

# Analyse This

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

11 May 2010

## OKP Holdings

 OKP SP  
 BUY: TP: S\$0.85

 Price @11/05/10: S\$0.465  
 52-week range (SGD): 0.30 – 0.64  
 Market cap – S\$123m

### Recommendation – maintain BUY

- **Maintain BUY rating with target price set at S\$0.85**, 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 kept our estimates unchanged, which captured OKP's higher order book and margin recovery. 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 6.1x CY11 P/E against its 3-year core earnings CAGR forecast of 20.4%.

### 1QFY10 result review

FYE Dec (\$\$ m)	1QFY10	1QFY09	yoy %	4QFY09	qoq %	Prev. FY10F	Comments
Revenue	33.9	29.6	14.5	33.4	157.3	128.2	In line, on increased construction activities
Operating costs	(29.1)	(25.5)	14.1	(28.2)	(137.3)	(110.9)	Within expectation, lower admin, staff costs
EBITDA	4.8	4.1	16.9	5.2	20.1	17.4	In-line with revenue growth
EBITDA margin (%)	14.1	13.8		15.6	12.8	13.5	Margin improved yoy/ GP margin in 1Q10 17.1%
Depn & amort.	(0.6)	(0.5)	12.2	(1.1)	(1.6)	(1.7)	Slightly higher
EBIT	4.2	3.6	17.6	4.1	18.5	15.7	Slightly higher
Interest expense	(0.0)	(0.1)	(25.5)	(0.0)	(0.3)	(0.2)	In line
Interest & invt inc	0.1	0.2	(64.8)	0.1	1.9	1.1	Below
Associates' contrib	-	-	-	-	-	-	
Exceptionals	-	-	-	-	-	-	
<b>Pretax profit</b>	<b>4.2</b>	<b>3.7</b>	<b>13.9</b>	<b>4.2</b>	<b>20.1</b>	<b>16.5</b>	In-line with expectation
Tax	(0.7)	(0.5)	36.6	(0.5)	(3.6)	(3.0)	Tax rate at 17.3%
Tax rate (%)	17.3	14.4		12.7	18.0	18.0	
Minority interests	0.0	0.0	(66.7)	(0.0)	0.0	(0.1)	
<b>Net profit</b>	<b>3.5</b>	<b>3.2</b>	<b>10.1</b>	<b>3.6</b>	<b>16.5</b>	<b>13.5</b>	Within forecast range
<b>Core net profit</b>	<b>3.5</b>	<b>3.2</b>	<b>10.1</b>	<b>3.6</b>	<b>16.5</b>	<b>13.5</b>	... more projects in the period
EPS (cts)	2.3	2.1	10.1	2.4	11.0	9.0	1Q10 accounted for 26% of FY10 estimates
Core EPS (cts)	2.3	2.1	10.1	2.4	11.0	9.0	

- **1QFY10 results came in within our expectation.** 1Q10 net profit of S\$3.5m (+10.1% yoy) was in-line with our expectation, and formed 26% of our FY10 estimates.
- Revenue registered a 14.5% yoy growth to S\$33.9m in 1Q10, underpinned by a 31.1% yoy increase in revenue from the construction segment to S\$27.4m, partially offset by a lower contribution from the maintenance segment (S\$6.5m).
- **Timing of recognition was in play in this set of result.** The growth in revenue from the construction segment was due mainly to the higher percentage of revenue recognised from a few construction projects in 1Q10. The drop in revenue from the maintenance segment was due mainly to the substantial completion of existing maintenance projects in the same period and the absence of any new maintenance contracts secured during that time.
- **Overall gross profit increased by 19.1% yoy to S\$5.8m in 1Q10**, while gross profit margin remained fairly constant at approximately 17.1%, up 0.7% point.
- **Two-third of market cap backed by net cash of S\$83.1m.** OKP's NTA stood at 24.4 Scts/share, up 5.2% from a quarter ago, with net working capital positive at S\$50.8m. OKP continued to build up its balance sheet, and the current net cash pile of the group stacked to S\$83.1m, 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.

### Order book still very robust

- **Order book lasting till FY2013.** YTD, OKP has secured three public sector projects totaling S\$39.5m. The projects include construction and maintenance works at Tuas (S \$5.2m from JTC), ad hoc repairs and upgrading of roads, road related facilities and road structures in Central Sector for a period of 39 months (S\$19.4m) and ad hoc repairs and upgrading of roads, road related facilities and road structures in North West Sector for a period of 39 months (S\$14.9m from LTA). These projects will be completed and delivered progressively from now until 2013. The total order book currently stands at S\$306.1m, with various completing in 2013.
- **Strong industry tailwind.** The outlook for the construction industry to remain healthy over the next 12 months. The Building and Construction Authority's (BCA) latest statistics also estimated Singapore's construction demand for 2010 to be between S\$21bn and S\$27bn with the bulk of demand originating from the public sector (MRT projects for Downtown Line Stage 3 and major road projects).
- Other forthcoming projects include the LNG Terminal, Fusionopolis 2A, industrial facilities at Seletar Aerospace Park, campus expansion of Institutes of Higher Learning (IHLs) and new healthcare facilities. For 2011–2012, public sector construction demand is projected to be between S\$10bn and S\$14bn, with 45% of it deriving from building projects while the rest from civil engineering projects. All these bode well for OKP.
- **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 (\$\$ m)	101.8	130.0	157.3	185.7	220.4
EBITDA (\$\$ 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 (\$\$ m)	12.2	17.1	20.1	24.8	32.3
<b>Net profit (\$\$ m)</b>	<b>9.5</b>	<b>14.4</b>	<b>16.5</b>	<b>20.3</b>	<b>26.2</b>
EPS (cts)	6.3	6.1	6.9	8.5	11.0
EPS growth (%)	-13%	-4%	14%	23%	29%
P/E (x)	7.4	7.7	6.7	5.5	4.2
Core EPS (cts)	6.3	5.4	6.2	7.6	9.4
Core EPS growth (%)	-13%	-14%	14%	23%	24%
Core P/E (x)	7.4	8.6	7.5	6.1	4.9
FD EPS (cts)	6.3	5.4	6.2	7.6	9.4
FD P/E (x)	7.4	8.6	7.5	6.1	4.9
Gross DPS (cts)	1.5	2.0	2.3	3.3	4.3
Dividend yield (%)	3.2%	4.3%	4.8%	7.0%	9.1%
P/NTA (x)	1.8	1.9	1.6	1.4	1.1
ROE (%)	23.6%	24.5%	23.8%	24.8%	26.4%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (\$\$)	0.2	0.3	0.4	0.4	0.4
P/CF (x)	6.0	6.6	6.1	5.1	4.0
EV/EBITDA (x)	2.3	1.7	1.5	1.3	1.0

Source: Company, CIMB-GK Research

## DISCLAIMER

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

By accepting this report, the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein (including the "Restrictions on Distributions" set out below). Any failure to comply with these limitations may constitute a violation of law. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB.

CIMB, its affiliates and related companies, their directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, CIMB, its affiliates and its related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report. The views expressed in this report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. CIMB prohibits the analyst(s) who prepared this research report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the businesses as described above. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The term "CIMB" shall denote where applicable the relevant entity distributing the report in that particular jurisdiction where mentioned specifically below shall be a CIMB Group Sdn Bhd's affiliates, subsidiaries and related companies.

- (i) As of 10 May 2010, CIMB has a proprietary position in the following securities in this report:
  - (a) -
- (ii) As of 11 May 2010, the analyst, Gary Ng who prepared this report, has / have an interest in the securities in the following company or companies covered or recommended in this report:
  - (a) -

The information contained in this research report is prepared from data believed to be correct and reliable at the time of issue of this report. This report does not purport to contain all the information that a prospective investor may require. CIMB or any of its affiliates does not make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report and accordingly, neither CIMB nor any of its affiliates nor its related persons shall be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst CIMB and its affiliates' clients generally and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. The information and opinions in this report are not and should not be construed or considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments thereof.

Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this research report. The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

**Australia:** Despite anything in this report to the contrary, this research is provided in Australia by CIMB-GK Research Pte. Ltd. ("CIMB-GK") and CIMB-GK notifies each recipient and each recipient acknowledges that CIMB-GK is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 (Cwlth) in respect of financial services provided to the recipient. CIMB-GK is regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. This research is only available in Australia to persons who are "wholesale clients" (within the meaning of the Corporations Act 2001 (Cwlth)) and is supplied solely for the use of such wholesale clients and shall not be distributed or passed on to any other person. This research has been prepared without taking into account the objectives, financial situation or needs of the individual recipient.

**France:** Only qualified investors within the meaning of French law shall have access to this report. This report shall not be considered as an offer to subscribe to, or used in connection with, any offer for subscription or sale or marketing or direct or indirect distribution of financial instruments and it is not intended as a solicitation for the purchase of any financial instrument.

**Hong Kong:** This report is issued and distributed in Hong Kong by CIMB Securities (HK) Limited ("CHK") which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact the Head of Sales at CIMB Securities (HK) Limited. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CHK has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CHK. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CHK. Unless permitted to do so by the securities laws of Hong Kong, no person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the securities covered in this report, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong).

**Indonesia:** This report is issued and distributed by PT CIMB Securities Indonesia ("CIMBI"). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBI has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMBI. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBI. Neither this report nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesia residents except in compliance with applicable Indonesian capital market laws and regulations.

**Malaysia:** This report is issued and distributed by CIMB Investment Bank Berhad ("CIMB"). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMB has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMB. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB.

**New Zealand:** In New Zealand, this report is for distribution only to persons whose principal business is the investment of money or who, in the course of, and for the purposes of their business, habitually invest money pursuant to Section 3(2)(a)(ii) of the Securities Act 1978.

**Singapore:** This report is issued and distributed by CIMB-GK Research Pte Ltd ("CIMB-GKR"). Recipients of this report are to contact CIMB-GKR in Singapore in respect of any matters arising from, or in connection with, this report. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMB-GKR has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only. If the recipient of this research report is not an accredited investor, expert investor or institutional investor, CIMB-GKR accepts legal responsibility for the contents of the report without any disclaimer limiting or otherwise curtailing such legal responsibility. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB-GKR.

As of 10 May 2010 CIMB-GK Research Pte Ltd does not have a proprietary position in the recommended securities in this report.

**Sweden:** This report contains only marketing information and has not been approved by the Swedish Financial Supervisory Authority. The distribution of this report is not an offer to sell to any person in Sweden or a solicitation to any person in Sweden to buy any instruments described herein and may not be forwarded to the public in Sweden.

**Taiwan:** This research report is not an offer or marketing of foreign securities in Taiwan. The securities as referred to in this research report have not been and will not be registered with the Financial Supervisory Commission of the Republic of China pursuant to relevant securities laws and regulations and may not be offered or sold within the Republic of China through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Law of the Republic of China that requires a registration or approval of the Financial Supervisory Commission of the Republic of China.

**Thailand:** This report is issued and distributed by CIMB Securities (Thailand) Ltd ("CIMBS"). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBS has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMBS. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBS.

**United Arab Emirates:** The distributor of this report has not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities or governmental agencies in the United Arab Emirates. This report is strictly private and confidential and has not been reviewed by, deposited or registered with UAE Central Bank or any other licensing authority or governmental agencies in the United Arab Emirates. This report is being issued outside the United Arab Emirates to a limited number of institutional investors and must not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose. Further, the information contained in this report is not intended to lead to the sale of investments under any subscription agreement or the conclusion of any other contract of whatsoever nature within the territory of the United Arab Emirates.

**United Kingdom:** This report is being distributed by CIMB Securities (UK) Limited only to, and is directed at selected persons on the basis that those persons are (a) persons falling within Article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (the "Order") who have professional experience in investments of this type or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(1) of the Order, (all such persons together being referred to as "relevant persons"). A high net worth entity includes a body corporate which has (or is a member of a group which has) a called-up share capital or net assets of not less than (a) if it has (or is a subsidiary of an undertaking which has) more than 20 members, £500,000, (b) otherwise, £5 million, the trustee of a high value trust or an unincorporated association or partnership with assets of no less than £5 million. Directors, officers and employees of such entities are also included provided their responsibilities regarding those entities involve engaging in investment activity. Persons who do not have professional experience relating to investments should not rely on this document.

**United States:** This research report is distributed in the United States of America by CIMB Securities (USA) Inc, a U.S.-registered broker-dealer and a related company of CIMB-GK Research Pte Ltd solely to persons who qualify as "Major U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934. This communication is only for Institutional Investors and investment professionals whose ordinary business activities involve investing in shares, bonds and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not an Institutional Investor must not rely on this communication. However, the delivery of this research report to any person in the United States of America shall not be deemed a recommendation to effect any transactions in the securities discussed herein or an endorsement of any opinion expressed herein. For further information or to place an order in any of the above-mentioned securities please contact a registered representative of CIMB Securities (USA) Inc.

**Other jurisdictions:** In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is only for distribution to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

## RETAIL RESEARCH RECOMMENDATION FRAMEWORK

### STOCK RECOMMENDATIONS

**BUY:** The stock's total return is expected to be +15% or better over the next three months.

**HOLD:** The stock's total return is expected to range between +15% and -15% over the next three months.

**SELL:** The stock's total return is expected to be -15% or worse over the next three months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** 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.

**NEUTRAL:** 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 expected to have total returns that will range from +15% to -15%; both over the next three months.

**UNDERWEIGHT:** 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.