Source: Company, CIMB-GK Research