

Analyse This...

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OKP Holdings

Another record quarterly profit

 OKP SP
 BUY; TP:\$0.98

 Price @09/05/11: S\$0.65
 52-week range (SGD): 0.42 – 0.685
 Market cap: S\$197.8m

49% jump in 1Q11 net profit

- Result in-line.** 1Q11 net profit of S\$5.2m (+49% yoy) surprises the street! This strong set of number in a normally slow^{1st} Quarter came in despite a slow turned in revenue of S\$32.8m, which was affected by lower revenue from the maintenance segment due to the completion of existing projects. The translation into net profit was not due to any one-off item but sheer project management skills and tighter cost controls. This set of result cements OKP's position as a market leader in public infrastructure works in Singapore. 1Q11 EPS (after adjusting conversion of warrants) is in-line with our expectation, and accounted for 25% of our FY11 EPS.
- OKP's current S\$376m order book can last till FY2014.** OKP's total gross order book stands at a healthy S\$375.8m based on secured civil engineering and construction contracts, with projects stretching up to 2014. Year to date, OKP's total new order wins (three public sector projects totaling S\$94.4m) already made up 63% of our higher than consensus 2011 new order book assumption (S\$150m).
- Maintain BUY.** Our estimates are unchanged and **target price remains at S\$0.98**, peg 10x CY12 earnings, below the mid-cycle valuation, and discount to bigger peers who re-rated upon awards of overseas contracts.

1QFY11 result at a glance

FYE Dec (\$\$ m)	1QFY11	1QFY10	yoy % chg	4QFY10	qoq % chg	Prev. FY11F
Revenue	32.8	33.9	(3.1)	29.6	11.0	185.7
Operating costs	(25.9)	(29.1)	(11.1)	(23.7)	9.2	(159.3)
EBITDA	7.0	4.8	45.2	5.9	18.0	26.3
EBITDA margin (%)	21.2	14.1		19.9		14.2
Depn & amort.	(0.7)	(0.6)	13.4	(0.9)	(27.8)	(3.4)
EBIT	6.3	4.2	49.7	5.0	26.6	23.0
Interest expense	(0.0)	(0.0)	(5.3)	(0.0)	(2.7)	(0.4)
Interest & invt inc	0.1	0.1	102.9	0.5	(74.8)	2.5
Associates' contrib	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-
Pretax profit	6.4	4.2	51.0	5.5	16.7	25.1
Tax	(1.2)	(0.7)	58.9	(0.9)	28.4	(4.5)
Tax rate (%)	18.2	17.3		16.5		18.0
Minority interests	0.0	0.0		0.1		0.1
Net profit	5.2	3.5	49.4	4.6	12.7	20.7
Core net profit	5.2	3.5	49.4	4.6	12.7	20.7
EPS (cts)	1.9	1.5	25.2	1.8	8.4	7.8
Core EPS (cts)	1.9	1.5	25.2	1.8	8.4	7.8

Some finer points on the result

- Margins climbing.** Despite the lower revenue, gross profit in 1Q11 increased by 51% yoy to S\$8.8m, attributable to the group's cost savings in certain design and build construction projects which resulted in a higher gross profit margin. It enjoyed gross profit margin of 26.7% in 1Q11 (vs. 17.1% in 1Q10).
- With government projects forming the backbones of the group, we believe the group will continue to sustain such profit growth momentum going forward.
- Net cash of S\$111m backing robust balance sheet.** Group's assets totaled S\$162.1m in 1Q11, implying an NTA of 26.9 S cents per share (+12.5% yoy from 25.3 S cents end-FY10). More importantly, OKP now has a net cash position of S\$111m or 56% of its current market cap of S\$197.8m.

Will potential higher foreign labour cost weight down?

- The short and simple answer is NO.** This is the biggest concern investors have post GE 2011. Should the government decide to increase the foreign worker costs, what would be the impact on OKP?
- Levy and CPF impact are not going to hurt the margins in a negative way. Management stated that since the group has already been prudent with cost management, the gradual increase in foreign workers levies till 2013 is less severe than what most investors think.
- First, as 20% of work force the group employs falling into the higher skill tier (which has lesser levy impact), the immediate reaction to engage the remaining work force for training to qualify them into this category. Secondly, like the rest of their peers in the industry, new tenders for projects would definitely reflect the higher cost structure going forward.
- The net effect, according to OKP's internal budgeting would only put an additional 1.6-2% rise to its cost of works. As a matter of fact, due to OKP's stellar project management skill and tighter cost controls, gross margin has climbed to mid-high twenties percentage level (vs. 21% in FY10, high teens in FY09).
- We noted that OKP has embarked on more complex projects that commanded better margins compared to the past, the margin buffer for these projects it undertaking now and those in the pipeline have also gotten fatter. All these will serve to more than mitigate the gradual cost escalation (should there be any) coming from labour costs.

Valuation and recommendation

- Maintained BUY, target price S\$0.98.** We like OKP for its high projects visibility in the public sector, and its strong potential overseas expansion story. OKP is a prime candidate to government infrastructural spending and the stock offers excellent value trading at 6.7x CY12 P/E against its 3-year core earnings CAGR forecast of 23.2%.
- Our above consensus estimates reflect OKP's higher order book and robust margin. Further upside to our earnings estimates could emerge with potential catalyst of the possible overseas projects.
- Fresh order wins from public and private sector civil engineering projects will be the primary growth drivers that fuel sustainable earnings growth. In our view, immediate re-rating catalysts are likely to come from stronger than expected order momentum, strong margins from recently awarded road-raising works that will bring the group to another record profits and higher dividend payout.

Financial analysis

FYE Dec	2009	2010	2011F	2012F	2013F
Revenue (\$\$ m)	130.0	139.9	185.7	224.6	267.1
EBITDA (\$\$ m)	19.8	23.4	29.0	35.7	44.4
EBITDA margins (%)	15.2	16.7	15.6	15.9	16.6
Pretax profit (\$\$ m)	17.1	20.4	25.1	32.5	42.0
Net profit (\$\$ m)	14.4	17.0	20.7	26.4	33.7
EPS (cts)	6.1	6.5	7.6	9.8	12.4
EPS growth (%)	-4%	7%	17%	28%	27%
P/E (x)	10.7	10.0	8.5	6.7	5.2
Core EPS (cts)	6.1	6.5	7.6	9.4	11.7
Core EPS growth (%)	-4%	7%	17%	23%	25%
Core P/E (x)	10.7	10.0	8.5	6.9	5.6
FD EPS (cts)	5.4	5.9	7.1	8.8	11.0
FD P/E (x)	12.0	11.0	9.1	7.4	5.9
Gross DPS (cts)	2.0	5.0	5.0	5.0	5.3
Dividend yield (%)	3.1%	7.7%	7.7%	7.7%	8.1%
P/NTA (x)	2.7	2.6	2.4	2.0	1.6
ROE (%)	24.5%	24.6%	27.3%	29.5%	30.6%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (\$\$)	0.3	0.4	0.3	0.3	0.4
P/CF (x)	9.2	8.6	7.3	5.8	4.7
EV/EBITDA (x)	3.9	3.3	2.7	2.2	1.7

Source: Bloomberg, Company, CIMB Research