

OKP Holdings

Some tender delays

OUTPERFORM	Maintained
S\$0.57	Target: S\$0.69
Mkt.Cap: S\$85m/US\$62m	
Construction	

OKP SP / OKPH.SI

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Project delays

We visited OKP last week for a business update, and understand that the company has an outstanding order book of about S\$134m, of which 60-70% should be delivered in FY08. However, the company is experiencing delays in the award of tenders by customers, especially from the oil & gas industries. There were also some delays in starting work for public-sector contracts already awarded. As such, we are cutting our FY08-10 earnings forecasts by 25-32%, ahead of its 1Q08 results on 12 May, to better reflect the company's slowing construction activities in the near term.

Delays in tender awards. Optimism stimulated by the construction boom that began in 2006 appears to be waning. Our industry checks suggest that tender awards are being delayed, and even if contracts have been awarded, actual construction may now be deferred by a few months. Accordingly, OKP has been experiencing uncharacteristic delays for its tenders, some of which were submitted over six months ago. We understand that these were mainly tenders from oil & gas customers, which were predominantly behind OKP's growth in FY07.

A weaker residential property market, credit tightening and higher construction costs likely prompted this industry slowdown. With the exception of public-sector contracts which are continually being awarded, we believe that the slowdown may be in its early stages. As such, OKP's revenue profile could revert to a 50:50 split between private and public-sector projects in FY08, vs. 70% from the private sector in FY07.

Hedging raw-material requirements. Rising steel prices are the latest bugbear of the construction industry, as suppliers are no longer allowing long-term contracts at fixed prices. Instead, steel suppliers (including steel mills) are shortening their supply contracts to six months to two years. Thus, for main contractors with large order books stretching 2-3 years, there is a strong risk of a margin squeeze from unhedged steel requirements. For public-sector projects, the standard 90-day tender period exposes bidding contractors to volatility in raw material prices.

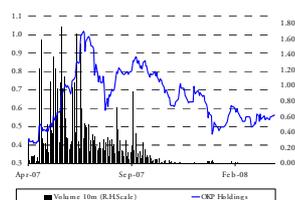
Valuation and recommendation

Maintain Outperform, albeit with lower target price of S\$0.69 (from S\$0.91). We have reduced our FY08-10 earnings forecasts by 25-32% to reflect some tender delays and fewer contract wins from the oil & gas sector, as well as some margin pressure from higher staff and diesel costs. Our target price accordingly falls to S\$0.69 from S\$0.91, still based on 8x CY09 P/E, or at a 20% discount to the target P/E for its peers. Nevertheless, OKP still has a decent order book of S\$134m while it intends to fall back on the public sector in the near term. Maintain Outperform.

Financial summary

FYE Dec	2006	2007	2008F	2009F	2010F
Revenue (S\$ m)	73.3	124.7	112.2	148.6	168.0
EBITDA (S\$ m)	7.1	16.2	13.6	17.8	20.3
EBITDA margins (%)	9.7%	13.0%	12.1%	12.0%	12.1%
Pretax profit (S\$ m)	5.4	14.1	11.5	15.8	18.4
Net profit (S\$ m)	4.1	10.9	9.4	12.9	15.0
EPS (S cts)	3.0	7.3	6.3	8.6	10.0
EPS growth (%)	1,376.4%	144.6%	(14.2%)	37.3%	16.5%
P/E (x)	19.0	7.8	9.0	6.6	5.6
Core EPS (S cts)	3.0	7.3	6.3	8.6	10.0
Core EPS growth (%)	1,376.4%	144.6%	(14.2%)	37.3%	16.5%
Core P/E (x)	19.0	7.8	9.0	6.6	5.6
Gross DPS (S cts)	1.6	2.0	1.5	2.0	2.3
Dividend yield (%)	2.9%	3.5%	2.7%	3.5%	4.0%
P/BV (x)	3.4	2.5	2.2	1.8	1.4
ROE (%)	19.7%	38.8%	26.0%	29.6%	27.7%
Net cash per share (S\$)	0.11	0.17	0.18	0.25	0.33
P/FCFE (x)	25.1	6.4	15.7	6.0	5.5
EV/EBITDA (x)	8.8	3.7	4.3	2.7	1.8
% change in EPS estimates			(32.2%)	(24.6%)	(27.5%)
CIMB/Consensus (x)			0.69	0.78	0.71

Price chart



Source: Bloomberg

Source: Company, CIMB-GK Research, Bloomberg

Figure 1: Sector comparisons

	Bloomberg		Price	Target		Core	3-yr EPS	P/BV	ROE	Div
	ticker	Recom.	(Local)	price	Mkt cap	P/E (x)	CAGR	(x)	(%)	yield (%)
				(Local)	(US\$ m)	CY2008	CY2009	CY2008	CY2008	CY2008
OKP	OKP SP	O	0.57	0.69	62	9.0	6.6	11.1	26.0	2.7
Tat Hong	TAT SP	O	2.16	4.43	781	9.3	7.3	41.0	25.1	2.0
Tiong Woon	TWC SP	O	0.67	1.45	165	7.1	4.6	48.6	23.1	0.7
CSC	CSC SP	O	0.28	0.57	234	6.4	4.9	85.7	36.8	1.1
Simple average						7.9	5.8	46.7	27.9	1.6

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

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

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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.

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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

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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.

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