

Analyse this...

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OKP Holdings

 OKP SP
BUY: TP: S\$0.85

 Price @26/02/10: S\$0.49
52-week range (SGD): 0.13 – 0.98
Market cap – S\$117m

Recommendation – maintain BUY

- **Maintain BUY rating with new target price set at S\$0.85** to reflect dilution from bonus shares issued, still pegged at 10x CY11 earnings, below the mid-cycle valuation, and discount to bigger peers who re-rated upon awards of overseas contracts.
- **Positive earnings surprises.** We upped FY10 and FY11 net profit forecast by 4.4% and 3.6% respectively to reflect OKP's higher order book and margin recovery. We also introduced FY12 numbers for comparison. Our earnings estimates have not factored in the potential catalyst of the possible overseas projects.
- We like OKP for its projects visibility in the public sector, and its strong potential overseas expansion story. OKP offers excellent value trading at 5.7x CY11 P/E against its 3-year core earnings CAGR forecast of 20.4%.

FY09 result review

FYE Dec (S\$ m)	4QFY09	4QFY08	yoy %	qoq %	4QFY09	4QFY08	yoy %	Prev. FY09F
			chg	chg	Cum	Cum	chg	
Revenue	33.4	27.6	20.9	(5.0)	130.0	101.8	27.7	128.2
Operating costs	(28.2)	(22.5)	24.9	(3.6)	(111.7)	(87.8)	27.2	(110.9)
EBITDA	5.2	5.0	2.9	(11.7)	18.3	14.0	30.3	17.4
EBITDA margin (%)	15.6	18.3	-	-	14.1	13.8	-	13.5
Depn & amort.	(1.1)	(1.1)	-	-	(2.5)	(2.5)	-	(1.7)
EBIT	4.1	4.0	3.7	(14.3)	15.8	11.6	36.7	15.7
Interest expense	(0.0)	(0.1)	(24.3)	(13.3)	(0.2)	(0.2)	(3.9)	(0.2)
Interest & invt inc	0.1	0.1	42.1	(16.2)	1.5	0.8	73.3	1.1
Associates' contrib	-	-	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-	-
Pretax profit	4.2	4.0	4.7	(14.4)	17.1	12.2	39.9	16.5
Tax	(0.5)	(0.9)	(44.1)	(38.1)	(2.7)	(2.7)	(1.1)	(3.0)
Tax rate (%)	12.7	23.9	-	-	15.6	22.0	-	18.0
Minority interests	(0.0)	(0.0)	(86.3)	(200.0)	0.0	(0.1)	105.5	(0.1)
Net profit	3.6	3.0	20.2	(9.4)	14.4	9.5	52.7	13.5
Core net profit	3.6	3.0	20.2	(9.4)	14.4	9.5	52.7	13.5
EPS (cts)	2.4	2.0	20.2	(9.4)	9.6	6.3	52.7	9.0
Core EPS (cts)	2.4	2.0	20.2	(9.4)	9.6	6.3	52.7	9.0

- **FY09 results were ahead of our expectation.** FY09 net profit of S\$14.4m (+52.7% yoy) was 7.1% ahead of our FY09 estimates.
- A huge chunk of the revenue (76% or S\$98m) was attributable to the construction segment (+38.5% yoy), lifting FY09 revenue to S\$130m (+27.7% yoy).
- We are also not alarmed by the decline in gross profit margin from 20.9% in FY08 to 18.0% for FY09. The decrease was due mainly to the relatively higher costs accrued during the initial stages of a few new projects, which commenced towards the end of the 2Q09 and which had spilled over to the 3Q09. We would like to point out that over the course of a project cycle, gross margin would even out at the tail-end. In fact, as a comparison, in FY09, 4Q09 shown the strongest gross margin thus far at 22.8%.
- **Two-third of market cap backed by net cash of S\$77.7m.** OKP continued to build up its balance sheet, and the current net cash pile of the group stacked to S\$77.7m, almost two-third of the share price is backed by cash, a rarity for a civil-engineering company that is operating a high growth phase.

Very bright outlook going into FY10 and FY11

- **Cruising with a strong tailwind of the construction industry.** According to the Building and Construction Authority, Singapore's construction demand for 2010 is likely to reach between S\$21bn-S\$27bn. Of this, the public sector is likely to remain the key construction demand driver, contributing about 65% of the industry demand to between S\$14bn and S\$17.9bn, fuelled by higher growth in most categories of building demand and continuing strong civil engineering construction demand led by Land Transport Authority's MRT and related projects.
- **Order book last till FY2011.** The string of government infrastructure spending is expected to continue to boost Singapore's construction industry and provide numerous opportunities for OKP to bid for new projects. OKP currently has a gross construction order book of S\$266.6m with contracts lasting up to FY11.
- **OKP remain committed to establishing a presence in the Oil & Gas sector.** Management articulated that it will continue to hone its knowledge in the Oil & Gas Sector and to maintain relationships with our clients and industry players.
- **Potential business opportunities for OKP lie overseas.** We believe overseas ventures will serve to broaden OKP's income base and underpin longer term profitability. We think that the group would eventually make its foray to overseas market, which would mean higher margins due to the higher premium that the group required for outside Singapore projects.
- OKP's participation of such projects will provide a visible order book pipeline (out of Singapore). This came on the back of its recent joint venture agreement with CIF Singapore, a subsidiary of China Sonangol International (S) Pte Ltd, to further grow the external wing of its business and to undertake large urban development projects overseas. If execution is done perfectly, OKP could stand to win other fresh projects of such nature to be awarded out by other African states.

Financial summary

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (S\$ m)	101.8	130.0	157.3	185.7	220.4
EBITDA (S\$ m)	14.7	19.8	22.0	26.7	33.3
EBITDA margins (%)	14.4	15.2	14.0	14.4	15.1
Pretax profit (S\$ m)	12.2	17.1	20.1	24.8	32.3
Net profit (S\$ m)	9.5	14.4	16.5	20.3	26.2
EPS (cts)	6.3	6.1	6.9	8.5	11.0
EPS growth (%)	-13%	-4%	14%	23%	29%
P/E (x)	7.8	8.1	7.1	5.7	4.5
Gross DPS (cts)	1.5	2.0	2.3	3.3	4.3
Dividend yield (%)	3.1%	4.1%	4.6%	6.6%	8.7%
P/NTA (x)	1.9	2.0	1.7	1.5	1.2
ROE (%)	23.6%	24.5%	23.8%	24.8%	26.4%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (S\$)	0.2	0.3	0.4	0.4	0.4
P/CF (x)	6.3	6.9	6.5	5.3	4.2
EV/EBITDA (x)	2.7	2.0	1.8	1.5	1.2

Source: Company, CIMB-GK Research

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